

Edgar Filing: FINX GROUP INC - Form 10QSB/A

FINX GROUP INC
Form 10QSB/A
December 29, 2004

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

Form 10-QSB/A

Amendment No. 1

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

For The Quarterly Period Ended September 30, 2004

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

Commission File Number 0-9940

The Finx Group, Inc.
(Exact name of small business issuer as specified in its charter)
(Formerly known as Fingermatrix, Inc.)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-2854686
(IRS Employer
Identification Number)

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 16, 2004, 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

Purpose of Amendment:

The 10QSB as originally filed erroneously reported the issuance of 15,000 shares of Series D Preferred Stock in lieu of cash payment of \$150,000 owed to a consultant. The shares of Series D Preferred Stock were not issued. Additionally, the number of outstanding warrants was overstated by 100,000,000

Edgar Filing: FINX GROUP INC - Form 10QSB/A

shares. The amendment as filed herein reflects the following corrections:

Part I. FINANCIAL INFORMATION

1) Item 1. Financial Statements

a) A decrease of 15,000 in the number of Series D Preferred Stock shares outstanding as of September 30, 2004.

b) An increase in liabilities of \$150,000 for amounts owed to the consultant and a reduction in equity of \$150,000 for the shares of Series D Preferred stock which were not issued.

c) Footnote 1 to the financial statements "Basis of Presentation" was modified to reflect the \$150,000 increase in working capital deficiency and capital deficiency.

d) Footnote 3 to the financial statements "Supplemental Disclosure of Non Cash Investing and Financing Activities" was modified to remove reference to the erroneously disclosed issuance of series D Preferred Stock.

e) Footnote 5 to the financial statements "Basic and Diluted Loss Per Share" was modified to reflect that corrected number of potential common shares from the conversion of preferred stock and the corrected number of potential shares from outstanding stock purchase warrants.

2) Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Liquidity and Capital Resources

(a) The discussion of availability and uses of working capital was modified to reflect the \$150,000 increase in working capital deficiency and capital deficiency and to remove reference to the erroneously disclosed issuance of series D Preferred Stock.

(b) The discussion of the Company's viability as a going concern six was modified to reflect the \$150,000 increase in working capital deficiency and capital deficiency.

Page 2

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

Three Months Ended September 30,

2004

Revenues

\$ 26,000 \$

General and administrative expenses

681,000

Edgar Filing: FINX GROUP INC - Form 10QSB/A

Compensation expense from stock grants and the issuance of stock options and stock purchase warrants	595,000	1,
Total operating expenses	1,276,000	1,
Operating loss	(1,250,000)	(1,
Interest expense, related parties	(24,000)	
Net loss	\$ (1,274,000)	\$ (1,
Loss per share computation- basic and diluted:		
Loss from continuing operations	\$ (1,274,000)	\$ (1,
Less dividends on preferred shares	(30,000)	
Net loss available to common stockholders	\$ (1,304,000)	\$ (1,
Weighted average shares outstanding	749,715,940	580,
Loss per common share - basic and diluted	(\$0.00)*	

See Notes to Unaudited Consolidated Interim Financial Statements.

* less than \$.01

Page 3

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

Nine Months Ended September 30,	2004	
Revenues	\$ 26,000	\$
General and administrative expenses	1,610,000	1,
Compensation expense from stock grants and the issuance of stock options and stock purchase warrants	595,000	3,
Total operating expenses	2,205,000	4,
Operating loss	(2,179,000)	(4,
Other income	-	
Interest expense, related parties	(74,000)	
Loss from continuing operations	(2,253,000)	(4,
Discontinued operations:	-	
Loss on disposal o discontinued operations	-	
Income from operations of discontinued operations	-	

Edgar Filing: FINX GROUP INC - Form 10QSB/A

Net loss	\$ (2,253,000)	\$ (4,
Loss per share computation- basic and diluted:		
Loss from continuing operations	\$ (2,253,000)	\$ (4,
Less dividends on preferred shares	(90,000)	
Loss from continuing operations attributable to common stockholders	(2,343,000)	(4,
Loss on disposal of discontinued segments	-	
Income (loss) from operations of discontinued segments	-	
Net loss available to common stockholders	\$ (2,343,000)	\$ (4,
Weighted average shares outstanding	749,715,948	353,
Loss per common share - basic and diluted:		
Loss from continuing operations	(\$0.00) *	
Loss from disposal of discontinued operations	-	
Income (loss) from operations of discontinued segments	-	
Net loss	(\$0.00) *	

See Notes to Unaudited Consolidated Interim Financial Statements.

* less than \$.01

Page 4

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

As of September 30, 2004

ASSETS

Cash	\$
Total current assets	
Furniture, Fixtures and Equipment:	
Furniture, fixtures and equipment, cost	(
Less accumulated depreciation	
Net furniture, fixtures and equipment	
Other assets:	
Exclusive license agreement, net (see Note 4)	2,4
Other long-term assets	

Edgar Filing: FINX GROUP INC - Form 10QSB/A

Total long-term assets		2,4

TOTAL ASSETS	\$	2,4

LIABILITIES AND CAPITAL DEFICIENCY		

CURRENT LIABILITIES:		
Accounts payable	\$	1,9
Accrued payroll and payroll taxes, executive officers		3,2
Notes payable		2
Notes payable executive officers, including interest		1,2
Notes payable, related parties, including accrued interest		3
Other current liabilities		6
Current liabilities of discontinued segments (see Note 7)		1,2

Total current liabilities		8,7

Commitments and contingencies (see Note 6)		

CAPITAL DEFICIENCY		

Preferred stock, \$.01 par value; 1,000,000 shares authorized; 1,000 Series A preferred shares issued, outstanding; 15,540 Series B preferred shares issued and outstanding and 57,500 shares of Series D preferred stock as of September 30, 2004		2,1
Common stock, \$.01 par value; 750,000,000 shares authorized; 749,715,948 shares issued and outstanding as of September 30, 2004		7,4
Additional paid-in capital, common stock		28,1
Accumulated deficit		(44,1

Capital deficiency		(6,3

TOTAL LIABILITIES AND CAPITAL DEFICIENCY	\$	2,4

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,		2004

CASH FLOWS - OPERATING ACTIVITIES:		
Loss from continuing operations	\$	(2,253,000)

Adjustments to reconcile net loss to net cash - continuing operations:		(2,253,000)
Depreciation and amortization		184,000
Non cash expense from stock grants and the issuance of		595,000

Edgar Filing: FINX GROUP INC - Form 10QSB/A

Loss on disposal of segments				-
Changes in assets and liabilities:				
Prepaid expense				-
Accounts payable			447,000	
Accrued payroll			577,000	
Accrued interest expense, related parties			74,000	
Other current liabilities			63,000	
<hr/>				
Net cash-continuing operations			(313,000)	
<hr/>				
Income (loss) from discontinued operations				-
Adjustments to reconcile loss from operations of discontinued segments to net cash - discontinued operations:				
Net change in other assets and liabilities				-
<hr/>				
Net cash-discontinued operations				-
<hr/>				
Net cash - operating activities			(313,000)	
<hr/>				
CASH FLOWS - INVESTING ACTIVITIES:				
<hr/>				
Deposits			(8,000)	
<hr/>				
Net cash - investing activities			(8,000)	
<hr/>				
CASH FLOWS - FINANCING ACTIVITIES:				
<hr/>				
Issuance of notes payable			235,000	
Loans from related parties			96,000	
Repayments on related party loans			-	
Proceeds from exercise of stock options			-	
<hr/>				
Net cash - financing activities			331,000	
<hr/>				
Net change in cash			10,000	
Cash - Beginning of period				-
<hr/>				
Cash - End of period			\$ 10,000	\$
<hr/>				

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

<hr/>				
Cash paid during the year for:				
Interest			\$ -	\$
Income Taxes			\$ -	\$
<hr/>				

See Notes to Unaudited Consolidated Interim Financial Statements.

1. Basis of Presentation

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 for the year ended December 31, 2003. Certain reclassifications were made to prior year amounts to conform to the current year presentation.

The accompanying unaudited interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. However, the Company has generated only nominal revenue from continuing operations and has a history of net losses and as of September 30, 2004 has a working capital deficiency of \$8.8 million and a capital deficiency of \$6.3 million. Historically, the Company has been dependent on financial support from its controlling stockholder, Trinity Group-I, Inc. ("Trinity"), and other related parties. 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 revenues. 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, 2003 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 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.

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

Edgar Filing: FINX GROUP INC - Form 10QSB/A

revised estimates of useful lives. As of September 30, 2004, management expects those assets related to its continuing operations to be fully recoverable.

Page 7

3. Supplemental Disclosure of Non Cash Investing and Financing Activities

On July 29, 2004, Lewis S. Schiller and The Trinity Group-I, Inc. converted \$500,000 of debt obligations into 50,000 shares of Series D Convertible Preferred Stock. Each share of Series D Convertible Preferred Stock is convertible into 10,000 shares of common stock. Grayzna B. Wnuk converted \$75,000 of accrued salary into 7,500 shares of Series D Convertible Preferred Stock. The Series D Convertible Preferred Stock votes alongside of common stock on an if converted basis regardless of whether there is common shares available for conversion at the time of any vote. As of the date hereof, the forgoing shares are convertible into 725,000,000 shares of common stock. The conversion period for the Series D Convertible Preferred stock does not have an expiration date.

On July 29, 2004, the Company issued additional warrants to purchase an aggregate of 584,860,000 shares of Common Stock at an exercise price of \$0.01 per share resulting in stock compensation expense of \$594,984.

On January 2, 2003, a warrant to purchase 5,000,000 shares of Common Stock for \$0.04 per share was issued to a consultant resulting in stock compensation expense of \$99,000.

On January 17, 2003, options to purchase 17,604,168 shares of Common Stock for \$0.02 per share were granted and exercised resulting in stock compensation expense of \$366,000.

On March 17, 2003 stock grants for 85,000,002 shares of Common Stock were issued to consultants resulting in stock compensation expense of \$425,000 and a stock grant for 14,999,998 shares of Common Stock was issued to Grazyna B. Wnuk, an officer and director of The Finx Group, Inc., resulting in stock compensation expense of \$75,000.

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

Edgar Filing: FINX GROUP INC - Form 10QSB/A

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 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.

On December 10, 2003, the Company, its wholly-owned subsidiary, Secured Portal Systems, Inc., Alan J. Risi ("Risi"), GIL Security Systems, Inc. ("GIL"), and Georal International, Ltd., entered into a amended and restated worldwide

Page 8

exclusive distribution agreement covering all security entrance systems created, developed, manufactured and/or distributed or otherwise sold by GIL, Georal or their successors. The restated agreement expanded the Company's exclusivity and gave the Company certain other rights. The agreement provided for certain payments by the Company and, if the payments were not made, GIL, Georal and Risi have the right to terminate the restated agreement, in which event, the relationship among the parties would be governed by the prior agreement.

On or about April 28, 2004, the Company received a notice from GIL stating that the agreement was terminated for failure of the Company to pay the amount provided in the restated agreement. The notice further stated GIL's position that all agreements between GIL and the Company and its subsidiary are terminated.

The Company is considering its legal rights and believes that its subsidiary will continue to be able to exercise its right to market the security portals in major markets groups; however, the Company can give no assurance as to its ability to protect such rights or, if litigation is necessary, that it will prevail in any legal action it may commence.

As of September 30, 2004, the Company has not recorded any impairment adjustments with regards to the exclusive license.

5. 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

Edgar Filing: FINX GROUP INC - Form 10QSB/A

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 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 three months ended September 30, 2004, the average number of common shares used in the calculation of diluted loss per share have not been adjusted for the effects of 1,742,360,000 potential common shares from unexercised stock options and warrants and 1,546,250,000 potential common shares from unconverted preferred shares. Such warrants, options, and shares of convertible preferred stock may dilute earnings per share in the future.

6. 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 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 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.

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 and was negotiated pursuant to a board authorization dated April 29, 1999. 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 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

Edgar Filing: FINX GROUP INC - Form 10QSB/A

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, 2004, the Company has reserved \$550,000 against such potential claims.

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 Fingerrmatrix, 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.

7. Discontinued Operations

FMX Corp.

On June 30, 2003 the Company ceded its 51.1% ownership in FMX Corp. ("FMX") upon return of all of its shares of FMX's common and preferred stock to Michael Schiller, who owned the remaining 49.9% of FMX and is the brother of Lewis S. Schiller. Since its inception, FMX has had no operating activities and all but \$25,000 of its liabilities were intercompany notes payable. As a result of the disposal of FMX, the Company recorded a loss on disposal of \$9,000. The income from operations of discontinued operations for the nine months ended September 30, 2003 was \$13,000.

8. Warrants

On November 17, 2003, the Company issued warrants to purchase an aggregate of 1,257,500,000 shares of Common Stock at an exercise price of \$0.01 per share resulting in stock compensation expense of \$977,000. On July 29, 2004, the Company issued additional warrants to purchase an aggregate of 584,860,000 shares of Common Stock at an exercise price of \$0.01 per share resulting in stock compensation expense of \$594,984. As of September 30, 2004, there are warrants outstanding to purchase an aggregate of 1,842,360 at an exercise price of \$.01 per share that are exercisable when and if sufficient shares become available.

9. Subsequent Events

In October 2004, the Company received \$150,000 for shares of Series D Convertible Preferred Stock that are convertible into an aggregate of 75,000,000 shares of Common Stock. In connection with the transaction, the Company issued shares of Series D Convertible Preferred Stock that are convertible into 7,500,000 shares of Common Stock in payment of a finder's fee. The Series D Convertible Preferred Stock votes alongside of common stock on an if converted basis regardless of whether there is common shares available for conversion at the time of any vote

Edgar Filing: FINX GROUP INC - Form 10QSB/A

Results of Operations

THIS MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS MAY BE DEEMED TO INCLUDE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, THAT INVOLVE RISK AND UNCERTAINTY. ALTHOUGH MANAGEMENT BELIEVES THAT ITS EXPECTATIONS ARE BASED ON REASONABLE ASSUMPTIONS, IT CAN GIVE NO ASSURANCE THAT ITS EXPECTATIONS WILL BE ACHIEVED.

THE IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER FROM THOSE IN THE FORWARD-LOOKING STATEMENTS HEREIN (THE "CAUTIONARY STATEMENTS") ARE MORE FULLY DESCRIBED IN THE COMPANY'S DECEMBER 31, 2002 FORM 10-KSB, AS AMENDED, INCLUDE, WITHOUT LIMITATION: WE HAVE A HISTORY OF LOSSES AND CASH FLOW DEFICITS; THE MARKET FOR OUR COMMON STOCK IS LIMITED; TRADING IN OUR SECURITIES MAY BE RESTRICTED DUE TO COMPLIANCE WITH APPLICABLE PENNY STOCK REGULATIONS; OUR COMPANY IS SUBJECT TO CONTROL BY A PRINCIPAL STOCKHOLDER; A SIGNIFICANT PORTION OF THE NET PROCEEDS OF ANY POTENTIAL FINANCING MAY BE USED FOR THE PAYMENT OF RELATED PARTY AND OTHER INDEBTEDNESS AND FOR SALARIES OF EXECUTIVES AND KEY PERSONNEL; WE REQUIRE ADDITIONAL FINANCING FOR OUR BUSINESS ACTIVITIES; WE 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 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.

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 of our prior year's audited financial statements.

Results of Operations

For all of the third quarters and first nine months of 2004 and 2003

Edgar Filing: FINX GROUP INC - Form 10QSB/A

our significant operating expenses were executive payroll, and marketing expense and professional fees. Executive payroll is currently \$810,000 annually. As of September 30, 2004, none of the salary owed to Lewis S. Schiller, our chief executive officer, has been paid and he is owed cumulative salary of \$2.4 million. As of September 30, 2004 Grazyna B. Wnuk, our vice-president, is owed cumulative salary of \$871,000. Expenses associated with our marketing, which currently are \$1.1 million on an annual basis, represent

Page 11

consulting fees for the consultants who perform such functions. Professional fees for legal and accounting services currently approximate \$500,000 annually.

The value assigned to the Georal License of approximately \$3 million is being amortized over the life of the Georal License resulting in ongoing annual amortization expense of \$245,000. Such amortization for both of the third quarters of 2004 and 2003 was \$61,000 and for the first nine months of both 2004 and 2003 was \$183,000.

During 2004 and 2003 we 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 three and nine months ended September 30, 2004 stock based compensation was \$595,000 and \$3,037,000, respectively. During the three and nine months ended September 30, 2003 stock based compensation was \$1,619,000 and \$3,037,000, respectively.

We incur interest expense at an annual rate of 9% on related party notes payable. For the third quarters of 2004 and 2003 interest expenses on related party notes payable was \$24,000 and \$27,000, respectively. For the first nine months of both 2004 and 2003 related party interest expense was \$74,000 and \$80,000, respectively.

Financial Condition - Liquidity and Capital Resources

As of September 30, 2004, our working capital deficiency approximates \$8.8 million, representing an increase of \$1.8 million from December 31, 2003. Since April 1999, our primary source of funding has been Trinity, our controlling shareholder. On July 29, 2004, Lewis S. Schiller and The Trinity Group-I, Inc. converted \$500,000 of debt obligations into 50,000 shares of Series D Convertible Preferred Stock. Each share of Series D Convertible Preferred Stock is convertible into 10,000 shares of common stock. Grazyna B. Wnuk converted \$75,000 of accrued salary into 7,500 shares of Series D Convertible Preferred Stock. The Series D Convertible Preferred Stock votes alongside of common stock on an if converted basis regardless of whether there is common shares available for conversion at the time of any vote. As of the date hereof, the forgoing shares are convertible into 575,000,000 shares of common stock. The conversion period for the Series D Convertible Preferred stock does not have an expiration date. During the first nine months of 2004 we received \$96,000 from Trinity and \$235,000 from unaffiliated lenders which were used for our operations. We are attempting to obtain outside equity financing; however, we make no assurances that we will be successful in obtaining such financing.

On December 10, 2003, the Company, its wholly-owned subsidiary, Secured Portal Systems, Inc., Alan J. Risi ("Risi"), GIL Security Systems, Inc. ("GIL"), and Georal International, Ltd., entered into a amended and restated worldwide exclusive distribution agreement covering all security entrance systems created, developed, manufactured and/or distributed or otherwise sold by GIL, Georal or their successors. The restated agreement expanded the Company's exclusivity and gave the Company certain other rights. The agreement provided

Edgar Filing: FINX GROUP INC - Form 10QSB/A

for certain payments by the Company and, if the payments were not made, GIL, Georal and Risi have the right to terminate the restated agreement, in which event, the relationship among the parties would be governed by the prior agreement.

On or about April 28, 2004, the Company received a notice from GIL stating that the agreement was terminated for failure of the Company to pay the amount provided in the restated agreement. The notice further stated GIL's position that all agreements between GIL and the Company and its subsidiary are terminated.

The Company is considering its legal rights and believes that its subsidiary will continue to be able to exercise its right to market the security portals in major markets groups; however, the Company can give no assurance as to its ability to protect such rights or, if litigation is necessary, that it will prevail in any legal action it may commence.

As of September 30, 2004, the Company has not recorded any impairment adjustments with regards to the exclusive license.

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, 2004 has a working capital deficiency of \$8.8 million and a capital deficiency of \$6.3 million. Historically, the Company has been dependent on financial support from its controlling stockholder, Trinity Group-I, Inc. ("Trinity"), and other related parties. 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 revenues. The accompanying consolidated financial statements do not include any adjustments that would result should the Company be unable to continue as a going concern.

Page 12

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 a date within 90 days of the date of this 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 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

Edgar Filing: FINX GROUP INC - Form 10QSB/A

- 31 Chief Executive Officer and Chief Accounting 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.
- (b) Reports on Form 8-K
- 1) Current report filed on July 14, 2004 reporting under item 9,
the issuance of a press release.

Page 13

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 19, 2004
Lewis S. Schiller (Principal Executive and Accounting Officer)

Page 14

Exhibit 31

CHIEF EXECUTIVE OFFICER AND CHIEF ACCOUNTING 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 quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant, and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of this registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

Edgar Filing: FINX GROUP INC - Form 10QSB/A

- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- 5. I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) significant deficiencies in the design or operation of internal controls which could adversely affect our ability to record, process, summarize and report financial data and we have identified no material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- 6. I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

November 19, 2004

By /S/ Lewis S. Schiller
Chief Executive Officer and
Chief Accounting Officer

Exhibit 31 - Page 1

Exhibit 32

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

In connection with the Quarterly Report of The Finx Group, Inc. on Form 10QSB for the period ending September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report") the undersigned Chief Executive Officer and Chief Financial Officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that (based on his knowledge): 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, and 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

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

November 19, 2004

Exhibit 32 - Page 1