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FINX GROUP INC
Form 10KSB/A
November 22, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-KSB
Amendment No. 1

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended December 31, 2003

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [No Fee Required] For the transition period _____ to _____.

Commission file Number 0-9940

THE FINX GROUP, INC.

(Name of small business issuer as specified in its charter)

Delaware 13-2854686
(State or other jurisdiction of (IRS Employer Identification Number)
incorporation or organization)

21634 Club Villa Terrace, Boca Raton, Florida 33433
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (561) 447-6612

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Exchange Act:
Common stock, \$.01 par value

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

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

The issuer's revenues for the year ended December 31, 2003 were \$36,000.

The aggregate market value of the common equity held by non-affiliates of the Registrant as of April 13, 2004 was approximately \$5.5 million computed on the basis of the reported closing price per share (\$0.0085) of such stock on the National Association of Securities Dealers, Inc.'s Over the Counter Bulletin Board. Shares of common stock held by each officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of November 18, 2004, the Registrant has 749,715,948 shares of its par value \$0.01 common stock outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE: None

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

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

ALL STATEMENTS, OTHER THAN STATEMENTS OF HISTORICAL FACT, INCLUDED IN THIS ANNUAL REPORT ON FORM 10-KSB, INCLUDING WITHOUT LIMITATION THE STATEMENTS UNDER "RISK FACTORS" AND "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" ARE, OR MAY BE, FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED (THE "EXCHANGE ACT").

WITHOUT LIMITING THE FOREGOING, (I) THE WORDS "BELIEVES," "ANTICIPATES," "PLANS," "EXPECTS," "INTENDS," "ESTIMATES" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS AND (II) FORWARD-LOOKING STATEMENTS INCLUDE ANY STATEMENTS WITH RESPECT TO THE POSSIBLE FUTURE RESULTS OF THE COMPANY, INCLUDING ANY PROJECTIONS OR DESCRIPTIONS OF ANTICIPATED REVENUE ENHANCEMENTS OR COST SAVINGS. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS, WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF THE COMPANY, OR INDUSTRY RESULTS, TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE, OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS.

SUCH FACTORS INCLUDE, AMONG OTHERS, THE FOLLOWING: 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 ANNUAL REPORT ON FORM 10-KSB, 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 CONTAINED THROUGHOUT THIS ANNUAL REPORT ON FORM 10-KSB.

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PART I

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Item 1. Description of Business.

Organization

On June 6, 2000 The Finx Group, Inc. was organized as a Delaware corporation. Effective June 30, 2000, Fingermatrix, Inc., our predecessor company was merged into The Finx Group, Inc. We have controlling interests in Secured Portal Systems, Inc., which was incorporated in Delaware on August 11, 1999, and Granite Technologies Acquisition Corp., which was incorporated in Delaware on May 15, 2001. Throughout this document our Company and its subsidiaries may be collectively referred to as "We", "Our", "Us", "The Finx Group", the "Company" or the "Registrant".

Our Business

Products

Since September 30, 2002, our business has solely focused on the marketing and sale of our two primary security products: the GIL 2001 Portal Control System and the Secured Card Solutions Software Program. During 2003 and 2002, we generated revenues of \$36,000 and \$6,000 from our Secured Card Solutions.

The GIL 2001 Portal Control System is state of the art for security processing and human flow management and is built on step-by-step security processor logic using automated, structural, portal barriers for executing positive/authorized or negative/unauthorized access commands. This system includes embedded defensive countermeasures for piggybacked entry, weapons or credentials pass back, run back breeches and protection against forced entry. Standard subsystem capabilities include metal detection for weapon and asset detection, and this system's processing capabilities include execution of access commands from any access control, detection sensor or digital imaging subsystem. With the full physical separation and step-by-step logistics provided by GIL 2001 Portal Control Systems, access control at key checkpoints can be configured in a way to completely secure a facility. The GIL 2001 Portal Control System is designed to create a Secure Physical Firewall that creates a Safe Work Area for employees, visitors, and customers who must pass through our firewall into a secure area. One of the many advantages of this firewall is that it reduces day-to-day confrontational situations.

The Secured Card Solutions Software Program enables colleges and universities to link access control of their recreation facilities with the university ID card, process memberships, issue recreation equipment and obtain utilization reports for multiple recreation facilities. The system is cost-effective to implement and is user-friendly for employees and provides accurate and timely information for recreation administrators. We have provided Virginia Commonwealth University with two of our Secured Card software solutions - the "Secured Recreational Sports Solution" and "The Secured Card Solution". "The Secured Recreational Sports Solution" which currently serves Virginia Commonwealth University from three locations offering a variety of fitness, aquatics and intramurals. The activities are offered to all students, faculty, and university and hospital employees. The Secured Recreational Sports Solution's database is integrated with the Virginia Commonwealth University card database for single university identification. The Secured Recreational Sports Solution handles all check-in of members, locker assignment and equipment check-in and check-out. It also keeps track of member billing and payroll deduction and handles member suspensions and automatic emailing of special events. The Secured Sports Recreation Solution application is written using the new Microsoft.NET architecture. We have also entered into a services and support agreement with Florida International University for the installation, support and use of our Secured Recreational Sports Solution.

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Marketing

We are marketing GIL 2001 Portal Control System directly through sales consultants and through channel marketing relationships that we have recently secured. We have resale agreements with Northrop Grumman Mission Systems and Lockheed Martin Mission Systems, which give us significant access and existing in-roads for the department of defense and other governmental customers. Georal International, Ltd. has installed the GIL-2001 at the Department of Justice in Washington, DC, Rikers Island Prison, Citi Corp.'s Data Center and Exodus Communications Corp.

We are marketing the Secured Card Solutions Software Program directly to universities across the United States. We have installed our Secured Recreational Sports Management Solution at Virginia Commonwealth University and at Florida International University.

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Competition

Although there are two direct competitors (Tonali and Secure Access Portals, Inc.), we believe that our product has the following key advantages: (1) significantly higher throughput, meaning more people can use the system per hour than our competitors; (2) U.S. State Department Certification; (3) it is domestically manufactured; and, (4) we have broad patent protection on the Georal portal.

Although there are many product offerings for Card Control Access, we believe that we are developing a niche industry by focusing on the colleges and universities sports recreation facilities. Our upcoming WEB Based Secured Recreational Sports Management Solution will mimic the existing program's capabilities on an internet browser using Microsoft.NET architecture and will further solidify our leadership role in our market niche.

Employees

The Finx Group, Inc. holding company currently employs two individuals who are its executive officers. Our remaining functions are provided by independent consultants

RISK FACTORS

We Have a History of Losses and Cash Flow Deficits

We have incurred significant operating losses during each of the two years ended December 2003 and as of December 31, 2003 we have a capital deficiency of \$5.158 million. We expect to incur additional losses during the time period in which we are developing products and markets for our subsidiaries and we cannot be assured of when, if ever, our operations will become profitable or the extent of any future profitability. We also cannot be assured that the current trends of negative cash flow and increased losses and expenses (including compensation expense charges that may result from the issuance of our securities in the future) will not continue or, if so, for how long.

The Market for Our Common Stock is Limited

Currently, our common stock trades on the National Association of Securities Dealers Automated Quotation System Over-the-Counter Bulletin Board (the "NASDAQ Bulletin Board"). By its nature, the NASDAQ Bulletin Board is a limited market and investors may find it more difficult to dispose of our

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securities, which are owned by them. Currently, we do not meet the financial and other requirements for a NASDAQ SmallCap, listing. Apart from specific financial criteria that we would have to comply with in order to obtain such listing, there are other corporate governance criteria that must be satisfied in order to obtain any such listing. Among such corporate governance requirements is the requirement that there be no disparity in the voting rights of the holders of the common stock. At the present time, The Trinity Group-I, Inc. owns all of the outstanding shares of our Series A preferred stock. The holder of our Series A preferred stock has the right to elect a majority of the Board of Directors. The NASDAQ may consider the issuance of the Series A preferred stock as a violation of their voting rights rules and policy. The failure to comply with NASDAQ's voting rights rules or policy or any of its other applicable regulations relating to transactions engaged in by us may result in sanctions. Any such actions by NASDAQ could further limit the market for our common stock.

Trading in Our Securities May Be Restricted Due to Compliance with Applicable Penny Stock Regulations

Broker-dealer practices in connection with transactions in "penny stocks" are regulated by certain penny stock rules and regulations adopted by the SEC. Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on NASDAQ provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. These rules also impose additional sales practice requirements on broker-dealers which sell such securities to persons other than established customers or institutional accredited investors. For transactions covered by this rule, broker-dealers must also make a special suitability determination for the purchaser and receive the purchaser's written consent to the transaction prior to a sale. Consequently, the application of this rule to the trading of our common stock may affect the ability or willingness of broker-dealers to sell our securities and adversely affect market liquidity for such securities.

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Our Company is Subject to Control by a Principal Stockholder

Trinity Group-I, Inc. has advanced significant funds to us and our subsidiaries and owns a controlling interest in our equity. The Trinity Group-I, Inc. is solely owned by Lewis S. Schiller, our Chairman of the Board and Chief Executive Officer. All of the shares of The Trinity Group-I, Inc. owned by Lewis S. Schiller are pledged to an entity controlled by Carol Schiller, the wife of Lewis S. Schiller. In addition, Douglas Schiller, Linda Schiller and Blake Schiller, the adult children of Lewis S. and Carol Schiller, own interests in our outstanding common stock. In addition, The Trinity Group-I, Inc. and Grazyna B. Wnuk owns all of our outstanding Series B preferred stock, which is convertible into approximately 739,450,000 shares of our common stock. The Trinity Group-I, Inc. also owns all of our Series A preferred stock which gives it the right to elect a majority of our Board of Directors. This concentration of ownership and voting rights could delay or prevent a change of control. In addition, Lewis S. Schiller could elect to sell all, or a substantial portion, of his equity interest in The Trinity Group-I, Inc. to a third party. In the event of such a sale by Mr. Lewis S. Schiller, such third party may be able to control our affairs in the same manner that Lewis S. Schiller is able to do so by virtue of his ownership of The Trinity Group-I, Inc. Any such sale may adversely affect the market price of our common stock and could adversely affect

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our business, financial condition or results of operations.

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

The Trinity Group-I, Inc. and Lewis S. Schiller have advanced significant funds to us. Also, Lewis S. Schiller and Grazyna B. Wnuk are owed accrued salaries as of December 31, 2003 of approximately \$2.7 million. A portion of the proceeds of any potential financing may be used to repay some or all of the amounts owe to these related parties. In addition, it is possible that a substantial portion of the proceeds from any potential financing would be allocated for general corporate purposes, including working capital, would be used to pay the salaries of certain of our officers and other key personnel and consultants.

We Require Additional Financing for Our Business Activities

We currently have limited operating capital and our inability to obtain a significant financing may adversely affect our business and no assurances are made that any such financing will occur, or that if any financing is completed, that additional financing will not be required.

We Have Granted Significant Benefits Under Certain Existing and Proposed Employment Agreements

Lewis S. Schiller, our Chairman of the Board and Chief Executive Officer, and Grazyna B. Wnuk, our Vice President, Secretary and a Director have employment agreements with us. These employment agreements provide significant benefits to each of them. The terms of these agreements were determined by our management, who are also parties to these agreements.

Rapid Technological Change Could Render Certain of Our Products and Proposed Products Obsolete or Non-Competitive

Major technological changes can occur rapidly in the security industries. It is entirely possible that newer technologies, techniques or products will be developed with more capabilities and better performance than our present and proposed products. The development by competitors of new or improved technologies, techniques or products may make our present or planned products obsolete or non-competitive.

We Cannot Predict Market Acceptance for Our Proposed Products

All of our security products that we currently offer and may develop in the future may not gain market acceptance. The degree of acceptance of our existing security products and any security products that we may develop in the future will depend upon numerous factors, including demonstration of the advantages, uniqueness and reliability of such products, their cost effectiveness, the potential barriers to market entry by alternative products, marketing and distribution support and the financial ability and credibility of such entities.

The Business in Which We Are Engage in May Be Subject to Intense Competition

We may face intense competition from numerous companies which are developing, producing and marketing products for securing access to buildings and facilities which will directly compete with our products. We intend to distribute a security access or entrance system to customers which include government and other

institutional purchasers who have been serviced by vendors, which have established and tested security products and systems that have become recognized and accepted in this industry. The type of security system that we will offer to our customers is subject to technological change and compliance with product specifications established by our intended customers. New entrants in this industry must establish product reliability through testing and use in order to gain widespread commercial acceptance of such products. Many of our potential competitors may have greater financial, technical, personnel and other resources than we do and that we expect to have in the foreseeable future. We cannot provide any assurances that we will be able to compete effectively with any of such competitors.

The Board of Directors May Issue Additional Preferred Stock in the Future

We are authorized to issue up to 1,000,000 shares of preferred stock, \$.01 par value (the "Preferred Stock"). The Preferred Stock may be issued in one or more series, the terms of which may be determined at the discretion of our Board of Directors, without further approval of the stockholders. Among the rights of the holders of any additional Preferred Stock that may be authorized by the Board of Directors are rates of dividends, voting rights, terms of redemption, amounts payable upon liquidation, sinking fund provisions and conversion rights. One of the effects of any such additional Preferred Stock that may be issued in the future may be to enable the Board of Directors to render more difficult or to discourage an attempt to obtain control of the Company by means of a tender offer, proxy contest, merger or otherwise and thereby protect the continuity of our current management. The terms of any such additional Preferred Stock that may be issued in the future could adversely affect the rights of the holders of common stock. Accordingly, the issuance of any such shares of Preferred Stock may discourage bids for the common stock or adversely affect the market price of the common stock.

A Substantial Number of Our Shares of Common Stock Will Be Available for Future Sale in the Public Market

As of April 13, 2003, approximately 114 million shares of our outstanding common stock are "restricted securities" as that term is defined in Rule 144 promulgated under the Securities Act and in the future may be sold only pursuant to an effective Registration Statement under the Securities Act, in compliance with the exemption provisions of Rule 144 or pursuant to another exemption under the Securities Act. Furthermore, any shares that are issued upon the exercise of any outstanding warrants or options will be eligible for sale, without registration under Rule 144 (subject to the aforementioned volume restrictions of the Rule) following the expiration of two years from the date of issuance.

We Do Not Intend to Pay Any Dividends on the Common Stock in the Foreseeable Future

We currently intend to retain all future earnings, if any, to finance our current and proposed business operations and we do not anticipate paying any cash dividends on our common stock in the foreseeable future. The holder of our Preferred Stock have rights senior to the holders of common stock with respect to any dividends. We may also incur indebtedness in the future that may prohibit or effectively restrict the payment of cash dividends on our common stock.

The Liability of Our Officers and Directors to Us and Our Shareholders is Limited

The applicable provisions of the Delaware Business Corporation Law and

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our Certificate of Incorporation limit the liability of our officers and directors to us or our shareholders for monetary damages for breaches of their fiduciary duties to us, with certain exceptions, and for other specified acts or omissions of such persons. In addition, the applicable provisions of the Delaware Business Corporation Law and of our Certificate of Incorporation and By-Laws provide for indemnification of such persons under certain circumstances. As a result of these provisions, shareholders may be unable to recover damages against our officers and directors for actions taken by them which constitute negligence, gross negligence or a violation of their fiduciary duties and may otherwise discourage or deter our shareholders from suing our officers or directors even though such actions, if successful, might otherwise benefit us and our shareholders.

Dependence on a Key Supplier

Georal International, Ltd. is the sole supplier of our primary security product pursuant to a license which expires on August 31, 2014. Should Georal International, Ltd. experience difficulty in providing product in a timely manner, this could adversely affect our revenues and reputation in the market. Additionally, the failure on the part of Georal International, Ltd. to develop and manufacture or supply new or enhanced products that meet or anticipate technological changes on a timely and cost-competitive basis could have a materially adverse effect on our financial condition and results of operations.

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Reliance on Management and Key Personnel and Consultants

While investors have voting rights, they will not be able to take a direct role in the management of our operations. Our success is contingent on the judgment and expertise of our directors and officers and on our being able to attract and retain a senior management team, some of who are approaching retirement age. Our success will also depend to a significant extent upon the skills of certain key personnel and consultants. Our failure to attract replacement or additional qualified employees or to retain the services of key personnel or consultants could adversely affect our business.

We Could Be Subject to Potential Uninsured Liability

We intend to obtain liability, property and business interruption insurance. We may not have sufficient funds with which to purchase and/or maintain such insurance. We plan to operate in a professional and prudent manner to reduce potential liability. Nevertheless, an uninsured claim against us, if successful and of sufficient magnitude could have a material adverse effect on us. In addition, the lack of or the inability to obtain insurance of the type and in the amounts required could impair our ability to enter into certain contracts, which may be, in certain instances, conditioned upon the availability of adequate insurance coverage.

Item 2. Description of Properties.

Our executive offices are located in Boca Raton, Florida in space provided by an executive officer. Our independent consultants perform work for us out of their own offices located throughout the United States.

Item 3. 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.

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On or about April 8, 2002, a complaint styled "Law Offices of Jerold K. Levien, against The Finx Group, Inc. f/k/a Fingermatrix, Inc., The Trinity Group-I, Inc." was filed in the Supreme Court of the State of New York County of New York, and the plaintiff has received a judgment for \$334,595, such amount having been accrued on the Company's books, plus interest.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

The Company's common stock is traded on the National Association of Securities Dealers, Inc.'s Over the Counter Bulletin Board ("OTC Bulletin Board") under the symbol "FXGP". The following table sets forth, for the periods indicated, the quarterly range of the high and low closing bid prices per share of our common stock as reported by the OTC Bulletin Board Trading and market services. Such bid quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

Bid Prices

| Quarter ended | High | Low |
|--------------------|----------|----------|
| | ---- | --- |
| March 31, 2003 | \$0.0340 | \$0.0040 |
| June 30, 2003 | \$0.0260 | \$0.0035 |
| September 30, 2003 | \$0.0080 | \$0.0021 |
| December 31, 2003 | \$0.0065 | \$0.0025 |

Quarter ended

| | | |
|--------------------|---------|---------|
| March 31, 2002 | \$0.81 | \$0.08 |
| June 30, 2002 | \$0.23 | \$0.042 |
| September 30, 2002 | \$0.12 | \$0.029 |
| December 31, 2002 | \$0.095 | \$0.019 |

The closing price of common stock on April 13, 2004 was \$0.0085.

We have authorized 750,000,000 shares of our \$0.01 par value common stock. As of April 13, 2004, there were approximately 4,000 holders of record of our common stock. We have not paid dividends on common stock and do not anticipate paying dividends in the foreseeable future. We intend to retain future earnings, if any, to finance the expansion of our operations and for general corporate purposes.

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Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

THE IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER FROM THOSE IN THE FORWARD-LOOKING STATEMENTS HEREIN (THE "CAUTIONARY STATEMENTS") 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

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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 ANNUAL REPORT ON FORM 10-KSB, 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

Revenues

In September 2002 we made a decision to focus our business exclusively on our Security Systems business and on October 18, 2002 we disposed of all non security system segments. Currently, our primary source of future revenues, if any, will be generated under our Georal license for the sale of Georal security products, including the

GIL-2001 security door. Potential revenues may be generated from the marketing and distribution of the Georal security products to both those customers for which we have exclusive distribution rights and to others as to which we have non-exclusive rights. In December of 2002 TRW, Inc., now operating as Northrop

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Grumman Mission Systems, agreed to market and distribute the Georal security products. In March of 2003, Lockheed Martin Mission Systems also agreed to market and distribute the Georal security products. In April 2003, we entered into reciprocal marketing agreements with Advanced Biometric Security, Inc. ("ABS") which provide both us and ABS with non-exclusive marketing rights for each others security product lines. In July 2003, we entered into a representation agreement with Thacher Associates, LLC, who will market our security products. Many of the customers to whom we will seek to market the Georal security systems will be domestic and foreign government purchasers or commercial users. On December 11, 2001, the GIL-2001 security door received certification from the U.S. State Department necessary for its possible procurement for use in U.S. embassies, consulates and other governmental installations both in the U.S. and abroad. In October 2002, Georal International, Ltd. received broad patent approval for its security entrance system from the United States Patent Trademark Office (Patent 6,472,984). The patent received by Georal International, Ltd. covers the secured portal which is the subject of the Georal license and may provide barriers to entry and possibly eliminate competition from other portal manufacturers.

Our original marketing strategy was focused solely on sales of the GIL-2001 security door to the U.S. State Department. In 2002, we expanded our marketing efforts to include all customers under the exclusive distribution agreement and have built a sales team for such purpose. We recognize that on our own, we face competition from companies which have far greater financial resources and personnel which is why we made the strategic decision to establish our marketing channel relationships with large organizations, including Northrop Grumman Mission Systems and Lock Martin Mission Systems. Although we believe that we have a unique product and that the GIL-2001 security door is the only product of its type that is certified by the U.S. State Department, we give no assurances that we will be able to generate meaningful revenues using our Georal license.

We also offer Secured Card Solutions from our development and sale of software programs for Device Management and Smart Card applications. We have provided Virginia Commonwealth University with two of our Secured Card software solutions - the "Secured Recreational Sports Solution" and "The Secured Card Solution". "The Secured Recreational Sports Solution" which currently serves Virginia Commonwealth University from three locations offering a variety of fitness, aquatics and intramurals. The activities are offered to all students, faculty, and university and hospital employees. The Secured Recreational Sports Solution's database is integrated with the VCU card database for single university identification. The Secured Recreational Sports Solution handles all check-in of members, locker assignment and equipment check-in and check-out. It also keeps track of member billing and payroll deduction. Further, it handles member suspensions and automatic emailing of special events. The Secured Sports Recreation Solution application is written using the new Microsoft.NET architecture. We have also entered into a services and support agreement with Florida International University for the installation, support and use of our Secured Recreational Sports Solution. During 2003 and 2002, we generated revenues of \$36,000 and \$6,000, respectively, from Secured Card Solutions contracts.

Operating Expenses

For both 2003 and 2002 our significant operating expenses were executive payroll, and marketing expense and professional fees. Executive payroll is currently \$723,000 annually. As of December 31, 2003, none of the salary owed to Lewis S. Schiller, our chief executive officer, has been paid and he is owed cumulative salary of \$2 million. As of December 31, 2003, \$66,000 of salary owed to Grazyna B. Wnuk, our vice-president, has been paid and she is owed cumulative salary of \$727,000. Expenses associated with our marketing, which currently are \$1.1 million on an annual basis, represent consulting fees

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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 was incurred in 2002 and is being amortized over of the life of the Georal License resulting in ongoing annual amortization expense of \$245,000. Such amortization for 2003 and 2002 was \$245,000 and \$130,000, respectively.

During 2003 and 2002, we have compensated our employees and consultants with stock options and stock grants that have been registered on Form S-8 and unregistered stock purchase warrants. During 2003 and 2002 stock based compensation was \$4.042 million and \$2.264 million, respectively.

We incur interest expense at an annual rate of 9% on related party notes payable. For 2003 and 2002 interest expenses on related party notes payable was \$107,000 and \$119,000, respectively.

As a result of our decision to focus our business exclusively on our Security Systems business we disposed of all non security system segments resulting in a loss on disposal of \$9,000 for 2003 and a gain on disposal of \$1.4

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million for 2002. The income (loss) from the operations of discontinued segments was \$13,000 for 2003 and \$(367,000) for 2002.

Financial Condition - Liquidity and Capital Resources

As of December 31, 2003, our working capital deficiency approximates \$7.8 million, representing an increase of \$1.1 million from December 31, 2002. Effective September 30, 2002, Lewis S. Schiller, the Company's chief executive officer and chairman of the board, agreed to defer payment of his salary until January 1, 2004, and Trinity, the Company's largest stockholder which is wholly owned by Mr. Schiller, agreed to defer, until January 1, 2004, payment of accrued interest on notes payable to Trinity and payment of accrued dividends on preferred stock held by Trinity. Such amounts were presented as long-term liabilities as of December 31, 2002. As of December 31, 2003, the remaining deferral period is less than twelve months and such amounts are presented as current liabilities. During 2003 we used \$849,000 for our continuing operating activities. Sources of funds for 2003 were net advances from related parties of \$489,000 and proceeds from the exercise of stock options of \$352,000.

Since April 1999, our primary source of funding has been Trinity. From April 7, 2003 through August 4, 2003, Trinity entered into four separate loan agreements pursuant to which it received loans of \$335,000 from nonaffiliated lenders. Substantially all of such funds were advanced by Trinity to the Company. Pursuant to the loan agreements, Trinity pledged an aggregate of 5,747 shares of the Company's series B 8% voting redeemable convertible preferred stock owned by Trinity. Each share of Series B preferred stock is convertible into shares of common stock as calculated by dividing \$100 by the lowest price that the Company's shares of Common Stock have traded during the period that the series B preferred stock has been outstanding. As of September 3, 2003 each share of series B preferred stock was convertible into 47,619 shares of common stock. Trinity defaulted on all of such loans and the 5,747 shares of pledged series B preferred stock held by the lenders were converted into 237,190,476 shares of common stock and were transferred to the lenders.

At the time of each of the loans to Trinity by the non-affiliated lenders, Trinity lent the Company a substantial portion of the principal amount

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

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

Pursuant to the terms of the September 30, 2002 stock purchase agreement to sell Sequential Electronic Systems, Inc. and S-Tech, Inc., we have agreed to indemnify Lewis S. Schiller for any claims made against him regarding \$1.1 million of delinquent payroll taxes owed by Sequential Electronic Systems, Inc. and S-Tech, Inc. at the time of their disposal. A reserve of \$550,000 has been recorded by management based upon our best estimate of the ultimate liability. In addition, pursuant to separate indemnification agreements, the Company has agreed to indemnify Grazyna B. Wnuk and the former president of S-Tech for any claims made against them regarding the delinquent payroll taxes.

The accompanying unaudited interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. However, we have generated nominal revenues and we have a history of operating losses and as of December 31, 2003 have a working capital deficiency of \$7.8 million and a capital deficiency of \$5.2 million. Management is currently seeking additional financing; however we can give no assurance that such financing will be consummated or that any financing which we receive will be adequate. Further, in view of our stock price, any financing is likely to result in substantial dilution to our stockholders. Our continuation in business is dependent upon our ability to obtain financing, and to use the proceeds from any such financing to increase our business to achieve profitable operations. The accompanying consolidated financial statements do not include any adjustments that would result should we be unable to continue as a going concern.

Item 7. Financial Statements and Supplementary Data.

The information required by Item 7. is included as Exhibit 99.1 to this Form 10-KSB.

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Item 8A. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, we carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures as of December 31, 2003. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's Chief Executive Officer/Chief Accounting Officer at that time. Based upon that evaluation, our company's Chief Executive Officer/Chief Accounting Officer concluded that our company's disclosure controls and procedures are effective. There have been no significant changes in our company's internal controls or in other factors, which could significantly affect internal controls subsequent to the date we carried out our evaluation.

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Disclosure controls and procedures and other procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to management including our Chief Executive Officer/Chief Accounting Officer as appropriate, to allow timely decisions regarding required disclosure.

PART III

Item 9. Directors and Executive Officers of the Registrant.

Directors and Management

Officers are elected by, and serve at the pleasure of, the board of directors. Set forth below is information concerning the directors and executive officers of the registrant as of the date hereof.

| Name | Age | Position with the Company |
|-------------------|-----|--|
| ----- | --- | ----- |
| Lewis S. Schiller | 73 | Chief Executive Officer, President and Chairman of the Board |
| Grazyna B. Wnuk | 40 | Secretary, Vice-President and Director |

Lewis S. Schiller was appointed our Chairman of the Board, Chief Executive Officer and President of The Finx Group and its subsidiaries on April 28, 1999. Mr. Schiller is also Chairman of the Board and a director of The Trinity Group-I, Inc. For more than five years prior to his resignation on April 2, 1998, Lewis S. Schiller served as Chairman of the Board, Chief Executive Officer and a director of The Sagemark Companies, Ltd., a public company, and as Chairman of the Board, Chief Executive Officer and a director of The Sagemark Companies, Ltd.'s public and privately held subsidiaries.

Grazyna B. Wnuk ("Ms. Wnuk") was appointed Vice-President and Secretary of the Company on April 28, 1999. Ms. Wnuk was appointed a Director of the Company on November 19, 1999. For more than five years prior to her resignation on April 2, 1998, Ms. Wnuk served as Secretary and a director of The Sagemark Companies, Ltd. and all of its public and privately held subsidiaries.

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Item 10. Executive Compensation

Set forth below is information concerning the Company's Chief Executive Officer and other executive officers who received or accrued compensation from the Company and its subsidiaries in excess of \$100,000 (on an annualized basis) during 2003 and 2002.

| Name and Principal | Annual Compensation | Long-term Compensation | | |
|-----------------------|---------------------|------------------------|--|--------------|
| | ----- | Awards | ----- | Payo |
| | Other Annual | Restricted Stock | Securities Underlying Options/SARs | LTIP Payo |

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| Position | Year | Salary | Bonus | Compensation | Awards | (#) | (\$) |
|---|------|---------------|-------|--------------|--------|-------------|------|
| Lewis S. Schiller, CEO and Chairman | 2003 | \$551,000 (1) | -- | -- | -- | 370,000,000 | -- |
| | 2002 | \$525,000 (1) | -- | -- | -- | 24,500,000 | -- |
| Grazyna B. Wnuk, VP and Secretary | 2003 | \$220,500 (2) | -- | -- | -- | 151,499,998 | -- |
| | 2002 | \$197,500 (2) | -- | -- | -- | 12,500,000 | -- |

(1) Mr. Lewis S. Schiller's salary for 2003 and 2002 is pursuant to his employment agreement which was executed in 2001. His annual salary for years prior to 2001 was accrued at \$250,000 which was approved by the Board of Directors effective July 1, 1999. None of Lewis S. Schiller's salary has been paid to him since April of 1999 and all such unpaid amounts are accrued as an expense in our consolidated financial statements.

(2) Ms. Wnuk's salary for 2003 and 2002 is pursuant to her employment agreement which was executed in 2002. Approximately \$66,000 of Ms. Wnuk's salary has been paid to her since April of 1999 and all such unpaid amounts are accrued as an expense in our consolidated financial statements.

Option/SAR Grants in 2003

The following table presents information regarding the options to purchase shares of our common stock issued to our executive officers who are included in the preceding summary compensation table for 2003.

| Name | Number of Securities Underlying Options/SARs Granted (#) | % of Total Options/SARs Granted to Employees in 2003 | Exercise or Base Price (\$/Share) | |
|-------------------------------------|--|--|-----------------------------------|------|
| Lewis S. Schiller, CEO and Chairman | 350,000,000 | 67% | \$0.01 | Nov |
| | 10,000,000 | 2% | \$0.00 | July |
| | 10,000,000 | 2% | \$0.00 | Augu |
| | 370,000,000 | | | |
| Grazyna B. Wnuk, VP and Secretary | 125,000,000 | 24% | \$0.01 | Nov |
| | 12,000,000 | 2% | \$0.00 | July |
| | 14,499,998 | 2% | \$0.00 | Mar |
| | 12,500,000 | | | |

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Aggregated Option/SAR Exercises in Last Year and Year-end Option/SAR Values

The following table presents information regarding the unexercised options to purchase shares of our common stock held by our executive officers who are included in the preceding summary compensation table as of December 31, 2003.

| Name | Shares Acquired on Exercise (#) | Value Realized (\$) | Number of Securities Underlying Unexercised Options/SARs at Year End (#) | | Value of Unex Money Option |
|--|---------------------------------------|---------------------------|---|----------------|-------------------------------|
| | | | Exercisable | Unexer-cisable | Exercisable |
| Lewis S. Schiller, CEO and Chairman | 20,000,000 | \$80,000 | 350,000,000 | - | - |
| Grazyna B. Wnuk, VP and Secretary | 26,499,998 | \$136,200 | 125,000,000 | - | - |

Employment Agreements

Lewis S. Schiller has an employment agreement with us whereby he is employed as our 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 us whereby she is employed as our 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

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benefits including a vehicle, health insurance and life insurance. In the event of a change of control, Ms. Wnuk's contract provides her with severance equal to all amounts owed to her for the full term of the employment agreement.

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Item 11. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth certain information regarding the beneficial ownership of our common stock as of December 31, 2003 by: (i) each of our executive officers and directors; (ii) each person whom we know to be the beneficial owner of more than 5% of our outstanding common stock; and (iii) all of our officers and directors as a group.

Unless otherwise indicated, to our knowledge, all persons listed below have sole voting and investment power with respect to their shares of common stock, except to the extent applicable law gives spouses shared authority. Any shares of common stock that an individual or group has the right to acquire within sixty (60) days after December 31, 2002 pursuant to the exercise of warrants or options are deemed to be outstanding for the purpose of computing the percentage ownership of such person or group, but are not deemed outstanding for the purpose of calculating the percentage owned by any other person listed below.

| Name and address of Beneficial Owner | Amount and Nature of Beneficial Ownership |
|--|--|
| Officers and Directors ----- | |
| Lewis S. Schiller 21634 Club Villa Circle Boca Raton, FL 33433 | 740,949,651 |
| Grazyna B. Wnuk 21634 Club Villa Circle Boca Raton, FL 33433 | 70,926,865 |
| Officer and directors as a group (2 persons) | 777,352,706 |
| Other Beneficial Owners ----- | |
| The Trinity Group I, Inc. 21634 Club Villa Circle Boca Raton, FL 33433 | 715,489,701 |
| Alan Risi 150-38 12th Avenue Whitestone, NY 11357 | 50,049,874 |

(1) The "Percent of Common Stock Outstanding" is based on the 749,715,948 shares of common stock outstanding as of December 31, 2003 and the assumption that the related beneficial owner had converted or exercised all potential common stock

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related to that beneficial owner if such beneficial owner had a right to do so within 60 days after December 31, 2003.

(2) Includes 5,459,950 shares directly owned by Lewis S. Schiller, 20,000,000 shares underlying warrants to purchase shares and 715,489,701 shares beneficially owned by The Trinity Group-I, Inc. The Trinity Group-I, Inc. is wholly owned by Lewis S. Schiller and accordingly, Mr. Schiller is the natural person considered to be the beneficial owner of The Trinity Group-I, Inc. As a result, Mr. Schiller's beneficial ownership includes 1,000 shares of Series A Preferred Stock, 16,375 shares of Series B Preferred Stock and 715,489,701 shares of Common Stock owned by The Trinity Group-I, Inc. which are the same shares presented in the table as beneficially owned by The Trinity Group-I, Inc. None of the shares of Series A Preferred Stock, Series B Preferred Stock or Common Stock are held jointly by The Trinity Group-I, Inc and Mr. Schiller. It does not include 350,000,000 shares subject to a warrant issued in November 2003 as such there were not sufficient shares to exercise the warrant within 60 days after year end.

(3) Includes 26,403,055 shares directly owned by Grazyna B. Wnuk, 10,000,000 shares underlying a warrant to purchase shares and 34,523,810 shares from the assumed conversion of shares of Series B preferred stock. Each share of Series B preferred stock is convertible into such shares as calculated by dividing \$100 by the lowest price that the Common Stock trades during the period that the Series B preferred stock is outstanding (\$0.0021 as of April 13, 2004). It does not include 125,000,000 shares subject to a warrant issued in November 2003 as such there were not sufficient shares to exercise the warrant within 60 days after year end.

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(4) Includes 10,013,500 shares directly owned by The Trinity Group-I, Inc. and 705,476,191 shares from the assumed conversion of the Series B preferred stock. Each share of Series B preferred stock is convertible into such shares as calculated by dividing \$100 by the lowest price that the Common Stock trades during the period that the Series B preferred stock is outstanding (\$0.0021 as of April 13, 2004). The Trinity Group-I, Inc. is wholly owned by Lewis S. Schiller and accordingly, Mr. Schiller is the natural person considered to be the beneficial owner of The Trinity Group-I, Inc. As a result, all of the shares of Series A Preferred Stock, Series B Preferred Stock and Common Stock presented in the table as beneficially owned by The Trinity Group-I, Inc. are also included in the table as shares beneficially owned by Mr. Schiller. None of the shares of Series A Preferred Stock, Series B Preferred Stock or Common Stock are held jointly by The Trinity Group-I, Inc and Mr. Schiller.

Item 12. Certain Relationships and Related Transactions.

The Company and its subsidiaries incur interest expense on advances from Lewis S. Schiller advances from The Trinity Group-I, Inc., advances from Universal International, Inc., a company owned by Grazyna B. Wnuk, advances from Grazyna B. Wnuk, a loan from E. Gerald Kay, a former director, and advances from Carol Schiller, the wife of Lewis S. Schiller. Total unpaid and outstanding advances from such related parties as of December 31, 2003 aggregated approximately \$713,000. Interest accrued on such notes is generally calculated at 9% (which is the weighted average interest rate at the balance sheet date) and as of December 31, 2003 \$780,000 of such interest remains unpaid. Interest expense on related party notes was \$107,000 for 2003 and \$119,000 for 2002.

On October 31, 2002, Carol Schiller, the wife of Lewis S. Schiller, agreed to convert \$400,000 of related party debt owed to her into 10,000,000 shares of The Finx Group common stock at the rate of \$.04 per share, the fair

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value of the common stock on the date of the conversion.

On October 18, 2002, pursuant to the terms of a stock purchase agreement among The Finx Group, Starnet365.com, Inc., Lewis S. Schiller, The Finx Group Chief Executive Officer and Chairman of the Board, Grazyna B. Wnuk, The Finx Group Vice-President and Secretary, members of Lewis S. Schiller's immediate family (collectively, the "Starnet Sellers") and Thomas Banks Ltd., (the "Starnet Stock Purchase Agreement"), Thomas Banks Ltd. agreed to purchase 98.05% of the issued and outstanding capital stock of Starnet365.com, Inc. from the Starnet Sellers for one dollar (\$1) and the Company agreed to cancel approximately \$1.3 million of principal and interest owed by Starnet365.com, Inc. to the Company. As of the date of the Starnet Stock Purchase Agreement, Starnet365.com, Inc. had an excess of liabilities over assets of approximately \$1.7 million, including the \$1.3 million owed to the Company, resulting in remaining liabilities of approximately \$444,000. The Company believes that it may be required to pay approximately \$132,000 of such remaining liabilities based on the existence of corporate guarantees previously made on such amounts by the Company. As a result of the disposal of Starnet365.com, Inc., the net reduction in the Company's liabilities approximated \$268,000 and the gain on disposal approximated \$312,000.

On October 18, 2002, pursuant to the terms of a stock purchase agreement among The Finx Group, Shopclue.com, Inc., Lewis S. Schiller, the Company's Chief Executive Officer and Chairman of the Board, Grazyna B. Wnuk, the Company's Vice-President and Secretary, members of Lewis S. Schiller's immediate family (collectively, the "Shopclue Sellers") and Thomas Banks Ltd. dated as of September 30, 2002, (the "Shopclue Stock Purchase Agreement"), Thomas Banks agreed to purchase 100% of the issued and outstanding capital stock of Shopclue.com, Inc. from the Shopclue Sellers for one dollar (\$1) and we agreed to cancel approximately \$8,000 of principal and interest owed by Shopclue.com, Inc. to the Company. As of the date of the Shopclue Stock Purchase Agreement, Shopclue.com, Inc. had an excess of liabilities over assets of approximately \$340,000, including the \$8,000 owed to the Company, resulting in remaining liabilities of approximately \$332,000. The Company believes that it may be required to pay approximately \$169,000 of such remaining liabilities which represent delinquent payroll taxes. As a result of the disposal of Shopclue.com, Inc., the net reduction in the Company's liabilities and the corresponding gain on disposal approximated \$163,000.

On October 18, 2002, pursuant to the terms of a stock purchase agreement among The Finx Group, Bizchase, Inc., Lewis S. Schiller, the Company's Chief Executive Officer and Chairman of the Board, Grazyna B. Wnuk, the Company's Vice-President and Secretary, members of Lewis S. Schiller's immediate family (collectively, the "Bizchase Sellers") and Thomas Banks Ltd. dated as of September 30, 2002, (the "Bizchase Stock Purchase Agreement"), Thomas Banks Ltd. agreed to purchase 100% of the issued and outstanding capital stock of Bizchase, Inc. from the Bizchase Sellers for one dollar (\$1) and we agreed to cancel approximately \$2 million of principal and interest owed by Bizchase, Inc. to the Company. As of the date of the Bizchase Stock Purchase Agreement, Bizchase, Inc. had an excess of liabilities over assets of approximately \$2.3 million, including the \$2 million owed to the Company, resulting in remaining liabilities of approximately \$296,000. The Company believes that it may be required pay approximately \$136,000 of such remaining liabilities of which \$99,000 relates to

delinquent payroll taxes and \$37,000 relates to corporate guarantees. As a result of the disposal of Bizchase, Inc., the net reduction in the Company's liabilities and the corresponding gain on disposal approximated \$160,000.

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On October 18, 2002, pursuant to the terms of a stock purchase agreement among The Finx Group, Sequential Electronic Systems, Inc., S-Tech, Inc., Defense Manufacturing and Systems, Inc. and Trinity Group Acquisition Corp. dated as of September 30, 2002 (the "Sequential and S-Tech Stock Purchase Agreement"), Trinity Group Acquisition Corp. agreed to purchase 100% of the issued and outstanding capital of Sequential Electronic Systems, Inc., S-Tech, Inc., Defense Manufacturing and Systems, Inc. from The Finx Group for one dollar (\$1) and The Finx Group agreed to cancel approximately \$2.3 million of principal and interest owed by Sequential Electronic Systems, Inc. and S-Tech, Inc. to The Finx Group. Defense Manufacturing Systems, Inc. was wholly owned by The Finx Group but had no operating activities since its organization. Trinity Group Acquisition Corp. is wholly owned by Lewis S. Schiller, the Company's Chief Executive Officer and Chairman of the Board. As of the date of the Sequential and S-Tech Stock Purchase Agreement, Sequential Electronic Systems, Inc. and S-Tech, Inc. had aggregate assets of \$1.2 million and aggregate liabilities of \$2.4 million, excluding the \$3.1 million owed to the Company. The aggregate liabilities included \$1.1 million of delinquent payroll taxes and we have agreed to indemnify Lewis S. Schiller for any claims made against him regarding such delinquent payroll taxes and in connection therewith have reserved \$550,000 of such payroll taxes against the gain on disposal of Sequential Electronic Systems, Inc. and S-Tech, Inc. The Trinity Group-I, Inc. is the Company's controlling shareholder and both The Trinity Group-I, Inc. and Trinity Group Acquisition Corp. are wholly owned by Lewis S. Schiller, and the Sequential and S-Tech Stock Purchase Agreement was not consummated at arms-length. However, we believe that because the transaction will reduce the Company's liabilities by approximately \$1.8 million that such transaction is in the Company's best interests. As a result of the disposal of Sequential Electronic Systems, Inc., S-Tech, Inc., Defense Manufacturing and Systems, Inc., the net reduction in the Company's liabilities approximated \$1.8 million and the gain on disposal which approximated \$458,000 was recorded as an addition to paid-in capital because the transaction was consummated with the controlling stockholder of the Company.

As of May 7, 2001, Trinity had advanced the Company approximately \$3.7 million in order to fund its operations. On May 7, 2001, Trinity exchanged \$1.5 million of such related party debt for 7,500,000 shares of Common Stock, representing \$0.20 per share, the fair market value of the Common Stock on May 7, 2001 and exchanged an additional \$2 million of related party debt into 20,000 shares of Series B 8% Voting Redeemable Convertible Preferred Stock (the "Series B Preferred Stock") whereby each share of Series B Preferred Stock represents \$100 of exchanged related party debt and each share of Series B Preferred Stock is convertible into shares of Common Stock as calculated by dividing \$100 by the lowest price that the Company's shares of Common Stock have traded during the period that the Series B Preferred Stock has been outstanding.

From April 7, 2003 through August 4, 2003, Trinity entered into four separate loan agreements pursuant to which it received loans of \$335,000 from nonaffiliated lenders. Substantially all of such funds were advanced by Trinity to the Company. Pursuant to the loan agreements, Trinity pledged an aggregate of 5,747 shares of the Company's series B 8% voting redeemable convertible preferred stock owned by Trinity. Each share of Series B preferred stock is convertible into shares of common stock as calculated by dividing \$100 by the lowest price that the Company's shares of Common Stock have traded during the period that the series B preferred stock has been outstanding. As of September 3, 2003 each share of series B preferred stock was convertible into 47,619 shares of common stock. Trinity defaulted on all of such loans and the 5,747 shares of pledged series B preferred stock held by the lenders were converted into 237,190,476 shares of common stock and were transferred to the lenders.

At the time of each of the loans to Trinity by the non-affiliated lenders, Trinity lent the Company a substantial portion of the principal amount of the loan at 9% interest. Trinity defaulted on its loans to the lenders as a result of the Company's default on its loan to Trinity. When the lenders called

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the note and foreclosed on the collateral, Trinity cancelled the Company's note to it in exchange for shares of series B preferred stock equal to the number of such shares as Trinity transferred to the lenders. As a result of the defaults by the Company and Trinity, the Company issued to Trinity 5,747 shares of series B preferred stock, which is the same number of shares as Trinity converted and transferred to the lenders.

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

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

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Item 13. Exhibits and Reports on Form 8-K.

See Exhibit Index for the Exhibits filed as part of or incorporated by reference into this Report.

Item 14. Principal Accountants Fees and Services.

During 2003 and 2002, we were billed the following fees by MOORE STEPHENS, P.C.:

| | 2003 | 2002 |
|------------|----------|----------|
| | ----- | ----- |
| Audit Fees | \$16,000 | \$50,000 |
| Tax Fees | - | - |
| Other Fees | - | - |
| | ----- | ----- |
| | \$16,000 | \$50,000 |
| | ===== | ===== |

We do not have an audit committee. Our Board of Directors approves the engagement of an accountant to render all audit and non-audit services prior to the engagement of the accountant based upon a proposal by the accountant of estimated fees and scope of the engagement.

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SIGNATURES

In accordance with Section 13 or 15(d) 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/ Lewis S. Schiller,
Chief Executive Officer
November 19, 2004

In accordance with the Exchange Act, this report has been signed below by the following person on behalf of the registrant and in the capacities and on the

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dates indicated.

/s/ Lewis S. Schiller,
Chief Executive Officer,
Chairman of the Board,
President,
Director and
Chief Accounting Officer

November 19, 2004

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Index to Exhibits

| Exhibit No. | Description of Document |
|-------------|--|
| (3) (i) | Amended and Restated Certificate of Incorporation (1) |
| (3) (ii) | By-laws (1) |
| (21) | Subsidiaries of the registrant |
| (31.1) | Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| (31.2) | Chief Executive Officer and Chief Accounting Officer Certification. |
| (99.1) | Financial Statements |

(1) Incorporated by reference to Form 8-K dated April 28, 1999.

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Exhibit (21)
Subsidiaries of the Registrant

1. Secured Portal Systems, Inc., a Delaware company organized in 1999.
2. Granite Technologies Acquisition Corp., a Delaware company organized in 2001.
3. Secured Systems Group, Inc., a Delaware company organized in 2001 and currently inactive.

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Exhibit 31.1

THE FINX GROUP, INC.,
SARBANES-OXLEY ACT SECTION 906 CERTIFICATION

CHIEF EXECUTIVE OFFICER AND CHIEF ACCOUNTING OFFICER

In connection with this annual report on Form 10-KSB of The Finx

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Group, Inc. for the year ended December 31, 2003, I, Lewis S. Schiller, Chief Executive Officer and Chief Accounting Officer of The Finx Group, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

1. this Form 10-KSB for the year ended December 31, 2003 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in this Form 10-KSB for the year ended December 31, 2003 fairly presents, in all material respects, the financial condition and results of operations of The Finx.

/s/ Lewis S. Schiller,
Chief Executive Officer and Chief Accounting Officer
November 19, 2004

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Exhibit 31.2

THE FINX GROUP, INC.
SARBANES-OXLEY ACT SECTION 302(a) CERTIFICATION

CHIEF EXECUTIVE OFFICER AND CHIEF ACCOUNTING OFFICER

I, Lewis S. Schiller, certify that:

1. I have reviewed this annual report on Form 10-KSB of The Finx Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure

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controls and procedures as of the end of the period prior to the filing date of this annual report (the "Evaluation Date"); and

- c. Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any changes in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

/s/ Lewis S. Schiller,
Chief Executive Officer and Chief Accounting Officer
November 19, 2004

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Exhibit (99.1)

Financial Statements and Supplementary Data

The following exhibit comprises the Financial Statements and Supplementary Data as specified by Item 7 of Part II of Form 10-KSB.

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The Finx Group, Inc. and Subsidiaries
Consolidated Financial Statements
December 31, 2003

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
The Finx Group, Inc.
Boca Raton, Florida

We have audited the accompanying consolidated balance sheet of The Finx Group, Inc., and its subsidiaries, as of December 31, 2003, and the related consolidated statements of operations, changes in capital deficiency, and cash flows for each of the two years in the period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Finx Group, Inc and its subsidiaries as of December 31, 2003, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2003, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements; (1) the Company has a history of net losses for the two years ended December 31, 2003, (2) as of December 31, 2003 the Company has a working capital deficiency of \$7.8 million and a capital deficiency of \$5.2 million and (3) the Company has relied on continuing financial support from its controlling stockholder. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Moore Stephens, PC
Certified Public Accountants

Cranford, New Jersey
November 11, 2004

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The Finx Group, Inc. and Subsidiaries Consolidated Balance Sheet

As of December 31, 2003

ASSETS

Furniture, Fixtures and Equipment:

| | | |
|---|----|----------|
| Furniture, fixtures and equipment, cost | \$ | 90,000 |
| Less accumulated depreciation | | (90,000) |

| | | |
|---------------------------------------|--|---|
| Net furniture, fixtures and equipment | | - |
|---------------------------------------|--|---|

Other assets:

| | | |
|---|--|-----------|
| Exclusive license agreement, net (see Note 2) | | 2,627,000 |
|---|--|-----------|

| | | |
|--------------------|--|-----------|
| Total other assets | | 2,627,000 |
|--------------------|--|-----------|

| | | |
|--------------|----|-----------|
| TOTAL ASSETS | \$ | 2,627,000 |
|--------------|----|-----------|

LIABILITIES AND CAPITAL DEFICIENCY

CURRENT LIABILITIES:

| | | |
|--|----|-----------|
| Accounts payable | \$ | 1,474,000 |
| Accrued payroll and payroll taxes, executive officers | | 2,740,000 |
| Notes payable executive officers, including interest | | 1,583,000 |
| Notes payable, related parties, including accrued interest | | 301,000 |
| Other current liabilities | | 476,000 |
| Current liabilities of discontinued segments | | 1,211,000 |

| | | |
|---------------------------|--|-----------|
| Total current liabilities | | 7,785,000 |
|---------------------------|--|-----------|

Commitments and contingencies (see Note 10)

CAPITAL DEFICIENCY

| | | |
|---|--|--------------|
| Preferred stock, \$.01 par value; 1,000,000 shares authorized; 1,000 Series A preferred shares issued and outstanding; 15,540 Series B preferred shares issued and outstanding as of December 31, 2003 (see Note 6) | | 1,554,000 |
| Common stock, \$.01 par value; 750,000,000 shares authorized; 749,715,948 shares issued and outstanding as of December 31, 2003 (see Note 6 and 7) | | 7,497,000 |
| Additional paid-in capital, common stock | | 27,567,000 |
| Accumulated deficit | | (41,775,000) |

| | | |
|--------------------|--|-------------|
| Capital deficiency | | (5,157,000) |
|--------------------|--|-------------|

| | | |
|--|----|-----------|
| TOTAL LIABILITIES AND CAPITAL DEFICIENCY | \$ | 2,628,000 |
|--|----|-----------|

See Notes to Consolidated Financial Statements.

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

| Year Ended December 31, | 2003 | |
|---|----------------|--------|
| Revenues | \$ 36,000 | \$ |
| General and administrative expenses | 2,062,000 | 3, |
| Compensation expense from issuance of stock options | 4,042,000 | 2, |
| Total operating expenses | 6,104,000 | 5, |
| Operating loss | (6,068,000) | (5, |
| Other income | 19,000 | |
| Interest expense, related parties | (107,000) | (|
| Loss from continuing operations | (6,156,000) | (5, |
| Discontinued Operations: (See Note 11) | | |
| (Loss) gain on disposal of discontinued segments | (9,000) | 1, |
| Gain (loss) from operations of discontinued segments | 13,000 | (|
| Net loss | \$ (6,152,000) | \$ (4, |
| Loss per share computation- basic and diluted: | | |
| Loss from continuing operations | \$ (6,156,000) | \$ (5, |
| Less dividends on preferred shares | (127,000) | (|
| Loss from continuing operations attributable to common stockholders | (6,283,000) | (5, |
| (Loss) gain on disposal of discontinued segments | (9,000) | 1, |
| Income (loss) from operations of discontinued segments | 13,000 | (|
| Net loss available to common stockholders | \$ (6,279,000) | \$ (4, |
| Weighted average shares outstanding | 63,528,683 | 63, |
| Loss per common share - basic and diluted: | | |
| Loss from continuing operations | (\$0.01) | |
| (Loss) gain on disposal of discontinued segments | (0.00) | |
| Income (loss) from operations of discontinued segments | 0.00 | |
| Net loss | (\$0.01) | |

See Notes to Consolidated Financial Statements.

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

Year Ended December 31, 2003

CASH FLOWS - OPERATING ACTIVITIES:

| | | |
|--|----------------|--------|
| Loss from continuing operations | \$ (6,156,000) | \$ (5, |
| (Loss) gain on disposal of discontinued segments | (9,000) | 1, |

(6,165,000) (3,

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

| | | |
|--|-----------|-----|
| Loss (gain) on disposal of segments | 9,000 | (1, |
| Depreciation and amortization | 245,000 | |
| Non cash expense from issuance of stock options and stock purchase warrants | 4,042,000 | 2, |
| Other adjustments | - | |
| Changes in assets and liabilities: | | |
| Other assets | - | |
| Accounts payable | 178,000 | |
| Accrued payroll | 772,000 | |
| Accrued interest expense, related parties | 97,000 | |
| Other current liabilities | (27,000) | |

Net cash-continuing operations (849,000) (1,

| | | |
|--|--------|---|
| Income (loss) from discontinued operations | 13,000 | (|
|--|--------|---|

Adjustments to reconcile loss from operations of discontinued
segments to net cash - discontinued operations:

| | | |
|---|---------|--|
| Changes in the reserve for obsolete and slow moving inventory | - | |
| Depreciation and amortization | - | |
| Non cash expense from issuance of stock options | - | |
| Impairment charge | - | |
| Bad debt expense | - | |
| Net change in other assets and liabilities | (5,000) | |

Net cash-discontinued operations 8,000

Net cash - operating activities (841,000) (1,

CASH FLOWS - INVESTING ACTIVITIES:

| | | |
|----------------------------|---|--|
| Other investing activities | - | |
|----------------------------|---|--|

Net cash - investing activities -

CASH FLOWS - FINANCING ACTIVITIES:

| | | |
|---|-----------|----|
| Loans from related parties | 718,000 | |
| Repayments on related party loans | (229,000) | (|
| Proceeds from exercise of stock options | 352,000 | 1, |
| Other financing activities | - | |

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| | | |
|---------------------------------|---------|----|
| Net cash - financing activities | 841,000 | 1, |
| Net change in cash | - | |
| Cash - Beginning of period | - | |
| Cash - End of period | \$ - | \$ |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for:

| | | |
|--------------|-----------|----|
| Interest | \$ 10,000 | \$ |
| Income Taxes | \$ - | \$ |

See Notes to Consolidated Financial Statements.

continued

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

Year Ended December 31, 2003 and 2002

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

During the year ended December 31, 2003

On various dates during 2003, the Company issued stock options, stock purchase warrants and stock grants resulting in non cash stock compensation expense of \$4,042,000.

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

During the year ended December 31, 2002

During 2002, the Company obtained four separate expansions to its exclusive license agreement with GIL Security Systems, Inc. for which it issued preferred stock convertible into an aggregate of 45,000,000 shares of common stock, par value \$.01 (the "Common Stock"). Using the Black-Scholes option valuation formula, the convertible preferred stock was valued at \$2.98 million, the amount included in other assets as "Exclusive License Agreement" All such preferred stock was converted into Common Stock during 2002.

On May 17, 2002, the Company settled its \$17,000 note payable obligations upon the issuance of 353,844 shares of Common Stock. The value of the shares remitted to the creditor approximated \$17,000.

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On various dates during 2002, the Company issued options and warrants to purchase an aggregate of 93,000,165 shares of Common Stock to its employees and consultants. Such options and warrants, using the Black-Scholes option valuation formula, were valued at \$2.3 million of which \$2.264 million was charged to operations as a non cash expense in 2002 and \$39,000 represented fees to a consultant who assisted the Company in disposing of its discontinued segments and was charged against the 2002 gain on disposal of such discontinued operations.

On October 31, 2002, Carol Schiller, the wife of Lewis S. Schiller, the Company's Chief Executive Officer and Chairman of the Board, agreed to convert \$400,000 of related party debt owed to her into 10,000,000 Common Shares at the rate of \$.04 per share, the fair value of the Common Stock on the date of the conversion.

See Note 11 for non-cash activity in relation to discontinued operations.

See Notes to Consolidated Financial Statements.

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The Finx Group, Inc. and Subsidiaries
Consolidated Statement of Changes in Capital Deficiency
For the Years Ended December 31, 2003

| | Preferred Shares | Common Shares | Preferred Par | Preferred Stock in Excess of par | |
|--|---------------------|------------------|------------------|--|------|
| Balance at December 31, 2002 | 18,100 | 153,915,329 | - (*) | \$1,710,000 | \$1, |
| Issuance of stock options and warrants | - | - | - | - | |
| Stock issued for repayment of notes payable | - | 9,006,976 | - | - | |
| Issuance of stock grants | - | 292,998,999 | - | - | 2, |
| Exercise of stock options | - | 17,604,168 | - | - | |
| Conversion of related party debt into shares of series B preferred stock | 5,747 | - | - (*) | 575,000 | |
| Conversion of series B preferred stock | (7,307) | 276,190,476 | - (*) | (731,000) | 2, |
| Accrued dividends on preferred stock | - | - | - | - | |
| Net loss for the year ended December 31, 2003 | - | - | - | - | |
| Balance at December 31, 2003 | 16,540 | 749,715,948 | \$ - (*) | \$1,554,000 | \$7, |

(*) - Less than \$1,000

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The Finx Group, Inc. and Subsidiaries
 Consolidated Statement of Changes in Capital Deficiency
 For the Years Ended December 31, 2003

| | Additional Paid-in Capital | Accumulated Deficit | sub-total | Subscri Rece |
|--|----------------------------------|------------------------|---------------|-----------------|
| Balance at December 31, 2002 | \$29,186,000 | (\$35,497,000) | (\$3,062,000) | (\$7 |
| Issuance of stock options and warrants | 1,896,000 | - | 1,896,000 | 7 |
| Stock issued for repayment of notes payable | (58,000) | - | 32,000 | |
| Issuance of stock grants | (1,362,000) | - | 1,568,000 | |
| Exercise of stock options | 176,000 | - | 352,000 | |
| Conversion of related party debt into shares of series B preferred stock | 240,000 | - | 335,000 | |
| Conversion of series B preferred stock | (2,031,000) | - | - | |
| Accrued dividends on preferred stock | - | (127,000) | (127,000) | |
| Net loss for the year ended December 31, 2003 | - | (6,152,000) | (6,152,000) | |
| Balance at December 31, 2003 | \$27,567,000 | (\$41,776,000) | (\$5,158,000) | \$ |

* - Less than \$1,000
 See notes to consolidated financial statements.

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The Finx Group, Inc. and Subsidiaries
 Consolidated Statement of Changes in Capital Deficiency
 For the Year Ended December 31, 2002

| | Preferred Shares | Common Shares | Preferred Par | Preferred Stock in Excess of par | |
|--|---------------------|------------------|------------------|--|----|
| Balance at December 31, 2001 | 21,000 | 40,356,545 | - (*) | 2,000,000 | \$ |
| Issuance of stock options | - | - | - | - | |
| Stock issued for repayment of a loan from Carol Schiller | - | 10,000,000 | - | - | |

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| | | | | |
|--|-----------|-------------|----------|-------------|
| Stock issued for repayment of notes payable | - | 353,844 | - | - |
| Fractional share exchange | - | 64,775 | - | - |
| Exercise of stock purchase warrants | - | 148,500 | - | - |
| Exercise of stock options | - | 47,991,665 | - | - |
| Issuance of series C and D preferred stock for exclusive license | 450,000 | - | 4,000 | 2,976,000 |
| Conversion of series B preferred stock | (2,900) | 10,000,000 | - (*) | (290,000) |
| Conversion of series C and D preferred stock | (450,000) | 45,000,000 | (4,000) | (2,976,000) |
| Accrued dividends on preferred stock | - | - | - | - |
| Gain on disposal of discontinued business segment to a related party | - | - | - | - |
| Net loss for the year ended December 31, 2002 | - | - | - | - |
| ----- | | | | |
| Balance at December 31, 2002 | 18,100 | 153,915,329 | \$ - (*) | \$1,710,000 |
| ----- | | | | |

* - Less than \$1,000

The Finx Group, Inc. and Subsidiaries
Consolidated Statement of Changes in Capital Deficiency
For the Year Ended December 31, 2002

| | Additional Paid-in Capital | Accumulated Deficit | sub-total | Subscrip Rece |
|--|----------------------------------|------------------------|---------------|------------------|
| Balance at December 31, 2001 | \$21,862,000 | (\$31,033,000) | (\$6,766,000) | (\$ |
| Issuance of stock options | 2,303,000 | - | 2,303,000 | |
| Stock issued for repayment of a loan from Carol Schiller | 300,000 | - | 400,000 | |
| Stock issued for repayment of notes payable | 14,000 | - | 17,000 | |
| Fractional share exchange | (1,000) | - | - | |
| Exercise of stock purchase warrants | - | - | 1,000 | |
| Exercise of stock options | 1,528,000 | - | 2,007,000 | (\$ |
| Issuance of series C and D preferred stock for exclusive license | - | - | 2,980,000 | |
| Conversion of series B preferred stock | 190,000 | - | - | |
| Conversion of series C and D preferred stock | 2,530,000 | - | - | |
| Accrued dividends on | | | | |

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| | | | |
|--|--------------|----------------|---------------|
| preferred stock | - | (157,000) | (157,000) |
| Gain on disposal of discontinued business segment to a related party | 460,000 | - | 460,000 |
| Net loss for the year ended December 31, 2002 | - | (4,307,000) | (4,307,000) |
| ----- | | | |
| Balance at December 31, 2002 | \$29,186,000 | (\$35,497,000) | (\$3,062,000) |
| ----- | | | |

* - Less than \$1,000

See notes to consolidated financial statements.

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The Finx Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

1. Summary of Significant Accounting Policies

Organization

On June 6, 2000 The Finx Group, Inc. was organized as a Delaware corporation. Effective June 30, 2000, Fingermatrix, Inc., the predecessor company was merged into The Finx Group, Inc. The Finx Group, Inc. has controlling interests in Secured Portal Systems, Inc., which was incorporated in Delaware on August 11, 1999, and Granite Technologies Acquisition Corp., which was incorporated in Delaware on May 15, 2001. Throughout this document The Finx Group, Inc. and its subsidiaries may be collectively referred to as "The Finx Group", the "Company" or the "Registrant".

Nature of Operations

In September 2002, the Company's Board of Directors approved a plan to focus the Company's business exclusively on its security systems business and on October 18, 2002 the Company disposed of all non security system business segments. The Company's primary source of future revenues, if any, is expected to be generated under its exclusive license agreement (the "Georal License") with GIL Security Systems, Inc. ("GIL"). GIL is a subsidiary of Georal International, Ltd. ("Georal") and holds all world-wide rights related to the intellectual property related to the GIL security systems, including trademarks, patents and technology, as licensed to it by Alan J. Risi, the controlling owner of both GIL and Georal. GIL is engaged in the manufacture and sale of security entrance systems for use as a security device by a variety of customers at airports, federal buildings, court houses, embassies, correctional facilities, schools, governmental operations, department stores and other retail outlets (the "Georal Security Products"). The Georal License gives us distribution rights for the sale of all of the Georal Security Products, including all models of the GIL-2001 security door, to specified categories of customers. The Company may market and distribute the Georal Security Products to both those customers for which it has exclusive distribution rights and to others as to which it has non-exclusive rights.

On December 13, 2002 the Company entered into a memorandum of understanding incorporating a reseller agreement with TRW, Inc., which has been acquired by Northrop Grumman Corp. and is now operating as Northrop Grumman

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Mission Systems. The agreement gives Northrop Grumman Mission Systems the right to market Georal Security Products to the Federal Government and other significant commercial opportunities. On March 26, 2003, the Company entered into a distribution and marketing agreement with Lockheed Martin. The agreement gives Lockheed Martin worldwide rights to market the Georal Security Products. In April 2003, the Company entered into reciprocal marketing agreements with Advanced Biometric Security, Inc. ("ABS") which provide both the Company and ABS with non-exclusive marketing rights for each others security product lines. ABS provides enterprise software and services related to identity management and the security of physical and logical assets. Many of the customers to whom the Company will seek to market the Georal Security Systems will be domestic and foreign government purchasers as well as commercial users. On December 11, 2001, the GIL-2001 security door received certification from the U.S. State Department necessary for its possible procurement for use in U.S. embassies, consulates and other governmental installations both in the U.S. and abroad. In October 2002, Georal received broad patent approval for its security entrance system from the United States Patent Trademark Office (Patent 6,472,984). The patent received by Georal covers the secured portal which is the subject of the Georal License.

The Company also sells from its sale of software programs for device management and smart card applications ("Secured Card Solutions"). The Company has provided Virginia Commonwealth University with two of its Secured Card Solutions - the "Secured Recreational Sports Solution" and "The Secured Card Solution". The Secured Recreational Sports Solution, which currently serves Virginia Commonwealth University ("VCU") from three locations offering a variety of fitness, aquatics and intramurals. The activities are offered to all students, faculty, and university and hospital employees. The Secured Recreational Sports Solution's database is integrated with the VCU card database for single university identification. The Secured Recreational Sports Solution handles all check-in of members, locker assignment and equipment check-in and check-out. It also keeps track of member billing and payroll deduction. Further, it handles member suspensions and automatic emailing of special events. The Secured Sports Recreation Solution application is written using the new Microsoft.NET architecture. The Company has also entered into a services and support agreement with Florida International University ("FIU") for the installation, support and use of our Secured Recreational Sports Solution. During 2002, the Company generated revenues of \$6,000 from its sales of Secured Card Solutions.

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Basis of Presentation

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. However, the Company has a history of net losses for the two years ended December 31, 2003 and as of December 31, 2003 has a working capital deficiency of \$7.785 million and a capital deficiency of \$5.158 million. During 2003 and 2002 the Company has relied on financial support from its controlling stockholder, Trinity Group-I, Inc. ("Trinity") and other related parties and since September 25, 2001 has compensated its employees and key consultants with stock options of which some were registered on Form S-8. Management is currently seeking additional financing; however no assurances can be made that such financing will be consummated. The continuation of the Company as a going concern is dependent upon its ability to obtain financing, and to use the proceeds from any such financing to increase its business to achieve profitable operations. The accompanying consolidated financial statements do not include any adjustments that would result should the Company be unable to continue as a going concern.

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Principles of Consolidation

The consolidated financial statements include the accounts of The Finx Group, Inc. and its subsidiaries for which it has direct voting control or effective control. All material intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

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 patents and their amortization.

Cash

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Company has no such investment at December 31, 2003.

Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are recorded at cost. Depreciation is provided on the straight-line basis over the useful lives of the assets, which range from three to seven years. Improvements that extend the useful lives of the assets are capitalized while costs of repairs and maintenance are charged to expense as incurred. As of December 31, 2003, the Company's furniture, fixtures and equipment, having a cost basis of \$90,000 are fully depreciated. Depreciation expense during 2002 was \$22,000.

Impairment

Certain long-term assets of the Company are reviewed when changes in circumstances require as to whether their carrying value has become impaired, pursuant to guidance established in Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Management considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations [undiscounted and without interest charges]. If impairment is deemed to exist, the asset will be written down to fair value. Management also reevaluates the period of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives. As of December 31, 2003, management expects those assets related to its continuing operations to be fully recoverable.

Revenue Recognition

The Company recognizes revenues when a product is shipped, and from services when performed.

Income Taxes

The Company accounts for income taxes using the asset and liability approach. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, management does not expect to be realized.

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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 for the respective periods. The weighted average number of common shares 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 common shares 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, the average number of common shares used in the calculation of diluted loss per share have not been adjusted for the effects of 1,462,361 potential common shares from unexercised stock options and warrants and 739,542,000 potential common shares from unconverted preferred shares. Such warrants, options and shares of convertible preferred stock may dilute earnings per share in the future.

Fair Value of Financial Instruments

SFAS No. 107, "Disclosure About Fair value of Financial Instruments," requires certain disclosures regarding the fair value of financial instruments. In assessing the fair value of these financial instruments, the Company has used a variety of methods and assumptions, which were based on estimates of market considerations and risks existing at the time. All instruments, including accounts payable and accrued liabilities and amounts due to related parties are reflected at fair value in the financial statements because of the short term maturity of these instruments. The fair value of long-term liabilities also approximate their carrying value.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash. The Company places its cash with high quality financial institutions and as of December 2003 does not have any deposits with financial institutions in excess of federally insured limits.

2. 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

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common stock in July of 2002.

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

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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.

3. Executive Debt Deferrals

Effective September 30, 2002, Lewis S. Schiller, the Company's chief executive officer and chairman of the board, agreed to defer payment of his salary until January 1, 2004, and Trinity, the Company's largest stockholder which is wholly owned by Mr. Schiller, agreed to defer, until January 1, 2004, payment of accrued interest on notes payable to Trinity and payment of accrued dividends on preferred stock held by Trinity. As of December 31, 2003, such amounts are presented as current liabilities.

4. Notes Payable, Related Party

On April 28, 1999, Trinity acquired voting control of the Company and since that date has been the Company's only significant source of funding. Trinity is owned by Lewis S. Schiller, The Finx Group's Chief Executive Officer and Chairman of the Board. Other related parties who have advanced funds to the Company are Lewis S. Schiller, Grazyna B. Wnuk, The Finx Group's Vice President and Board Secretary, Universal International, Inc., a company owned by Grazyna B. Wnuk, E. Gerald Kay, a former director, and Carol Schiller, the wife of Lewis S. Schiller.

As of May 7, 2001, Trinity had advanced the Company approximately \$3.7 million in order to fund its operations. On May 7, 2001, Trinity exchanged \$1.5 million of such related party debt for 7,500,000 shares of Common Stock, representing \$0.20 per share, the fair market value of the Common Stock on May 7, 2001 and exchanged an additional \$2 million of related party debt into 20,000 shares of Series B 8% Voting Redeemable Convertible Preferred Stock (the "Series B Preferred Stock") whereby each share of Series B Preferred Stock represents

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\$100 of exchanged related party debt and each share of Series B Preferred Stock is convertible into shares of Common Stock as calculated by dividing \$100 by the lowest price that the Company's shares of Common Stock have traded during the period that the Series B Preferred Stock has been outstanding.

From April 7, 2003 through August 4, 2003, Trinity entered into four separate loan agreements pursuant to which it received loans of \$335,000 from nonaffiliated lenders. Substantially all of such funds were advanced by Trinity to the Company. Pursuant to the loan agreements, Trinity pledged an aggregate of 5,747 shares of the Company's series B 8% voting redeemable convertible preferred stock owned by Trinity. Each share of Series B preferred stock is convertible into shares of common stock as calculated by dividing \$100 by the lowest price that the Company's shares of Common Stock have traded during the period that the series B preferred stock has been outstanding. As of September 3, 2003 each share of series B preferred stock was convertible into 47,619 shares of common stock. Trinity defaulted on all of such loans and the 5,747 shares of pledged series B preferred stock held by the lenders were converted into 237,190,476 shares of common stock and were transferred to the lenders.

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

In addition, during 2003, Trinity converted an aggregate of 1,560 shares of Series B Preferred Stock into an aggregate of 39,000,000 shares of common stock.

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

Total unpaid and outstanding advances from such related parties as of December 31, 2003 aggregated \$713,000. Interest accrued on all such notes is calculated at 9% (which is the weighted average interest rate at the balance sheet date) and as of December 31, 2003 \$780,000 of such interest remains unpaid. Interest expense on related party notes was \$107,000 and \$119,000 for 2003 and 2002, respectively.

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5. Notes Payable, Other

On April 8, 2002, the Company entered into a settlement agreement to repay its \$17,000 note payable obligations. On April 8, 2002 the Company placed 500,000 shares of its Common Stock into escrow and on May 17, 2002, in final settlement, 353,844 shares of Common Stock held in escrow were remitted to the creditor and 146,156 shares of Common Stock were returned to the Company. The value of the shares remitted to the creditor approximated \$17,000.

6. Capital Stock

The Company has authorized 750,000,000 shares of \$.01 par value Common

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Stock. As of December 31, 2003, the Company has 749,715,948 shares issued and outstanding. The Company has not declared dividends on its Common Stock. On September 4, 2002, the Company filed a definitive information statement in order to increase its authorized shares of Common Stock from 50,000,000 shares to 750,000,000 shares which was authorized by the written consent of the holders of a majority of the voting power of the outstanding shares of the Common Stock.

The Company has authorized 1,000,000 of preferred stock. Dividends accrued on the Company's preferred stock aggregated \$462,000 as of December 31, 2003 of which \$127,000 was accrued during 2003 and \$157,000 was accrued during 2002.

Series A 4% Preferred Stock

In 1999, the Company issued to Trinity 1,000 shares of Series A 4% Preferred Stock (the Series A Preferred Stock). Each share of the Series A Preferred Stock entitles the holder to annual dividends at the rate of 4%. All of the Series A Preferred Stock is owned by Trinity and such shares give Trinity the right to elect a majority of the Company's Board of Directors. Each share of the Series A Preferred Stock entitles the holder to annual dividends at the rate of 4% per share and votes alongside of Common Stock holders.

Series B 8% Voting Redeemable Convertible Preferred Stock

As of May 7, 2001, Trinity had advanced the Company approximately \$3.7 million in order to fund its operations. On May 7, 2001, Trinity exchanged \$1.5 million of such related party debt for 7,500,000 shares of Common Stock, representing \$0.20 per share, the fair market value of the Common Stock on May 7, 2001 and exchanged an additional \$2 million of related party debt into 20,000 shares of Series B 8% Voting Redeemable Convertible Preferred Stock (the "Series B Preferred Stock") whereby each share of Series B Preferred Stock represents \$100 of exchanged related party debt and each share of Series B Preferred Stock is convertible into shares of Common Stock as calculated by dividing \$100 by the lowest price that the Company's shares of Common Stock have traded during the period that the Series B Preferred Stock has been outstanding.

From April 7, 2003 through August 4, 2003, Trinity entered into four separate loan agreements pursuant to which it received loans of \$335,000 from nonaffiliated lenders. Substantially all of such funds were advanced by Trinity to the Company. Pursuant to the loan agreements, Trinity pledged an aggregate of 5,747 shares of the Company's series B 8% voting redeemable convertible preferred stock owned by Trinity. Each share of Series B preferred stock is convertible into shares of common stock as calculated by dividing \$100 by the lowest price that the Company's shares of Common Stock have traded during the period that the series B preferred stock has been outstanding. As of September 3, 2003 each share of series B preferred stock was convertible into 47,619 shares of common stock. Trinity defaulted on all of such loans and the 5,747 shares of pledged series B preferred stock held by the lenders were converted into 237,190,476 shares of common stock and were transferred to the lenders.

At the time of each of the loans to Trinity by the non-affiliated lenders, Trinity lent the Company a substantial portion of the principal amount of the loan at 9% interest. Trinity defaulted on its loans to the lenders as a result of the Company's default on its loan to Trinity. When the lenders called the note and foreclosed on the collateral, Trinity cancelled the Company's note to it in exchange for shares of series B preferred stock equal to the number of such shares as Trinity transferred to the lenders. As a result of the defaults by the Company and Trinity, the Company issued to Trinity 5,747 shares of series B preferred stock, which is the same number of shares as Trinity converted and transferred to the lenders. As of December 31, 2003, 16,540 shares of Series B preferred stock are outstanding which can be converted into an aggregate of 739,542,000 shares of common stock. Each share of Series B Preferred Stock

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entitles the holder to annual dividends at the rate of 8% of \$100 per share.

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Series C 2% Convertible Preferred Stock

During 2002, the Company issued 410,000 shares of Series C Preferred Stock in order to obtain expansions to the Georal License. Each share of Series C Preferred Stock is convertible into 100 shares of Common Stock entitles the holder to annual dividends at the rate of 2% per share. During 2002 all of the Series C Preferred Stock was converted into 41,000,000 shares of Common Stock (See Note 2).

Series D 2% Convertible Preferred Stock

During 2002, the Company issued 40,000 shares of Series D Preferred Stock in order to obtain an expansion to the Georal License. Each share of Series D Preferred Stock is convertible into 100 shares of Common Stock entitles the holder to annual dividends at the rate of 2% per share. During 2002, all of the Series D Preferred Stock was converted into 4,000,000 shares of Common Stock (See Note 2).

7. Stock Options and Warrants

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

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

On February 28, 2003, the Company issued to a non-affiliated consultant a warrant to purchase 2,200,000 shares of common stock at an exercise price of \$.04 per share and warrant to purchase 2,800,000 shares of common stock at an exercise price of \$.01 per share. The fair value of the Company's common stock at the date of issuance of the warrants was \$.01 per share and the stock compensation expense resulting from the issuance of such warrants was \$46,000.

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

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

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

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

On August 27, 2003 the Company issued 47,499,000 shares of its common stock pursuant to stock grant rights of which 37,499,000 were issued to non-affiliated consultants resulting in stock compensation expense of \$109,000 and 10,000,000 shares of Common Stock was issued to Lewis S. Schiller, resulting in stock compensation expense of \$28,000.

On October 14, 2003 the Company issued 7,000,000 shares of its common stock pursuant to stock grant right to a non-affiliated consultants resulting in stock compensation expense of \$29,000.

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.

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

In April of 2002, the Company (a) issued to Lewis S. Schiller, its chief executive officer a director and controlling shareholder, a warrant to purchase 20,000,000 million shares of common stock at \$0.043 per share, the fair market value at date of issuance and (b) issued to Grazyna B. Wnuk, its Vice-President and director, a warrant to purchase 10,000,000 shares of common stock at \$0.043 per share, the fair market value at date of issuance. Originally, these warrants issued to Lewis S. Schiller provided for an exercise price of \$0.001 per share with regards to 10,000,000 shares and such exercise price was subsequently increased to \$0.043 per share. These warrants issued to Lewis S. Schiller and Grazyna B. Wnuk provided for cashless exercise provisions which required the Company to calculate stock compensation expense on the underlying shares for each reporting period that the warrants or any portion thereof were outstanding. As of June 30, 2002, the fair value per share was greater than the exercise price and the resulting stock compensation expense of \$2,010,000 was charged to operations in the second quarter of 2002. As of September 30, 2002, the fair value per share was less than the exercise price and as a result the \$2,010,000 stock compensation expense charged in the second quarter of 2002 was reversed in the third quarter of 2002. On October 31, 2002, Lewis S. Schiller and Grazyna B. Wnuk agreed to remove the cashless exercise provisions from these warrants and as a result there will be no future stock compensation expense related to such warrants. On November 17, 2003, all of such warrants exercise price was reset to \$.01 per share.

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

The Company has elected to use the intrinsic value method of accounting for stock options in accordance with APB Opinion No. 25 and related interpretations issued to employees under its stock option plans whereby the amount of stock-based compensation expense is calculated as the difference between the fair market value and the exercise price on the date of issuance.

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For purposes of pro forma disclosures the amount of stock-based compensation as calculated using the fair value method of accounting for stock options issued to employees is amortized over the options' vesting period.

For purposes of calculating the pro forma expense under SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following assumptions were used during 2002 to estimate the fair value of options granted:

| | 2003 | 2002 |
|--------------------------|---------|---------|
| Dividend yield | 0.0% | 0.0% |
| Expected volatility | 144.34% | 144.34% |
| Risk-free interest rate | 6.0% | 6.0% |
| Expected life of options | 3 years | 3 years |

The Company's pro forma information for the years ended December 31, 2003 and 2002 is as follows:

| | 2003 | |
|--|----------------|----------------|
| Net loss as reported | \$ (6,152,000) | \$ (4,000,000) |
| Deduct: Amount by which stock-based employee compensation as determined under fair value based method for all awards exceeds the compensation as determined under the intrinsic value method | (593,000) | (1,000,000) |
| Pro forma net loss under FAS No. 123 | \$ (6,745,000) | \$ (5,000,000) |
| Basic and diluted net loss per common share: | | |
| As reported | (0.01) | (0.01) |
| Pro forma under SFAS No. 123 | (0.01) | (0.01) |

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The following table summarizes the Company's fixed stock purchase warrants and options for 2003 and 2002.

| | 2003 | 2003 | 2002 |
|--|--------|---------------------------------------|--------|
| | Shares | Weighted Average Exercise Price | Shares |
| | | | |

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| | | | |
|--|---------------|--------|-----------|
| Outstanding at beginning of year | 44,861,500 | \$0.15 | 2,350,0 |
| Granted | 1,728,103,168 | \$0.05 | 90,701,6 |
| Exercised | (310,603,168) | \$0.04 | (48,140,1 |
| Forfeited/Expired | (50,000) | \$0.15 | (50,0 |
| <hr/> | | | |
| Outstanding at end of year | 1,462,361,500 | \$0.05 | 44,861,5 |
| <hr/> | | | |
| Options exercisable at year end | 1,460,161,500 | \$0.05 | 44,861,5 |
| <hr/> | | | |
| Weighted-average fair value of options granted during the year | \$0.002 | | \$0. |
| <hr/> | | | |

As of December 31, 2003, the Company has outstanding warrants to purchase 1,460,161,500 shares of Common Stock at prices ranging from \$.01 to \$0.15 per share having a weighted-average remaining contractual life of 4.176 years.

8. Related Party Transactions

The Company and its subsidiaries incur interest expense on advances from Lewis S. Schiller advances from The Trinity Group-I, Inc., advances from Universal International, Inc., a company owned by Grazyna B. Wnuk, advances from Grazyna B. Wnuk, a loan from E. Gerald Kay, a former director, and advances from Carol Schiller, the wife of Lewis S. Schiller. Total unpaid and outstanding advances from such related parties as of December 31, 2003 aggregated approximately \$713,000. Interest accrued on such notes is generally calculated at 9% (which is the weighted average interest rate at the balance sheet date) and as of December 31, 2003 \$780,000 of such interest remains unpaid. Interest expense on related party notes was \$107,000 for 2003 and \$119,000 for 2002.

On October 31, 2002, Carol Schiller, the wife of Lewis S. Schiller, agreed to convert \$400,000 of related party debt owed to her into 10,000,000 shares of The Finx Group common stock at the rate of \$.04 per share, the fair value of the common stock on the date of the conversion.

On October 18, 2002, pursuant to the terms of a stock purchase agreement among The Finx Group, Starnet365.com, Inc., Lewis S. Schiller, The Finx Group Chief Executive Officer and Chairman of the Board, Grazyna B. Wnuk, The Finx Group Vice-President and Secretary, members of Lewis S. Schiller's immediate family (collectively, the "Starnet Sellers") and Thomas Banks Ltd., (the "Starnet Stock Purchase Agreement"), Thomas Banks Ltd. agreed to purchase 98.05% of the issued and outstanding capital stock of Starnet365.com, Inc. from the Starnet Sellers for one dollar (\$1) and the Company agreed to cancel approximately \$1.3 million of principal and interest owed by Starnet365.com, Inc. to the Company. As of the date of the Starnet Stock Purchase Agreement, Starnet365.com, Inc. had an excess of liabilities over assets of approximately \$1.7 million, including the \$1.3 million owed to the Company, resulting in remaining liabilities of approximately \$444,000. The Company believes that it may be required to pay approximately \$132,000 of such remaining liabilities based on the existence of corporate guarantees previously made on such amounts by the Company. As a result of the disposal of Starnet365.com, Inc., the net reduction in the Company's liabilities approximated \$268,000 and the gain on disposal approximated \$312,000.

On October 18, 2002, pursuant to the terms of a stock purchase agreement among The Finx Group, Shopclue.com, Inc., Lewis S. Schiller, the Company's Chief Executive Officer and Chairman of the Board, Grazyna B. Wnuk, the Company's Vice-President and Secretary, members of Lewis S. Schiller's

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immediate family (collectively, the "Shopclue Sellers") and Thomas Banks Ltd. dated as of September 30, 2002, (the "Shopclue Stock Purchase Agreement"), Thomas Banks agreed to purchase 100% of the issued and outstanding capital stock of Shopclue.com, Inc. from the Shopclue Sellers for one dollar (\$1) and we agreed to cancel approximately \$8,000 of principal and interest owed by Shopclue.com, Inc. to the Company. As of the date of the Shopclue Stock Purchase Agreement, Shopclue.com, Inc. had an excess of liabilities over assets of approximately \$340,000, including the \$8,000 owed to the Company, resulting in remaining liabilities of approximately \$332,000. The Company believes

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that it may be required to pay approximately \$169,000 of such remaining liabilities which represent delinquent payroll taxes. As a result of the disposal of Shopclue.com, Inc., the net reduction in the Company's liabilities and the corresponding gain on disposal approximated \$163,000.

On October 18, 2002, pursuant to the terms of a stock purchase agreement among The Finx Group, Bizchase, Inc., Lewis S. Schiller, the Company's Chief Executive Officer and Chairman of the Board, Grazyna B. Wnuk, the Company's Vice-President and Secretary, members of Lewis S. Schiller's immediate family (collectively, the "Bizchase Sellers") and Thomas Banks Ltd. dated as of September 30, 2002, (the "Bizchase Stock Purchase Agreement"), Thomas Banks Ltd. agreed to purchase 100% of the issued and outstanding capital stock of Bizchase, Inc. from the Bizchase Sellers for one dollar (\$1) and we agreed to cancel approximately \$2 million of principal and interest owed by Bizchase, Inc. to the Company. As of the date of the Bizchase Stock Purchase Agreement, Bizchase, Inc. had an excess of liabilities over assets of approximately \$2.3 million, including the \$2 million owed to the Company, resulting in remaining liabilities of approximately \$296,000. The Company believes that it may be required pay approximately \$136,000 of such remaining liabilities of which \$99,000 relates to delinquent payroll taxes and \$37,000 relates to corporate guarantees. As a result of the disposal of Bizchase, Inc., the net reduction in the Company's liabilities and the corresponding gain on disposal approximated \$160,000.

On October 18, 2002, pursuant to the terms of a stock purchase agreement among The Finx Group, Sequential Electronic Systems, Inc., S-Tech, Inc., Defense Manufacturing and Systems, Inc. and Trinity Group Acquisition Corp. dated as of September 30, 2002 (the "Sequential and S-Tech Stock Purchase Agreement"), Trinity Group Acquisition Corp. agreed to purchase 100% of the issued and outstanding capital of Sequential Electronic Systems, Inc., S-Tech, Inc., Defense Manufacturing and Systems, Inc. from The Finx Group for one dollar (\$1) and The Finx Group agreed to cancel approximately \$2.3 million of principal and interest owed by Sequential Electronic Systems, Inc. and S-Tech, Inc. to The Finx Group. Defense Manufacturing Systems, Inc. was wholly owned by The Finx Group but had no operating activities since its organization. Trinity Group Acquisition Corp. is wholly owned by Lewis S. Schiller, the Company's Chief Executive Officer and Chairman of the Board. As of the date of the Sequential and S-Tech Stock Purchase Agreement, Sequential Electronic Systems, Inc. and S-Tech, Inc. had aggregate assets of \$1.2 million and aggregate liabilities of \$2.4 million, excluding the \$3.1 million owed to the Company. The aggregate liabilities included \$1.1 million of delinquent payroll taxes and we have agreed to indemnify Lewis S. Schiller for any claims made against him regarding such delinquent payroll taxes and in connection therewith have reserved \$550,000 of such payroll taxes against the gain on disposal of Sequential Electronic Systems, Inc. and S-Tech, Inc. The Trinity Group-I, Inc. is the Company's controlling shareholder and both The Trinity Group-I, Inc. and Trinity Group Acquisition Corp. are wholly owned by Lewis S. Schiller, and the Sequential and S-Tech Stock Purchase Agreement was not consummated at arms-length. However, we believe that because the transaction will reduce the Company's liabilities by

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approximately \$1.8 million that such transaction is in the Company's best interests. As a result of the disposal of Sequential Electronic Systems, Inc., S-Tech, Inc., Defense Manufacturing and Systems, Inc., the net reduction in the Company's liabilities approximated \$1.8 million and the gain on disposal which approximated \$458,000 was recorded as an addition to paid-in capital because the transaction was consummated with the controlling stockholder of the Company.

As of May 7, 2001, Trinity had advanced the Company approximately \$3.7 million in order to fund its operations. On May 7, 2001, Trinity exchanged \$1.5 million of such related party debt for 7,500,000 shares of Common Stock, representing \$0.20 per share, the fair market value of the Common Stock on May 7, 2001 and exchanged an additional \$2 million of related party debt into 20,000 shares of Series B 8% Voting Redeemable Convertible Preferred Stock (the "Series B Preferred Stock") whereby each share of Series B Preferred Stock represents \$100 of exchanged related party debt and each share of Series B Preferred Stock is convertible into shares of Common Stock as calculated by dividing \$100 by the lowest price that the Company's shares of Common Stock have traded during the period that the Series B Preferred Stock has been outstanding.

From April 7, 2003 through August 4, 2003, Trinity entered into four separate loan agreements pursuant to which it received loans of \$335,000 from nonaffiliated lenders. Substantially all of such funds were advanced by Trinity to the Company. Pursuant to the loan agreements, Trinity pledged an aggregate of 5,747 shares of the Company's series B 8% voting redeemable convertible preferred stock owned by Trinity. Each share of Series B preferred stock is convertible into shares of common stock as calculated by dividing \$100 by the lowest price that the Company's shares of Common Stock have traded during the period that the series B preferred stock has been outstanding. As of September 3, 2003 each share of series B preferred stock was convertible into 47,619 shares of common stock. Trinity defaulted on all of such loans and the 5,747 shares of pledged series B preferred stock held by the lenders were converted into 237,190,476 shares of common stock and were transferred to the lenders.

At the time of each of the loans to Trinity by the non-affiliated lenders, Trinity lent the Company a substantial portion of the principal amount of the loan at 9% interest. Trinity defaulted on its loans to the lenders as a result of the Company's default on its loan to Trinity. When the lenders called the note and foreclosed on the

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collateral, Trinity cancelled the Company's note to it in exchange for shares of series B preferred stock equal to the number of such shares as Trinity transferred to the lenders. As a result of the defaults by the Company and Trinity, the Company issued to Trinity 5,747 shares of series B preferred stock, which is the same number of shares as Trinity converted and transferred to the lenders.

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

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

9. Income Taxes

The Company, as of December 31, 2003, has available approximately \$55.5

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million of net operating loss carry forwards to reduce future Federal and state income taxes, representing a net deferred tax asset of approximately \$19.4 million. Based upon the level of historical tax losses, the Company has established a valuation allowance against the entire net deferred tax asset. This represents an increase in the valuation allowance of approximately \$.4 million from December 31, 2002. In addition, the Company has available investment tax credit and research tax credit carry forwards in excess of \$500,000. However, it is not currently probable that the related deferred tax assets will be realized by reducing future taxable income during the carry forward period and as such, a valuation allowance has been computed to offset in its entirety the deferred tax asset attributable to the net operating loss and tax credits. The net operating loss carry forwards expire as follows:

| Year of expiration | Net operating loss carry forward |
|--------------------|----------------------------------|
| 2004 | 5,616,000 |
| 2005 | 2,207,000 |
| 2006 | 3,144,000 |
| 2007 | 3,023,000 |
| 2008 | 2,044,000 |
| 2009 | 1,851,000 |
| 2010 | 2,050,000 |
| 2011 | 3,171,000 |
| 2012 | 194,000 |
| 2018 | 1,080,000 |
| 2019 | 1,319,000 |
| 2020 | 8,261,000 |
| 2021 | 11,176,000 |
| 2022 | 4,177,000 |
| 2023 | 6,152,000 |
| | \$55,465,000 |

Pursuant to section 382 of the Internal Revenue Code, the annual utilization of these loss carry forwards is limited as a result of the changes in stock ownership, which have occurred during 2003 and 2002, and may be further limited if substantial changes in the Company ownership were to occur.

10. Commitments and Contingencies

Operating Leases

As of December 31, 2003, the Company does not have any operating leases with firm commitments extending beyond one year. All of its current premises are leased on a month to month basis and as of December 31, 2003 such monthly lease payments approximated \$500 per month.

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 operating cash flow

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

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

Indemnifications

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

Legal Proceedings

Although the Company is a party to certain legal proceedings that have occurred in the ordinary course of business, it does not believe such proceedings to be of a material nature with the exception of the following item. On or about April 8, 2002, a complaint styled "Law Offices of Jerold K. Levien, against The Finx Group, Inc. f/k/a Fingermatrix, Inc., The Trinity Group-I, Inc." was filed in the Supreme Court of the State of New York County of New York, and the plaintiff has received a judgment for \$334,595, such amount having been accrued on the Company's books, plus interest.

11. Discontinued Operations

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

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("Bizchase") and Starnet365.com, Inc. ("Starnet").

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

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

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The loss from operations of discontinued operations for the years ended December 31, 2003 and 2002 are summarized as follows:

| | Income (Loss) from Operations of Discontinued Segments | |
|--------------------------------|---|--------------|
| | The Year Ended December 31, 2003 | 2002 |
| Bizchase | \$ - | \$ (46,000) |
| Shopclue | - | (26,000) |
| Granite Technologies | - | (223,000) |
| Starnet | - | (346,000) |
| S-Tech | - | (15,000) |
| Sequential | - | (200,000) |
| FMX | (99,000) | (133,000) |
| Less intercompany transactions | 112,000 | 622,000 |
| | \$ 13,000 | \$ (367,000) |

12. New Authoritative Pronouncements

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after December 15, 2003. In December 2003, the FASB issued Interpretation No. 46(R) ("FIN 46R") which revised certain provisions of FIN 46. Publicly reporting entities that are small business issuers must apply FIN 46R

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to all entities subject to FIN 46R no later than the end of the first reporting period that ends after December 15, 2004 (as of December 31, 2004, for a calendar year enterprise). The effective date includes those entities to which FIN 46 had previously been applied. However, prior to the application of FIN 46R, a public entity that is a small business issuer shall apply FIN 46 or FIN 46R to those entities that are considered special-purpose entities no later than as of the end of the first reporting period that ends after December 15, 2003 (as of December 31, 2003 for a calendar year enterprise). The Company does not expect the adoption of FIN 46 or FIN 46R to have a material effect on its consolidated financial position or results of operations.

In April 2003, SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149") was issued. SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities". This statement is effective for contracts entered into or modified after June 30, 2003.

During 2003, SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150") was issued. SFAS 150 establishes standards for classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in certain cases). The provisions of SFAS 150 are effective for instruments entered into or modified after May 31, 2003 and pre-existing instruments as of July 1, 2003. On October 29, 2003, the FASB voted to indefinitely defer the effective date of SFAS 150 for mandatorily redeemable instruments as they relate to minority interests in consolidated finite-lived entities through the issuance of FASB Staff Position 150-3.

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In December 2003, a revision of SFAS 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits" was issued, revising disclosures about pension plans and other post retirements benefits plans and requiring additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans.

The Company expects that the adoption of the new statements will not have a significant impact on its financial statements.

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