FINDEX COM INC
Form 10QSB
August 17, 2007

U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB
QUARTERLY REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007

Commission file number: 0-29963

FINDEX.COM, INC.
(Exact name of small business issuer as specified in its charter)

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

(402) 333-1900
(Issuer's telephone number)

NA.

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes**

[_] No [X]

At August 17, 2007, the registrant had outstanding 51,650,817 shares of common stock, of which there is only a single class.

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

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Findex.com, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ **3,452**	$ 48,672
Accounts receivable, trade, net	**284,944**	318,000
Inventories	**110,713**	145,344
Other current assets	**231,744**	213,162
Total current assets	**630,853**	725,178
Property and equipment, net	**72,145**	86,638
Software license, net	**1,007,015**	1,258,769
Capitalized software development costs, net	**522,712**	491,695
Restricted cash	**40,000**	---
Other assets	**494,474**	493,565
Total assets	$ **2,767,199**	$ 3,055,845
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable, trade	$ **738,866**	$ 693,260
Accrued royalties	**693,469**	649,763
Derivative liabilities	**473,123**	526,868
Other current liabilities	**629,370**	561,111
Total current liabilities	**2,534,828**	2,431,002
Long-term obligations	**19,329**	80,568
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, $.001 par value 5,000,000 shares authorized -0- and -0- shares issued and outstanding, respectively	**---**	---
Common stock, $.001 par value 120,000,000 shares authorized, 50,350,817 and 49,788,317 shares issued and outstanding, respectively	**50,351**	49,788
Paid-in capital	**7,610,321**	7,592,884
Retained (deficit)	**(7,447,630)**	(7,098,397)
Total stockholders' equity	**213,042**	544,275
Total liabilities and stockholders' equity	$ **2,767,199**	$ 3,055,845

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
Revenues, net of reserves and allowances	**$ 602,838**	$ 661,279	**$ 1,758,331**	$ 1,760,070
Cost of sales	**281,517**	484,918	**776,875**	969,386
Gross profit	**321,321**	176,361	**981,456**	790,684
Operating expenses:				
Sales and marketing	**147,097**	196,537	**337,801**	387,461
General and administrative	**392,481**	451,296	**737,809**	924,682
Other operating expenses	**153,326**	145,538	**303,649**	291,421
Total operating expenses	**692,904**	793,371	**1,379,259**	1,603,564
Loss from operations	**(371,583)**	(617,010)	**(397,803)**	(812,880)
Other expenses, net	**(6,445)**	(8,099)	**(15,275)**	(10,031)
Registration rights penalties	**---**	---	**---**	(49,314)
Gain (loss) on valuation adjustment of derivatives	**27,201**	1,481,411	**53,745**	872,539
Income (loss) before income taxes	**(350,827)**	856,302	**(359,333)**	314
Income tax (provision) benefit	**7,275**	5,356	**10,100**	(25,452)
Net income (loss)	**$ (343,552)**	$ 861,658	**(349,233)**	(25,138)
Retained deficit at beginning of year			**(7,098,397)**	(7,752,097)
Retained deficit at end of period			**$ (7,447,630)**	$ (7,777,235)
Net income (loss) per share:				
Basic	**$ (0.01)**	$ 0.02	**$ (0.01)**	$ 0.00
Diluted	**$ (0.01)**	$ 0.02	**$ (0.01)**	$ 0.00
Weighted average shares outstanding:				
Basic	**49,794,498**	49,558,317	**49,791,425**	49,162,163
Diluted	**49,794,498**	50,397,239	**49,791,425**	49,162,163

See accompanying notes.

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

Six Months Ended June 30,		**2007**		2006
Cash flows from operating activities:				
Cash received from customers	**$**	**1,835,864**	$	1,956,573
Cash paid to suppliers and employees		**(1,580,906)**		(1,762,323)
Other operating activities, net		**(11,195)**		(2,030)
Net cash provided by operating activities		**243,763**		192,220
Cash flows from investing activities:				
Software development costs		**(191,451)**		(238,380)
Deposits paid		**(41,189)**		---
Other investing activities, net		**(11,334)**		(15,653)
Net cash used by investing activities		**(243,974)**		(254,033)
Cash flows from financing activities:				
Payments made on long-term notes payable		**(45,009)**		(27,228)
Net cash used by financing activities		**(45,009)**		(27,228)
Net decrease in cash and cash equivalents		**(45,220)**		(89,041)
Cash and cash equivalents, beginning of year		**48,672**		119,560
Cash and cash equivalents, end of period	**$**	**3,452**	$	30,519
Reconciliation of net loss to cash flows from operating activities:				
Net loss	**$**	**(349,233)**	$	(25,138)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Software development costs amortized		**160,433**		457,598
Gain on fair value adjustment of derivatives		**(53,745)**		(872,539)
Bad debts provision		**17,164**		---
Depreciation & amortization		**286,485**		291,421
Gain on sale of property and equipment		**(551)**		---
Noncash operating expenses		**---**		65,000
Change in assets and liabilities:				
Decrease in accounts receivable		**15,892**		251,271
Decrease in inventories		**34,631**		67,258
Decrease in refundable taxes		**2,050**		5,764
Decrease (increase) in prepaid expenses		**1,519**		(43,659)
Increase in accrued royalties		**43,706**		9,583
Increase in accounts payable		**45,606**		71,719
(Decrease) increase in deferred taxes		**(10,100)**		25,452
Increase (decrease) in other liabilities		**49,906**		(111,510)
Net cash provided by operating activities	**$**	**243,763**	$	192,220

See accompanying notes.

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Findex.com, Inc.
Notes to Condensed Consolidated Financial Statements
June 30, 2007
(Unaudited)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles for interim financial information and with the instructions to Form 10-QSB and Item 310 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by Generally Accepted Accounting Principles for complete financial statements. The accompanying unaudited condensed consolidated financial statements reflect all adjustments that, in the opinion of management, are considered necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year or for any future period. The accompanying financial statements should be read in conjunction with the audited consolidated financial statements of Findex.com, Inc. included in our Form 10-KSB for the fiscal year ended December 31, 2006.

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, and (iii) the life and realization of identifiable intangible assets. The amounts we will ultimately incur or recover could differ materially from current estimates.

INVENTORY

Inventory, including out on consignment, consists primarily of software media, manuals and related packaging materials and is recorded at the lower of cost or market value, determined on a first-in, first-out, and adjusted on a per-item, basis.

ACCOUNTING FOR LONG-LIVED ASSETS

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

INTANGIBLE ASSETS

In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 142, *Goodwill and Other Intangible Assets*, intangible assets with an indefinite useful life are not amortized. Intangible assets with a finite useful life are amortized on the straight-line method over the estimated useful lives. Our software license is amortized over a ten-year useful life.

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SOFTWARE DEVELOPMENT COSTS

In accordance with SFAS No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*, software development costs are expensed as incurred until technological feasibility and marketability has been established, generally with release of a beta version for customer testing. Once the point of technological feasibility and marketability is reached, direct production costs (including labor directly associated with the development projects), indirect costs (including allocated fringe benefits, payroll taxes, facilities costs, and management supervision), and other direct costs (including costs of outside consultants, purchased software to be included in the software product being developed, travel expenses, material and supplies, and other direct costs) are capitalized until the product is available for general release to customers. We amortize capitalized costs on a product-by-product basis. Amortization for each period is the greater of the amount computed using (i) the straight-line basis over the estimated product life (generally from 12 to 18 months), or (ii) the ratio of current revenues to total projected product revenues. Total cumulative capitalized software development costs were $1,906,333, less accumulated amortization of $1,383,621 at June 30, 2007.

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

SFAS No. 2, *Accounting for Research and Development Costs*, established accounting and reporting standards for research and development. In accordance with SFAS No. 2, costs we incur to enhance our existing products after general release to the public (bug fixes) are expensed in the period they are incurred and included in research and development costs. Research and development costs incurred prior to determination of technological feasibility and marketability and after general release to the public and charged to expense were $60,569 and $83,620 for the six months ended June 30, 2007 and 2006, respectively, included in general and administrative expenses.

We capitalize costs related to the development of computer software developed or obtained for internal use in accordance with the American Institute of Certified Public Accountants Statement of Position (“SOP”) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. Software obtained for internal use has generally been enterprise level business and finance software that we customize to meet our specific operational needs. We have not sold, leased, or licensed software developed for internal use to our customers and have no intention of doing so in the future.

We capitalize costs related to the development and maintenance of our website in accordance with Financial Accounting Standard Board’s (“FASB’s”) Emerging Issues Task Force (“EITF”) Issue No. 00-2, *Accounting for Website Development Costs*. Under EITF Issue No. 00-2, costs expensed as incurred are as follows:

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

Capitalized costs include those incurred to:

- obtain and register an Internet domain name,

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

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We amortize website development costs on a straight-line basis over the estimated life of the site, generally 36 months. Total cumulative website development costs, included in other assets on our condensed consolidated balance sheets, were $112,098, less accumulated amortization of $84,440 at June 30, 2007.

RESTRICTED CASH

Restricted cash represents cash held in reserve by our merchant banker to allow for a potential increase in credit card charge backs from increased consumer purchases.

REVENUE RECOGNITION

We derive revenues from the sale of packaged software products, product support and multiple element arrangements that may include any combination of these items. We recognize software revenue for software products and related services in accordance with SOP 97-2, *Software Revenue Recognition*, as modified by SOP 98-9, *Modification of SOP 97-2, With Respect to Certain Transactions*. We recognize revenue when persuasive evidence of an arrangement exists (generally a purchase order), we have delivered the product, the fee is fixed or determinable and collectibility is probable.

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

In accordance with EITF Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Product*, we generally account for cash considerations (such as sales incentives - rebates and coupons) that we give to our customers as a reduction of revenue rather than as an operating expense.

Product Revenue

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

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

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

We reduce product revenue for estimated returns and price protections that are based on historical experience and other factors such as the volume and price mix of products in the retail channel, trends in retailer inventory and economic trends that might impact customer demand for our products. We also reduce product revenue for the estimated redemption of end-user rebates on certain current product sales. Our rebate reserves are estimated based on the terms and conditions of the specific promotional rebate program, actual sales during the promotion, the amount of redemptions received and historical redemption trends by product and by type of promotional program. We did not offer any rebate programs to our customers during the three and six months ended June 30, 2007 and 2006 and maintain a reserve for rebate claims remaining unpaid from 2000 and 2001.

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Service Revenue

We offer several technical support plans and recognize support revenue over the life of the plans, generally one year.

Multiple Element Arrangements

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

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

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

Shipping and Handling Costs

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

Customer Service and Technical Support

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

INCOME TAXES

We utilize 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 our assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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EARNINGS PER SHARE

We follow 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 shares of common stock outstanding for the period. Diluted EPS is computed by giving effect to all dilutive potential shares of common stock that were outstanding during the period. For us, dilutive potential shares of common stock consist of the incremental shares of common stock issuable upon the exercise of stock options and warrants for all periods, convertible notes payable and the incremental shares of common stock issuable upon the conversion of convertible preferred stock.

When discontinued operations, extraordinary items, and/or the cumulative effect of an accounting change are present, income before any of such items on a per share basis represents the “control number” in determining whether potential shares of common stock are dilutive or anti-dilutive. Thus, the same number of potential shares of common stock used in computing diluted EPS for income from continuing operations is used in calculating all other reported diluted EPS amounts. In the case of a net loss, it is assumed that no incremental shares would be issued because they would be anti-dilutive. In addition, certain options and warrants are considered anti-dilutive because the exercise prices were above the average market price during the period. Anti-dilutive shares are not included in the computation of diluted EPS, in accordance with SFAS No. 128.

RECENT ACCOUNTING PRONOUNCEMENTS

Fair Value

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, to provide enhanced guidance for using fair value to measure assets and liabilities. The standard also expands disclosure requirements for assets and liabilities measured at fair value, how fair value is determined, and the effect of fair value measurements on earnings. The standard applies whenever other authoritative literature requires, or permits, certain assets or liabilities to be measured at fair value, but does not expand the use of fair value. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. Early adoption is permitted. We plan to adopt SFAS No. 157 as of January 1, 2008. The balance sheet items carried at fair value consist of derivatives and other financial instruments. Additionally, we use fair value concepts to test various long-lived assets for impairment and to initially measure assets and liabilities acquired in a business combination. Management is currently evaluating the impact of adoption on how these liabilities are currently measured.

In February 2007 the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* to provide companies with an option to report selected financial assets and liabilities at fair value. The standard’s objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The standard requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company’s choice to use fair value on its earnings. It also requires companies to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. The new standard does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS 157, *Fair Value Measurements*, and SFAS 107, *Disclosures about Fair Value of Financial Instruments*. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We plan to adopt SFAS No. 159 as of January 1, 2008. We are in the process of evaluating this standard and therefore have not yet determined the impact that the adoption will have on our financial position, results of operations or cash flows.

RECLASSIFICATIONS

Certain accounts in our 2006 financial statements have been reclassified for comparative purposes to conform with the presentation in our 2007 financial statements.

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NOTE 2 - GOING CONCERN

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States applicable to a going concern. As of June 30, 2007, we had a year-to-date net loss of ($349,233), and negative working capital of $1,903,975 and $1,705,824, and an accumulated deficit of $7,447,630 and $7,098,397 as of June 30, 2007 and December 31, 2006, respectively. Although these factors raise substantial doubt as to our ability to continue as a going concern through December 31, 2007, we have taken several actions to mitigate against this risk. These actions include selling some of our intangible assets and pursuing mergers and acquisitions that will provide profitable operations and positive operating cash flow.

NOTE 3 - INVENTORIES

At June 30, 2007, inventories consisted of the following:

Raw materials	**$ 67,882**
Finished goods	**42,831**
Inventories	**$ 110,713**

NOTE 4 - RESERVES AND ALLOWANCES

At June 30, 2007, the allowance for doubtful accounts included in Accounts receivable, trade, net, consisted of the following:

Balance December 31, 2006	**$ 11,000**
Bad debts provision (included in Other operating expenses)	**17,164**
Accounts written off	**(2,879)**
Collection of accounts previously written off	**715**
Balance June 30, 2007	**$ 26,000**

At June 30, 2007, the reserve for sales returns included in Other current liabilities consisted of the following:

Balance December 31, 2006	**$ 98,132**
Return provision - sales	**223,100**
Return provision - cost of sales	**(33,465)**
Returns processed	**(167,590)**
Balance June 30, 2007	**$ 120,177**

NOTE 5 - DERIVATIVE LIABILITIES

At June 30, 2007, our derivative liability consisted of the following:

Warrant A	**$ ---**
Warrant B	**255,813**
Warrant C	**217,310**
Derivatives	**$ 473,123**

In May 2004, we issued a three-year warrant (Warrant A) to purchase up to 600,000 shares of our common stock to a consultant. This warrant was exercisable on a cashless basis at the option of the warrant holder at a price per share of

$0.15. This warrant was accounted for as a liability according to the guidance of EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*, and the guidance of EITF 00-19-2, *Accounting for Registration Payment Arrangements*. On May 1, 2007, this warrant expired unexercised. See Note 6.

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In November 2004, we issued two five-year warrants to purchase up to an aggregate of 21,875,000 shares of our common stock in connection with a certain Stock Purchase Agreement completed with a New York-based private investment partnership on July 19, 2004. The first warrant (Warrant B) entitles the holder to purchase up to 10,937,500 shares of our common stock at a price of $0.18 per share, and the second warrant (Warrant C) entitles the holder to purchase up to 10,937,500 additional shares of our common stock at a price of $0.60 per share. Each warrant is subject to standard adjustment provisions and each provides for settlement in registered shares of our common stock and may, at the option of the holder, be settled in a cashless, net-share settlement. The warrant holder is prevented from electing a cashless exercise so long as there is in effect a registration statement covering the shares underlying these warrants. The maximum number of shares of our common stock to be received for each warrant in a net-share settlement would be 10,937,500 but the actual number of shares settled would likely be significantly less and would vary based on the last reported sale price (as reported by Bloomberg) of our common stock on the date immediately preceding the date of the exercise notice. These warrants are accounted for as a liability according to the guidance of EITF 00-19 and the fair value of each warrant has been determined using the Black-Scholes valuation method with the assumptions listed in the table below.

	Warrant B	Warrant C
Expected term - years	2.61	2.61
Stock price at June 30, 2007	$ 0.03	$ 0.03
Expected dividend yield	0%	0%
Expected stock price volatility	212%	212%
Risk-free interest rate	4.34%	4.34%

The warrants are revalued at each balance sheet date by using the parameters above, reducing the expected term to reflect the passing of time, and using the stock price at the balance sheet date. Net fair value adjustments included in other income and expenses on the consolidated statements of operations were income adjustments of $27,201 and $53,745 for the three and six months ended June 30, 2007, respectively, and income adjustments of $1,481,411 and $872,539 for the three and six months ended June 30, 2006, respectively.

NOTE 6 - STOCKHOLDERS' EQUITY

COMMON STOCK

In June 2007, we committed to issue a total of 562,500 restricted shares of common stock to our outside director, at the closing price as of June 29, 2007 ($0.032), in lieu of cash payments of amounts accrued for services as a member of our board from the period of October 1, 2006 through June 30, 2007. This issuance was valued at $18,000.

COMMON STOCK OPTIONS

In April 2007, 50,000 vested stock options with an exercise price of $0.11, related to a former employee, expired unexercised. We did not grant any options or other stock-based awards to the individual for which the options expired, during the six months prior to and after the option expirations.

COMMON STOCK WARRANTS

In May 2007, a warrant to purchase up to 600,000 restricted shares of our common stock with an exercise price of $0.15 per share expired unexercised. See Note 5.

In June 2007, a warrant to purchase up to 250,000 restricted shares of our common stock with an exercise price of $0.10 per share expired unexercised.

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NOTE 7 - INCOME TAXES

The provision (benefit) for taxes on net loss for the three and six months ended June 30, 2007 and 2006 consisted of the following:

	Three Months		Six Months	
	2007	2006	**2007**	2006
Current:				
Federal	**$ ---**	$ ---	**$ ---**	$ ---
State	**---**	---	**---**	---
	---	---	**---**	---
Deferred:				
Federal	**(7,375)**	(3,956)	**(10,225)**	27,888
State	**100**	(1,400)	**125**	(2,436)
	(7,275)	(5,356)	**(10,100)**	25,452
Total tax provision (benefit)	**$ (7,275)**	$ (5,356)	**$ (10,100)**	$ 25,452

NOTE 8 - EARNINGS PER COMMON SHARE

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

For the Three Months Ended June 30,	**2007**	2006
Net income (loss)	$ (343,552)	$ 861,658
Preferred stock dividends	---	**---**
Net income (loss) available to common shareholders	$ (343,552)	$ 861,658
Basic weighted average shares outstanding	**49,794,498**	49,558,317
Dilutive effect of:		
Stock options	---	672,554
Warrants	---	166,368
Diluted weighted average shares outstanding	**49,794,498**	50,397,239

For the Six Months Ended June 30,	**2007**	2006
Net loss	$ (349,233)	$ (25,138)
Preferred stock dividends	---	**---**
Net loss available to common shareholders	$ (349,233)	$ (25,138)
Basic weighted average shares outstanding	**49,791,425**	49,162,163
Dilutive effect of:		
Stock options	---	---

Warrants	---	---
Diluted weighted average shares outstanding	**49,791,425**	49,162,163

NOTE 9 - COMMITMENTS AND CONTINGENCIES

We are subject to legal proceedings and claims that arise in the ordinary course of our business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect our financial statements taken as a whole.

Our employment agreements with our management team each contain a provision for an annual bonus equal to 1% of our income (loss) from operations adjusted for other income and interest expense (4% total). We accrue this bonus on a quarterly basis. Our management team consists of our Chief Executive Officer (with a base annual salary of $150,000), our Chief Financial Officer (with a base annual salary of $110,000), our Chief Technology Officer (with a base annual salary of $150,000) and our Vice President of Sales (with a base annual salary of $110,000). In addition to the bonus provisions and annual base salary, each employment agreement provides for payment of all accrued base salaries ($21,745 included in Other current liabilities at June 30, 2007), bonuses ($30,542 included in other current liabilities at June 30, 2007), and any vested deferred vacation compensation ($37,125 included in other current liabilities at June 30, 2007) for termination by reason of disability. The agreements also provide for severance compensation equal to the then base salary until the later of (i) the expiration of the term of the agreement as set forth therein or (ii) one year, when the termination is other than for cause (including termination by reason of disability). There is no severance compensation in the event of voluntary termination or termination for cause.

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In 2003 and 2004, we reduced our reserve for rebates payable based, in part, on our ability to meet the financial obligation of claims carried forward from our last rebate program in 2001. As such, we may have a legal obligation to pay rebates in excess of the liability recorded.

Our royalty agreements for new content generally provide for advance payments to be made upon contract signing. In addition, several new agreements provide for additional advance payments to be made upon delivery of usable content and publication. We accrue and pay these advances when the respective milestone is met.

We do not collect sales taxes or other taxes with respect to shipments of most of our goods into most states in the U.S. Our fulfillment center and customer service center networks, and any future expansion of those networks, along with other aspects of our evolving business, may result in additional sales and other tax obligations. One or more states may seek to impose sales or other tax collection obligations on out-of-jurisdiction companies that engage in e-commerce. A successful assertion by one or more states that we should collect sales or other taxes on the sale of merchandise or services could result in substantial tax liabilities for past sales, decrease our ability to compete with traditional retailers, and otherwise harm our business.

Currently, decisions of the U.S. Supreme Court restrict the imposition of obligations to collect state and local taxes and use taxes with respect to sales made over the Internet. However, a number of states, as well as the U.S. Congress, have been considering various initiatives that could limit or supersede the Supreme Court’s constitutional concerns and resulted in a reversal of its current position, we could be required to collect sales and use taxes in additional states. The imposition by state and local governments of various taxes upon Internet commerce could create administrative burdens for us, put us at a competitive disadvantage if they do not impose similar obligations on all of our online competitors and decrease our future sales.

NOTE 10 - RISKS AND UNCERTAINTIES

Our future operating results may be affected by a number of factors. We depend upon a number of major inventory and intellectual property suppliers. If a critical supplier had operational problems or ceased making materials available to us, operations could be adversely affected.

NOTE 11 - SUBSEQUENT EVENTS

In July 2007, we amended an agreement with a business development consultant to provide for additional compensation of warrants to purchase up to 2,300,000 shares of common stock at $0.032 per share. The agreement provides that warrants to purchase up to 1,300,000 shares of common stock vest on August 31, 2007 and warrants to purchase up to 1,000,000 shares of common stock vest on January 1, 2008.

In July 2007, we entered into a stock subscription agreement with a business development consultant for the sale of 1,300,000 shares of common stock at a price of $0.025 per share. We realized $32,500 from this subscription.

As of August 14, 2007, we have received a letter of interest from a potential buyer of one of our top software titles. We are currently unable to determine if the price is reasonable relative to its current fair value. In addition, the letter of interest does not provide for any legally enforceable provisions, such as a firm purchase commitment, and therefore, we have not determined the asset sale to be probable. SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* requires all of six criteria be met before classifying a long-lived asset as “held for sale”. We have not classified this asset as “held for sale” at June 30, 2007 due to the failure of the two criteria mentioned above.

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

Cautionary Statement Regarding Forward-Looking Statements

This quarterly report on Form 10-QSB, press releases and certain information provided periodically in writing or verbally by our officers or our agents contain statements which constitute forward-looking statements. The words "may", "would", "could", "will", "expect", "estimate", "anticipate", "believe", "intend", "plan", "goal", and similar expr variations thereof are intended to specifically identify forward-looking statements. These statements appear in a number of places in this Form 10-QSB and include all statements that are not statements of historical fact regarding the intent, belief or current expectations of us, our directors or our officers, with respect to, among other things (i) our liquidity and capital resources, (ii) our financing opportunities and plans, (iii) our ability to attract customers to generate revenues, (iv) competition in our business segment, (v) market and other trends affecting our future financial condition or results of operations, (vi) our growth strategy and operating strategy, and (vii) the declaration and/or payment of dividends.

Investors and prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors. Factors that might cause such differences include, among others, those set forth in Part I, Item 2 of this quarterly report on Form 10-QSB, entitled "Management's Discussion and Analysis or Plan of Operation", and including without limitation the "Risk Factors" contained in the company's annual report on Form 10-KSB for the period ending December 31, 2006. Except as required by law, we undertake no obligation to update any of the forward-looking statements in this Form 10-QSB after the date of this report.

This information should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto included in Item 1 of Part I of this quarterly report, and our audited financial statements and the notes thereto and our Management's Discussion and Analysis or Plan of Operation contained in our annual report on Form 10-KSB for the fiscal year ended December 31, 2006.

MANAGEMENT OVERVIEW

During the second quarter of 2007, we continued to concentrate on our core products, QuickVerse® and Membership Plus®, and their technological features in order to meet our development schedule and our annual upgrade releases for these product lines. Furthermore, we continued to focus on expanding the content available for our QuickVerse® products. We released the following two new reference collections for QuickVerse® (Windows) users:

- Theological Dictionary of the New Testament: Abridged®, commonly known as "Little Kittel", which details more than 2,300 theologically significant New Testament words with a retail price of $59.95; and
- Word Studies in the Greek New Testament®, which comes in a three volume set and provides a wealth of knowledge and insight on the majority of the Greek New Testament with a retail price of $59.95.

During the first quarter of 2007, as part of our ongoing partnership with Thomas Nelson Publishers®, we released the Nelson Reference Collection® for QuickVerse® (Windows) users at a retail price of $129.95. In addition, we released QuickVerse® 2007 Macintosh which is available in the following three editions:

- QuickVerse® Macintosh White Box Edition, which includes 10 Bibles and 45 reference titles with a retail price of $59.95;
- QuickVerse® Macintosh Black Box Edition, which includes 15 Bibles and 66 reference titles with a retail price of $129.95; and

QuickVerse® Macintosh Gold Box Edition, which includes 22 Bibles and 158 reference titles with a retail price of $349.95.

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Comparatively, during the first six months of 2006, we released the following:

QuickVerse® 2006 Macintosh Gold Edition with a retail price of $349.95;
the Holman Christian Standard Bible® with a retail price of $29.95;
QuickVerse® 2006 Parable Edition with a retail price of $49.95; and
QuickVerse® 2006 Bible Suite with a retail price of $29.95.

Despite our decreased net revenues during the six months ended June 30, 2007, we were able to considerably decrease our total operating expenses while reducing our sales and marketing costs as well as our general and administrative costs. Although there can be no assurance, we anticipate that revenues will increase in real terms during our 2007 fiscal year based upon our development schedule for the fiscal year and the introduction of new titles that will broaden the content made available for our QuickVerse® products.

Results of Operations for Quarters Ending June 30, 2007 and June 30, 2006

Statement of Operations for Six Months Ending June 30,	**2007**	2006	Change	%
Net revenues	**$ 1,758,331**	$ 1,760,070	$ (1,739)	0%
Cost of sales	**776,875**	969,386	(192,511)	20%
Gross profit	**$ 981,456**	$ 790,684	$ 190,772	24%
Total operating expenses	**(1,379,259)**	(1,603,564)	224,305	14%
Loss from operations	**$ (397,803)**	$ (812,880)	$ 415,077	51%
Other expenses	**(15,275)**	(10,031)	(5,244)	52%
Registration rights penalties	**---**	(49,314)	49,314	100%
Gain on fair value adjustment of derivatives	**53,745**	872,539	(818,794)	94%
Income (loss) before income taxes	**$ (359,333)**	$ 314	$ (359,647)	114,537%
Income tax (provision) benefit	**10,100**	(25,452)	35,552	140%
Net loss	**$ (349,233)**	$ (25,138)	$ (324,095)	1,289%

Our software products are highly seasonal. More than 50% of our annual sales are expected to occur in the five months of September through January; the five months of April through August are generally our weakest, generating less than 30% of our annual sales.

Although our net revenues decreased slightly, our gross profit increased for the six months ended June 30, 2007 due to reduced cost of sales. We incurred a loss from operations of approximately $398,000 for the six months ended June 30, 2007, which represents an improvement of approximately $415,000 from our loss from operations of approximately $813,000 for the six months ended June 30, 2006. However, our net loss for the six months ended June 30, 2007 increased approximately $324,000 to a net loss of approximately $349,000 compared to a net loss of approximately $25,000 for the six months ended June 30, 2006.

The differing results of operations are primarily attributable to the following:

a decrease in cost of sales for the six months ended June 30, 2007 due primarily to decreased amortization of software development costs;
a decrease in total operating expenses for the six months ended June 30, 2007 arising from decreased sales, marketing, general and administrative costs;
a decrease in registration rights penalties for the six months ended June 30, 2007 as our registration statement on Form SB-2, originally filed by us on November 22, 2004 was declared effective by the SEC

on February 1, 2006; and

a decrease in our gain related to the fair value adjustment of derivatives for the six months ended June 30, 2007 due to expired warrants and a decrease in the estimated life of the remaining warrants.

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Revenues

We derive revenues from the sale of packaged software products, product support and multiple element arrangements that may include any combination of these items. Revenue is recognized when persuasive evidence of an arrangement exists (generally a purchase order), we have delivered the product, the fee is fixed or determinable, and collectibility is probable. We reduce product revenue for estimated returns and price protections that are based on historical experience and other factors such as the volume and price mix of products in the retail channel, trends in retailer inventory and economic trends that might impact customer demand for our products. Shipping and handling costs in connection with our software products are expensed as incurred and included in cost of sales.

Revenues for Six Months Ending June 30,	**2007**	**% to Sales**	2006	% to Sales	Change	%
Gross revenues	**$ 1,980,108**	**100%**	$ 1,882,698	100%	$ 97,410	5%
Less reserves and allowances	**(221,777)**	**11%**	(122,628)	7%	(99,149)	81%
Net revenues	**$ 1,758,331**	**89%**	$ 1,760,070	93%	$ (1,739)	86%

Gross revenues increased for the six months ended June 30, 2007, which was primarily attributable to the liquidation sales of our QuickVerse® 2006 product line (Windows and Macintosh editions), the QuickVerse® 2007 Macintosh release, as well as our Membership Plus® 2007 product line, for which pent-up demand following an eight month delay is believed to have significantly spurred sales. In addition, we continue to release new content each quarter for our QuickVerse® products.

During each of the six months ended June 30, 2006 and 2007, our sales efforts were focused on directly targeting end-users through telemarketing and Internet sales. However, due to increased frequency and consistency in our development schedule, and the annual releases of our flagship product, QuickVerse®, upgrade sales have not been increasing at as rapid a rate as they have in previous years. Although there can be no assurance, we anticipate, however, that our revenues will continue to increase in the future at rates generally consistent with our industry sector as we continue to expand the content available for our QuickVerse® products, develop new products for multiple platforms, and offer our products at a range of price points intended to appeal to various market sub-segments.

Our reserves for sales returns and allowances increased for the six months ended June 30, 2007, and as a percentage of gross revenues, reserves for sales returns and allowances also increased. Typically, sales returns and allowances trend upward after a new product is released as distributors and retail stores return old product in exchange for the new product release. For instance, we experienced an increase in sales returns and allowances for the six months ended June 30, 2007 due to Membership Plus® 2007 shipping in mid October 2006. Further, for the six months ended June 30, 2007, we increased our reserves for sales returns as we have experienced a delay in our receivable collections from our liquidation sales which could potentially result in increased actual returns in the future.

We expect to release enhanced versions of our biggest-selling products on an annual basis generally going forward, and anticipate sales returns and allowances as a percentage of gross revenues to decrease over time as a result of increased stability in the functionality of our products, decreasing reliance on retail sales and increasing reliance on direct sales, which have historically resulted in fewer returns, and improved planning in the timing of new product version releases.

Cost of Sales

	2007	2006	Change	%

Cost of Sales for Six Months Ending June 30,		**% to Sales**		% to Sales		
Direct costs	**$ 267,051**	**13%**	$ 254,328	14%	$ 12,723	5%
Less reserve for sales returns and allowances	**(33,465)**	**2%**	(18,165)	1%	(15,300)	84%
Amortization of software development costs	**160,433**	**8%**	457,598	24%	(297,165)	65%
Royalties	**254,800**	**13%**	161,627	9%	93,173	58%
Freight-out	**79,840**	**4%**	52,109	3%	27,731	53%
Fulfillment	**48,216**	**2%**	61,889	3%	(13,673)	22%
Cost of sales	**$ 776,875**	**39%**	$ 969,386	51%	$ (192,511)	20%

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Cost of sales consists primarily of direct costs, amortized software development costs, non-capitalized technical support wages, royalties paid to third party providers of intellectual property and the costs associated with reproducing, packaging, fulfilling and shipping our products. Cost of sales decreased for the six months ended June 30, 2007, and decreased as a percentage of gross revenues. The overall decrease is predominantly attributable to decreased amortization of software development costs. The large amount of amortization of software development costs recognized during the six months ended June 30, 2006 resulted primarily from the continual amortization of QuickVerse® 2006 Macintosh (released June 2005) and QuickVerse® 2006 Windows (released September 2005). QuickVerse® 2006 Macintosh was our first product produced on the Macintosh platform; and therefore, the amount of capitalized development costs recognized for that specific development project was quite significant as compared to our development projects on the Windows platform.

On a percentage basis, we anticipate that direct costs and manufacturing overhead will remain relatively stable as we continue to keep pace with a more intensive development schedule than we had generally maintained in the past.

Fulfillment costs decreased for the six months ended June 30, 2007, which is a direct result of our deliberate initiatives to decrease our reliance on a third-party warehouse as we began operating our own fulfillment center as of June 2007.

Freight costs increased for the six months ended June 30, 2007 as a direct result from the overall increase in retail sales, which carry higher shipping costs for us than direct and/or upgrade sales, coupled with escalating per unit freight costs attributable to industry-wide rising fuel costs.

Royalties accrued to third party providers of intellectual property increased for the six months ended June 30, 2007. as a result of the following:

- A year over year increase in year-end liquidation sales of prior year editions of QuickVerse® (Windows and Macintosh editions);
- an overall increase in retail sales due to the release of the Membership Plus® 2007 product line, as well as the release of QuickVerse® 2007 Macintosh; and
- an overall decrease in upgrade sales of QuickVerse®, which, based on our content license agreements, carry less burdensome royalty obligations than corresponding new product editions and/or versions.

Our royalty accruals are expected to increase in the future in real terms as sales to new users increase, more development projects are implemented for new and/or enhanced products, and as we continue to expand the content available for our QuickVerse® line of products. Upgrade sales will remain only subject to royalties on their content additions.

Software Development Costs for	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2007	2006	**2007**	2006
Beginning balance	**$ 493,981**	$ 586,170	**$ 491,695**	$ 707,067
Capitalized	**81,745**	175,149	**191,450**	238,380
Amortized (Cost of sales)	**(53,014)**	(273,470)	**(160,433)**	(457,598)
Ending Balance	**$ 522,712**	$ 487,849	**$ 522,712**	$ 487,849
Research and development expense (General and administrative)	**$ 30,988**	$ 31,388	**$ 60,569**	$ 83,620

Our software development costs for the three and six months ended June 30, 2007 and 2006 are summarized in the table above. The relative decrease in capitalized costs reflects an increased efficiency from our development staff

(including internal and external developers) as our development projects for the six months ended June 30, 2007 focused on the annual releases of QuickVerse®, Membership Plus® and new content for our QuickVerse® products. The relative decrease in amortization reflects the overall reduction in the number of products released during the year ended December 31, 2006 as well as the amortization recognized for QuickVerse® 2006 Macintosh, our first product produced on the Macintosh platform, brought to an end.

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We expect our cost of sales in real terms to increase over time consistent with anticipated increases in revenues due to aggressive product development and release schedules.

Sales, General and Administrative

Sales, General and Administrative Costs for Six Months Ending June 30,	**2007**	**% to Sales**	2006	% to Sales	Change	%
Selected expenses:						
Commissions	**$ 109,723**	**6%**	$ 111,096	6%	$ (1,373)	1%
Advertising and direct marketing	**92,802**	**5%**	94,235	5%	(1,433)	2%
Sales and marketing wages, reclassified	**135,276**	**7%**	182,130	10%	(46,854)	26%
Total sales and marketing	**$ 337,801**	**17%**	$ 387,461	21%	$ (49,660)	13%
Research and development	**$ 60,569**	**3%**	$ 83,620	4%	$ (23,051)	28%
Personnel costs	**354,448**	**18%**	409,730	22%	(55,282)	13%
Legal	**25,809**	**1%**	57,434	3%	(31,625)	55%
Accounting	**56,693**	**3%**	41,005	2%	15,688	38%
Corporate services	**20,000**	**1%**	36,000	2%	(16,000)	44%
Investor services	**8,125**	**0%**	33,750	2%		