

Edgar Filing: ION NETWORKS INC - Form 10QSB

ION NETWORKS INC  
Form 10QSB  
August 13, 2004

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

FORM 10-QSB

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

For the quarterly period ended June 30, 2004

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No.: 0-13117

ION NETWORKS, INC.  
-----

(Exact Name of Small Business Issuer in Its Charter)

Delaware  
-----

(State or Other Jurisdiction of  
Incorporation or Organization)

22-2413505  
-----

(IRS Employer Identification Number)

120 Corporate Boulevard, South Plainfield, NJ 07080  
-----

(Address of Principal Executive Offices)

(908) 546-3900  
-----

(Issuer's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the proceeding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days Yes  No  .  
----- --

There were 22,875,500 shares of Common Stock outstanding as of August 12, 2004.

Transitional Small Business Disclosure Format:

Yes\_\_\_ No

Edgar Filing: ION NETWORKS INC - Form 10QSB

ION NETWORKS, INC.

FORM 10-QSB

FOR THE QUARTER ENDED June 30, 2004

PART I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements (Unaudited)

Condensed Balance Sheet as of June 30, 2004

Condensed Statements of Operations for the Three and Six Months ended June 30, 2004 and 2003 (Consolidated)

Condensed Statements of Cash Flows for the Six Months ended June 30, 2004 and 2003 (Consolidated)

Notes to Condensed Financial Statements

Item 2. Management's Discussion and Analysis or Plan of Operation

Item 3. Controls and Procedures

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 2. Changes in Securities

Item 3. Defaults Upon Senior Securities

Item 4. Submission of Matters to a Vote of Security Holders

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

SIGNATURES

2

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

The condensed financial statements included herein have been prepared by the registrant without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Although the registrant believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. It is suggested that these financial statements be read

## Edgar Filing: ION NETWORKS INC - Form 10QSB

in conjunction with the audited financial statements and the notes thereto included in the registrant's Report on Form 10-KSB for the year ended December 31, 2003.

3

ION NETWORKS, INC.  
CONDENSED BALANCE SHEET  
As of June 30, 2004  
(Unaudited)

Assets

Current assets

Cash and cash equivalents	\$	185,22
Accounts receivable, less allowance for doubtful accounts of \$68,974		290,22
Inventory, net		498,81
Prepaid expenses and other current assets		61,72

Total current assets		1,035,99
----------------------	--	----------

Property and equipment, net		23,77
Capitalized software, less accumulated amortization of \$3,977,762		370,11
Other assets		12,83

Total assets	\$	1,442,71
--------------	----	----------

Liabilities and Stockholders' Equity

Current liabilities

Current portion of capital leases	\$	27,00
Current portion of long-term debt		2,06
Accounts payable		378,53
Accrued expenses		385,41
Accrued payroll and related liabilities		137,39
Deferred income		225,56
Sales tax payable		19,94
Other current liabilities		53,33

Total current liabilities		1,229,27
---------------------------	--	----------

Long term debt, net of current portion		8,30
--	--	------

Commitments and contingencies

Stockholders' Equity

Preferred stock - par value \$.001 per share; authorized 1,000,000 shares; 200,000 shares designated Series A; 166,835 shares issued and outstanding (aggregate liquidation preference \$300,303)		16
---	--	----

## Edgar Filing: ION NETWORKS INC - Form 10QSB

Common stock - par value \$.001 per share; authorized 50,000,000 shares; 22,875,500 shares issued and outstanding	22,87
Additional paid-in capital	44,351,99
Notes receivable from officers	(211,295
Accumulated deficit	(43,958,607
	-----
Total stockholders' equity	205,13
	-----
 Total liabilities and stockholders' equity	 \$ 1,442,71
	=====

The accompanying notes are an integral part of these condensed financial statements.

4

### ION NETWORKS, INC. CONDENSED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004
	-----	-----	-----
Net sales	\$ 606,300	\$ 874,200	\$ 1,511,2
Cost of sales	190,602	230,851	487,7
	-----	-----	-----
Gross Margin	415,698	643,349	1,023,5
	-----	-----	-----
Research and development expenses	140,007	124,356	260,2
Selling, general and administrative expenses	478,094	579,668	1,190,6
Restructuring, asset impairment and other charges	-	(315,841)	
Depreciation and amortization expenses	105,717	205,657	221,4
	-----	-----	-----
Total operating expenses	723,818	593,840	1,672,3
	-----	-----	-----
Income(Loss) from operations	(308,120)	49,509	(648,8
Interest income	179	1,782	19,7
Interest expense	(1,120)	(2,659)	(2,7
	-----	-----	-----
Net Income(loss)	\$ (309,061)	\$ 48,632	\$ (631,8

Edgar Filing: ION NETWORKS INC - Form 10QSB

	=====	=====	=====
Per share data			
Net income(loss) per share			
Basic	\$ (0.01)	\$ 0.00	\$ (0.01)
Diluted	\$ (0.01)	\$ 0.00	\$ (0.01)
Weighted average number of common shares outstanding			
Basic	22,875,500	23,902,643	23,847,800
Diluted	22,875,500	25,570,993	23,847,800

The accompanying notes are an integral part of these condensed financial statements.

5

ION NETWORKS, INC.  
CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)

For the Six  
Months Ended  
June 30,  
2004

Cash flows from operating activities	
Net loss	\$ (631,800)
Adjustments to reconcile net loss to net cash used in operating activities:	
Restructuring, asset impairments and other charges, non-cash	
Depreciation and amortization	221,400
Non-cash stock-based compensation	58,700
Interest income from notes receivable from officers	(19,200)
Changes in operating assets and liabilities:	
Accounts receivable	107,500
Inventory	203,200
Prepaid expenses and other current assets	66,400
Other assets	400
Accounts payable and other accrued expenses	(48,900)
Accrued payroll and related liabilities	34,500
Deferred income	25,200
Sales tax payable	(32,600)
Other current liabilities	
Net cash used in operating activities	(15,000)
Cash flows from investing activities	
Acquisition of property and equipment	(6,900)
Capitalized software expenditures	(102,600)

## Edgar Filing: ION NETWORKS INC - Form 10QSB

Restricted cash	-----
Net cash used in investing activities	(109,6
	-----
Cash flows from financing activities	
Principal payments on debt and capital leases	(47,8
	-----
Net cash used in financing activities	(47,8
	-----
Effect of exchange rates on cash	-----
Net decrease in cash and cash equivalents	(172,4
Cash and cash equivalents - beginning of period	357,7
	-----
Cash and cash equivalents - end of period	\$ 185,2
	=====

The accompanying notes are an integral part of these condensed financial statements.

6

ION NETWORKS, INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
June 30, 2004  
(Unaudited)

### NOTE 1 CONDENSED FINANCIAL STATEMENTS

ION Networks, Inc ("ION" or the "Company") designs, develops, manufactures and sells infrastructure security and management products to corporations, service providers and government agencies. The Company's hardware and software products are designed to form a secure auditable portal to protect IT and network infrastructure from internal and external security threats. ION's infrastructure security solution operates in the IP, data center, and telephony environments and is sold by a direct sales force and indirect channel partners mainly throughout North America and Europe.

The condensed balance sheet as of June 30, 2004, the condensed statements of operations and cash flows for the three and six month periods ended June 30, 2004 and 2003 (Consolidated), have been prepared by the Company without audit. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to make the Company's financial position, results of operations and cash flows at June 30, 2004 and 2003 not misleading have been made. The results of operation for the three and six months ended June 30, 2004 and 2003 are not indicative of a full year or any other interim period.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the audited financial statements and notes there to included in the report on Form 10-KSB

## Edgar Filing: ION NETWORKS INC - Form 10QSB

for the year ended December 31, 2003.

The Company's financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. At June 30, 2004 the Company had an accumulated deficit of \$43,958,607 and a working capital deficiency of \$193,280. The Company also realized a net loss of \$309,061 and \$631,869 for the three and six month periods ended June 30, 2004, respectively. The Company continues to experience a shortfall in the cash necessary to expand operations. Management and the board of directors are exploring various alternatives to secure funding necessary to meet its cash requirements. These factors raise substantial doubt about the entity's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### NOTE 2. - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Principles of Consolidation

The accompanying condensed financial statements include the accounts of ION Networks, Inc. and its subsidiaries (collectively, the "Company") and have been prepared on the accrual basis of accounting. All inter-company balances and transactions have been eliminated in consolidation. During the year ended December 31, 2003, the Company ceased the operation of its subsidiaries.

7

ION NETWORKS, INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
June 30, 2004  
(Unaudited)

### NOTE 2. - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Net Loss per Share of Common Stock

Basic net loss per share excludes dilution for potentially dilutive securities and is computed by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net loss per share reflects the potential dilution that could occur if securities or other instruments to issue common stock were exercised or converted into common stock. Potentially dilutive securities are excluded from the computation of diluted net loss per share when their inclusion would be antidilutive. Potentially dilutive securities of the Company include the following:

	For the Six and Three Months Ended June 30, 2004	For the Six and Three Months Ended June 30, 2003
Convertible Preferred Stock	1,668,350	1,668,350
Options and Warrants	6,165,129	-
Total*	7,915,730	1,668,350

\* Since there was a loss attributable to common shareholders in the six

## Edgar Filing: ION NETWORKS INC - Form 10QSB

months and three months ended June 30, 2004 and 2003, the basic weighted average shares outstanding were used in calculating diluted loss per share.

### Stock Compensation

The Company accounts for stock-based employee compensation arrangements in accordance with provisions of Accounting Principals Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and comply with the disclosure requirements of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" as amended by SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123," issued in December 2002. Under APB Opinion No. 25, compensation expense is based on the difference, if any, generally on the date of grant, between the fair value of our stock and the exercise price of the option. The Company accounts for equity instruments issued to non-employee vendors in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force ("EITF") Issue No. 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees from Acquiring, or in Conjunction with Selling, Goods and Services". All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the date on which the counter party's performance is complete.

8

ION NETWORKS, INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
June 30, 2004  
(Unaudited)

#### NOTE 2. - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Stock Compensation (Continued)

If the Company had elected to recognize compensation costs based on the fair value at the date of grant for awards for the three and six month periods ended June 30, 2004 and 2003, consistent with the provisions of SFAS No. 123, the Company's net loss and basic and diluted net loss per share would have increased to the pro forma amounts indicated below:

		Three months ended June 30, 2004 (Unaudited)		Three months ended June 30, 2003 (Unaudited)	
Net income	As reported	\$ (309,061)	\$	48,632	\$
(loss)					
	Add back (Deduct): Stock based employee compensation determined under fair value methods for all awards granted	(23,877)		156,320	
		-----		-----	
Pro forma net income (loss)		\$ (332,938)	\$	204,952	\$



Edgar Filing: ION NETWORKS INC - Form 10QSB

Basic and diluted net income (loss) per share of  
common stock

As reported	\$	(0.01)	\$	0.00	\$
Pro forma	\$	(0.01)	\$	0.01	\$

Warranty Costs

The Company estimates its warranty costs based on historical warranty claim experience. Future costs for warranties applicable to sales recognized in the current period are charged to cost of sales. The warranty accrual is reviewed quarterly to reflect the remaining obligation. Adjustments are made when actual warranty claim experience differs from estimates. The warranty accrual included in other current liabilities as of June 30, 2004 approximated \$48,000.

NOTE 3 - INVENTORY

Inventory, net of allowance for obsolescence of \$169,842 at June 30, 2004, consists of the following:

Raw materials	86,317
Work-in-progress	15,968
Finished goods	396,531
	-----
	\$ 498,816
	=====

NOTE 4 - COMMITMENTS AND CONTINGENCIES

During the six months ended June 30, 2004, Kam Saifi, former President and Chief Executive Officer, agreed to a final separation agreement from the Company. The Company agreed to accept as full payment for all indebtedness (294,493) owed to the Company by Mr. Saifi the return of 2,000,000 common shares of Company stock and Mr. Saifi released the Company from any obligations, which may have arisen from the separation of Mr. Saifi from the Company. The Company has not been successful as of the date of this filing to negotiate a final agreement with Cameron Saifi, former Chief Operating Officer, relating to his separation and termination of his employment agreement and his indebtedness to the Company.

NOTE 5 - SUBSEQUENT EVENTS

On August 5, 2004, the Company issued, for \$200,000 cash, a convertible debenture (the "Debenture") to Stephen M. Deixler, one of the Company's directors. The Debenture matures on August 5, 2008 and bears interest at five (5%) percent per annum, compounded annually. The principal amount of the Debenture is convertible into shares of the Company's common stock, \$.001 par value at a conversion price equal to \$0.08 per share (the "Conversion Price"), which is equal to the ten (10) day average of the closing prices of the Company's common stock, as quoted on the OTC Bulletin Board during the five (5)

## Edgar Filing: ION NETWORKS INC - Form 10QSB

trading days immediately prior to and subsequent to August 5, 2004. The principal amount of the Debenture is convertible at the Conversion Price at the option of the holder, or at the Company's option if the Company's common stock trades at a price of at least \$0.08 for twelve (12) trading days in any fifteen (15) trading day period. The Company is also entitled to prepay the principal amount of the Debenture, at any time after August 5, 2005, but shall be required to pay a premium of two (2%) percent in the second year after issuance of the Debenture of the principal amount prepaid, for prepayments made during that period. The Company has granted certain "piggyback" registration rights to the holder to register for resale the shares issuable upon conversion of the Debenture.

10

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

#### OVERVIEW

ION Networks, Inc. (the "Company"), designs, develops, manufactures and sells infrastructure security and management products to corporations, service providers and government agencies. The Company's hardware and software products are designed to form a secure auditable portal to protect IT and network infrastructure from internal and external security threats. ION's products operate in the IP, data center, telecommunications and transport, and telephony environments and are sold by a direct sales force and indirect channel partners mainly throughout North America and Europe.

The Company is a Delaware corporation founded in 1999 through the combination of two companies - MicroFrame ("MicroFrame"), a New Jersey Corporation (the predecessor entity to the Company, originally founded in 1982), and SolCom Systems Limited ("SolCom"), a Scottish corporation located in Livingston, Scotland (originally founded in 1994). The Company liquidated operations in Scotland during the quarter ended June 30, 2003.

#### RESULTS OF OPERATIONS

For the three months ended June 30, 2004 compared to the same period in 2003:

Net sales for the three month period ended June 30, 2004, was \$606,300 compared to net sales of \$874,200 for the same period in 2003, a decrease of \$267,900 or 30.6%. Revenues for the second quarter of 2004 were lower compared to the same quarter of 2003 primarily due to the lag in productivity caused by hiring and training a complete new sales force, which occurred during the first quarter of 2004.

Cost of sales for the three month period ended June 30, 2004 was \$190,602 compared to \$230,851 for the same period in 2003. Cost of sales as a percentage of net sales for the three months ended June 30, 2004 increased to 31.4% from 26.4% for the same period in 2003, resulting in gross margins decreasing to 68.6% from 73.6% as compared to the prior year. The decrease in gross margin as a percentage of revenue is due primarily to reduction of certain appliance pricing for the current period as compared to the same period last year.

Research and development expenses for the three month period ended June 30, 2004 was \$140,007 compared to \$124,356 for the same period in 2003 or a increase of \$15,651. The increase is primarily attributable to the utilization of outside consultants for new product development and conversion to standards based platform.

Selling, general and administrative expenses ("SG&A") for the three months

## Edgar Filing: ION NETWORKS INC - Form 10QSB

ended June 30, 2004 were \$478,094 compared to \$579,668 for the same period in 2003, a decrease of \$101,574. The decline in SG&A expenses are due primarily to reduced headcount from 24 at June 30, 2003 to 20 on June 30, 2004, sharply reduced executive compensation, steep reductions in facilities expenditures, including rent, sales and marketing and other overhead items. These reductions were partially offset by a loss on forgiveness of debt during the three month period ended June 30, 2004 of \$59,570.

Depreciation and amortization expenses for depreciation of fixed assets and amortization of capitalized software was \$105,717 for the three months ended June 30, 2004 compared to \$205,657 in the same period in 2003. The decrease was due to a reduction of depreciable fixed assets, capitalized software and other intangibles subject to amortization in the three month period ended June 30, 2004 as compared to the same period in 2003.

Net loss for the three months ended June 30, 2004 amounted to \$309,061 and net income for the three months ended June 30, 2003 amounted to \$48,632, for an increased loss of \$357,693 due primarily to a \$315,841 positive impact related to non-recurring reduction of certain expenses reflected as a restructuring credit during the three month period ended June 30, 2003.

For the six months ended June 30, 2004 compared to the same period in 2003:

Net sales for the six month period ended June 30, 2004, was \$1,511,261 compared to net sales of \$1,639,319 for the same period in 2003, a decrease of \$128,058 or 7.8%. Revenues for the six months ended June 30, 2004 were lower compared to the same period of 2003 primarily due to the lag in productivity caused by hiring and training a complete new sales force, which occurred during the first quarter of 2004.

11

Cost of sales for the six month period ended June 30, 2004 was \$487,754 compared to \$474,839 for the same period in 2003. Cost of sales as a percentage of net sales for the six months ended June 30, 2004 increased to 32.2% from 29.0% for the same period in 2003, resulting therefore in gross margins decreasing to 67.7% from 71.0% as compared to the prior year. The decrease in gross margin as a percentage of revenue is due primarily to reduction of certain appliance pricing for the current period as compared to the same period last year.

Research and development expenses for the six month period ended June 30, 2004 was \$260,276 compared to \$261,755 for the same period in 2003 or a decrease of \$1,479.

Selling, general and administrative expenses ("SG&A") for the six months ended June 30, 2004 were \$1,190,632 compared to \$1,482,205 for the same period in 2003, a decrease of \$291,573. The decline in SG&A expenses are due primarily to reduced headcount from 24 at June 30, 2003 to 20 on June 30, 2004, sharply reduced executive compensation, steep reductions in facilities expenditures, including rent, sales and marketing and other overhead items. These reductions were partially offset by stock compensation expense for options granted during the six month period ended June 30, 2004 of \$58,750 and loss on forgiveness of debt of \$59,570.

Depreciation and amortization expenses for depreciation of fixed assets and amortization of capitalized software was \$221,445 for the six months ended June 30, 2004 compared to \$440,428 in the same period in 2003. The decrease was due

## Edgar Filing: ION NETWORKS INC - Form 10QSB

to a reduction of depreciable fixed assets, capitalized software and other intangibles subject to amortization in the six month period ended June 30, 2004 as compared to the same period in 2003.

Net loss for the six months ended June 30, 2004 and 2003 amounted to \$631,869 and \$826,279, respectively an improvement of \$194,410 due primarily to reduced selling, general and administrative expenses of \$291,573 and depreciation and amortization expenses of \$218,983. These positive reductions were offset in part by lower gross margin of \$140,973 due to lower revenues and the positive effect on earnings of \$192,331 for restructuring adjustments for the six month period ended June 30, 2003.

### FINANCIAL CONDITION AND CAPITAL RESOURCES

The Company's financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. At June 30, 2004 the Company had an accumulated deficit of \$43,958,607 and a working capital deficiency of \$193,280. The Company also realized a net loss of \$309,061 and \$631,869 for the three and six month periods ended June 30, 2004, respectively. The Company continues to experience a shortfall in the cash necessary to expand operations. Management and the board of directors are exploring various alternatives to secure funding necessary to meet its cash requirements. Any future operations are dependent upon the Company's ability to obtain additional debt or equity financing, and its ability to generate revenues sufficient to fund its operations. There can be no assurances that the Company will be successful in its attempts to generate positive cash flows or raise sufficient capital essential to its survival. Additionally, even if the Company does raise operating capital, there can be no assurances that the net proceeds will be sufficient enough to enable it to develop its business to a level where it will generate profits and positive cash flows. These matters raise substantial doubt about the Company's ability to continue as a going concern. However, the accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to continue as a going concern.

Net cash used in operating activities during the six months ended June 30, 2004 was \$15,053 compared to net cash used during the same period in 2003 of \$706,654. The decrease in net cash used during the six months ended June 30, 2004 compared to the same period in 2003, was primarily due to a reduction in operating losses, an increase in accounts receivable collected, and a decrease in the amount of cash used to reduce accounts payable.

Net cash used in investing activities during the six months ended June 30, 2004 was \$109,608 compared to net cash used in the same period in 2003 of \$13,103. This increase of \$96,505 was primarily due to the release of restricted cash of \$125,700 during the six months ended June 30, 2003 and zero in the six months ended June 30, 2004.

Net cash used from financing activities during the six months ended June 30, 2004 was \$47,821 compared to net cash used during the same period in 2003 of \$52,272.

## Edgar Filing: ION NETWORKS INC - Form 10QSB

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervisions and with the participation of its Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed by it under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer of the Company, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in the company's internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected or is reasonably likely to affect our internal control over financial reporting.

13

### PART II. OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS.

None.

#### ITEM 2. CHANGES IN SECURITIES.

On August 5, 2004, the Company issued, for \$200,000 cash, a convertible debenture (the "Debenture") to Stephen M. Deixler, one of the Company's directors. The Debenture matures on August 5, 2008 and bears interest at five (5%) percent per annum, compounded annually. The principal amount of the Debenture is convertible into shares of the Company's common stock, \$.001 par value at a conversion price equal to \$0.08 per share (the "Conversion Price"), which is equal to the ten (10) day average of the closing prices of the Company's common stock, as quoted on the OTC Bulletin Board during the five (5) trading days immediately prior to and subsequent to August 5, 2004. The principal amount of the Debenture is convertible at the Conversion Price at the option of the holder, or at the Company's option if the Company's common stock trades at a price of at least \$0.08 for twelve (12) trading days in any fifteen (15) trading day period. The Company is also entitled to prepay the principal amount of the Debenture, at any time after August 5, 2005, but shall be required to pay a premium of two (2%) percent in the second year after issuance of the Debenture of the principal amount prepaid, for prepayments made during that period. The Company has granted certain "piggyback" registration rights to the holder to register for resale the shares issuable upon conversion of the Debenture. The issuance of the Debenture was pursuant to an exemption granted under Rule 506 of Regulation D, promulgated under the Securities Act of 1933, as amended, in that the purchaser represented his status as an accredited investor, and that he was acquiring the Debenture for investment purposes and not with a view to any sale or distribution. In addition, the Debenture bore a restrictive legend, which stated that the Debenture was a "restricted security" under the

## Edgar Filing: ION NETWORKS INC - Form 10QSB

Securities Act of 1933, as amended, and a similar legend is required to be placed on any shares issued on conversion of the Debenture. A copy of the Debenture is filed as an exhibit to this Form 10-QSB.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

### ITEM 5. OTHER INFORMATION

The Company anticipates that its 2004 annual meeting of stockholders will be held on Friday, August 27, 2004, commencing at 10:00 a.m., Eastern time, at the Company's Headquarters at 120 Corporate Boulevard, South Plainfield, New Jersey, 07080. The Company set the record date for determining stockholders of record entitled to notice of and to vote at the meeting or any and all postponements or adjournments thereof at the close of business on July 12, 2004. The Company mailed its annual report to shareholders for the year ended December 31, 2003 along with the notice of, and proxy statement for, the 2004 annual meeting on or about July 22, 2004.

14

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

Exhibit No. -----	Description -----
3.2	Amended By Laws
10.1	Convertible Debenture dated August 5, 2004
31.1	Section 302 Certification of the Chief Executive Officer.*
31.2	Section 302 Certification of the Chief Financial Officer.*
32.1	Section 906 Certification of the Chief Executive Officer.*
32.2	Section 906 Certification of the Chief Financial Officer.*

\* Filed herewith

(b) Reports on Form 8-K:

15

Edgar Filing: ION NETWORKS INC - Form 10QSB

SIGNATURES

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

Date: August 13, 2004

ION NETWORKS, INC.

-----  
/s/ Norman E. Corn

Norman E. Corn, Chief Executive Officer

-----  
/s/ Patrick E. Delaney

Patrick E. Delaney, Chief Financial Officer

16

Exhibit Index

Exhibit No. -----	Description -----
3.2	Amended By Laws
10.1	Convertible Debenture dated August 5, 2004
31.1	Section 302 Certification of the Chief Executive Officer.*
31.2	Section 302 Certification of the Chief Financial Officer.*
32.1	Section 906 Certification of the Chief Executive Officer.*
32.2	Section 906 Certification of the Chief Financial Officer.*

\* Filed herewith