IPIX CORP
Form 10-Q
July 26, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarter ended June 30, 2004 Commission File No. 000-26363

IPIX Corporation
(Exact name of registrant as specified in its charter)

Delaware	52-2213841
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3160 Crow Canyon Road
San Ramon, California 94583
(Address of principal executive offices, zip code)

Registrant's telephone number, including area code: (925) 242-4002

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 preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

18,018,622 shares of $0.001 par value common stock outstanding as of July 16, 2004.

IPIX CORPORATION
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2004
INDEX

PART I - FINANCIAL INFORMATION... 3

Item 1. Condensed Consolidated Financial Statements (unaudited)..... 3

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations................................. 12

Item 3. Quantitative and Qualitative Disclosures About Market Risk... 20

Item 4. Controls and Procedures.................................... 20

PART II - OTHER INFORMATION.. 20

Item 1. Legal Proceedings.. 20

Item 2. Changes In Securities And Use Of Proceeds.................. 21

Item 3. Defaults Upon Senior Securities............................ 21

Item 4. Submission Of Matters To A Vote Of Security Holders......... 21

Item 5. Other Information.. 21

Item 6. Exhibits And Reports On Form 8-K........................... 21

Signatures.. 22

Exhibit Index... 23

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

IPIX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	
Cash and cash equivalents..	
Restricted short term investments..............................	
Short term investments...	
Accounts receivable, net...	
Inventory, net...	
Prepaid expenses and other current assets........................	
Total current assets...	
Computer hardware, software and other, net.......................	
Restricted cash and other long term assets.......................	
Total assets...	
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable...	
Accrued liabilities..	
Deferred revenue...	
Current portion of obligations under capital leases..............	
Total current liabilities......................................	

Other long term liabilities..	
Total liabilities..	
STOCKHOLDERS' EQUITY:	
Preferred stock (Aggregate liquidation value: $23,716 in 2003 and $9,533 in 2004)...............	
Common stock..	
Class B common stock..	
Additional paid-in capital..	
Accumulated deficit..	
Total stockholders' equity..	
Total liabilities and stockholders' equity..	

---

(1) The December 31, 2003 balances were derived from the audited financial statements.

See accompanying notes to the unaudited condensed consolidated financial statements.

3

IPIX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)	Three months ended June 30, 2003 (unaudited)	200
Revenue:		
Security..	$ 86	$
AdMission...	6,058	
InfoMedia...	408	
Total revenue...	6,552	1
Cost of revenue:		
Security..	82	
AdMission...	1,768	
InfoMedia...	287	
Total cost of revenue.....................................	2,137	1
Gross profit (loss).......................................	4,415	
Operating expenses:		

Sales and marketing	2,044	1
Research and development	1,168	
General and administrative	834	
Total operating expenses	4,046	3
Income (loss) from operations	369	(3
Other	(34)	
Net income (loss)	335	(3
Preferred stock dividends	(453)	
Net loss available to common stockholders	$ (118)	$ (3
Loss per common share, basic and diluted	$ (0.02)	$ (
Weighted average common shares, basic and diluted	7,004	15

See accompanying notes to the unaudited condensed consolidated financial statements.

IPIX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Cash flows from operating activities:	
Net income (loss)	
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities	
Depreciation	
Provision for doubtful accounts receivable	
Changes in operating assets and liabilities:	
Accounts receivable	
Inventory	
Prepaid expenses and other current assets	
Other long term assets	
Accounts payable	
Accrued liabilities and other	
Deferred revenue	
Net cash provided by (used in) operating activities	
Cash flows from investing activities:	
Purchases of computer hardware, software and other	
Maturity of short term investments	
Purchase of short term investments	

Net cash used in investing activities..	
Cash flows from financing activities:	
Proceeds from issuance of common stock..	
Proceeds from issuance of common stock (PIPE), net..	
Proceeds from issuance of common stock (AIR)..	
Repayments of capital lease obligations..	
Net cash provided by (used in) financing activities..	
Effect of exchange rate changes on cash..	
Net increase in cash and cash equivalents..	
Cash and cash equivalents, beginning of period..	
Cash and cash equivalents, end of period..	

See accompanying notes to the unaudited condensed consolidated financial statements

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

IPIX Corporation, formerly Internet Pictures Corporation, offers mission critical imaging where visual content is required for the protection of life and property and eCommerce. IPIX conducts its business through three business units that share IPIX's patented technology: IPIX Security, IPIX AdMission and IPIX InfoMedia. The Company's solutions create, process and manage a rich variety of media including still images, Full-360 degree immersive images and video. IPIX Security is a supplier of Full-360 video surveillance technology for critical government and commercial security applications that provide complete and continuous situational awareness. IPIX AdMission offers services that visually enhance online auctions and real estate listings. IPIX InfoMedia supports the creation of Full-360 degree panoramic photography and movies content.

IPIX's extensive intellectual property covers patents for Full-360 imaging, video and surveillance applications and image management.

The accompanying unaudited condensed consolidated financial statements include the accounts of IPIX Corporation and its wholly-owned subsidiaries, Interactive Pictures Corporation, Interactive Pictures UK Limited, Internet Pictures (Canada), Inc. and PW Technology, Inc. The consolidation of these entities will collectively be referred to as the Company or IPIX. All significant intercompany balances and transactions have been eliminated. The Company has ceased operations in its Canadian and United Kingdom subsidiaries and is in the process of liquidation of those subsidiaries.

We have prepared these financial statements, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United State of America have been omitted. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our audited financial statements as of and for the year ended December 31, 2003.

The information furnished reflects all adjustments which management believes are necessary for a fair presentation of our financial position as of June 30, 2004 and the results of our operations for the three and six month periods ended June 30, 2003 and 2004 and our cash flows for the six month periods ended June 30, 2003 and 2004. All such adjustments are of a normal recurring nature. The results of operations for the three and six month periods ended June 30, 2003 and 2004 are not necessarily indicative of the results to be expected for the respective full years.

2. GOING CONCERN CONSIDERATIONS

The accompanying financial statements have been presented in accordance with generally accepted accounting principles, which assume the continuity of the Company as a going concern. During the quarter ended June 30, 2004 and in the prior fiscal years, the Company experienced and continues to experience, certain going concern issues related to cash flow and profitability.

During 2003, the Company changed its relationship with its largest customer, eBay, which represented 87% of revenue for the year ended December 31, 2003. eBay licensed technology from the Company that had previously been used by the Company to provide eBay with recurring services. After 2003, the Company no longer provides any services to eBay. As a result, the Company has a limited operating history as it is operating in 2004 and upon which an evaluation of its business and prospects may be made. In addition, the Company is subject to generally prevailing economic conditions and, as such, the Company's operating results in 2004 will be dependent upon its ability to provide quality products and services, the success of its customers and the appropriations processes of various commercial and governmental entities.

Management believes, however, that the Company has sufficient cash resources to meet its funding needs through at least the next twelve months. The Company finished the second quarter of 2004 with approximately $15.5 million in cash reserves (cash and cash equivalents of $13.5 million, short-term restricted investments of $0.8 million, long-term restricted cash of $0.6 million and short-term investments of $0.6 million). The Company has three business units all at different stages in their development. Management expects to continue to make significant investments in the development, sale and marketing of new products for the security market and in the image management business, which may consume some of the Company's cash reserves.

3. CASH, CASH EQUIVALENTS AND RESTRICTED SHORT TERM INVESTMENTS

We consider all highly liquid debt instruments with a remaining maturity at date of purchase of three months or less to be cash equivalents.

At June 30, 2004, we had a $1.4 million short term investment which matures on June 19, 2005, $0.8 million of which has been provided as collateral for certain capital lease obligations and, accordingly, classified as restricted short term investments. We will renew the investment for successive short term periods until the capital lease obligation restrictions are removed.

4. EQUITY

On April 5, 2004, we completed the sale of 909,090 shares of our common stock, resulting in net proceeds received of approximately $4.9 million, and additional investment rights ("AIR") to purchase another 888,180 shares of our unregistered common stock in a private offering to accredited institutional investors

("PIPE"). The shares of common stock were sold at $5.50 per share and the shares of common stock underlying the AIR are purchasable at $6.05 per share. The AIR is exercisable until September 28, 2004. During the quarter ended June 30, 2004, we issued 88,818 shares of common stock upon exercise of a portion of the AIR. The proceeds to the Company from the AIR exercise were $0.5 million. The common stock and the common stock underlying the AIR have been registered under the Securities Act of 1933, as amended, and may be offered or sold in the United States. The Company's Form S-3 filed on May 5, 2004 provides a description of this transaction and copies of the executed documents.

During the three months ended March 31, 2004, we issued 442,144 shares of common stock upon exercise of stock options. The total proceeds to the Company from the first quarter option exercises were $0.6 million, $0.3 million of which was collected on April 1, 2004. During the quarter ended June 30, 2004, we issued 1,511,680 shares of common stock upon exercise of stock options. The proceeds to the Company from the option exercises were $4.2 million. During the quarter ended June 30, 2004, we sold 91,140 shares of common stock to employees under the IPIX Employee Stock Purchase Plan ("ESPP"). The proceeds to the Company from the ESPP purchases were $0.1 million.

5. INCOME (LOSS) PER COMMON SHARE

Basic income (loss) per common share is computed by dividing net income (loss) available to common stockholders for the period by the weighted average number of shares of common stock outstanding. Net income (loss) available to common stockholders is calculated as the net income (loss) less cumulative preferred stock dividends for the period. If dilutive, the participation right of the preferred stock is reflected in the calculation of basic income (loss) per share using the "if converted" method or the "two class method," if more dilutive. Diluted income (loss) per common share is computed by dividing net income (loss) for the period by the weighted average number of shares of common stock outstanding plus, if dilutive, potential common stock outstanding during the period.

The following table sets forth the computation of basic and dilutive loss per common share for the periods indicated:

(In thousands, except per share)	Three months ended June 30, 2003	Three months ended June 30, 2004
	(unaudited)	
NUMERATOR:		
Net income (loss)..	$ 335	$ (3,403
Preferred stock dividends...	(453)	(224
Net loss available to common stockholders...........................	$ (118)	$ (3,627
DENOMINATOR:		
Weighted average shares outstanding - Basic and diluted...........	7,004	15,894
LOSS PER COMMON SHARE, BASIC AND DILUTED.............................	$ (0.02)	$ (0.23

The following table sets forth potential common shares that are not included in the diluted net loss per common share calculation because to do so would be antidilutive for the three months ended June 30, 2003 and 2004 as a result of the net loss available to common stockholders:

(Shares in thousands)	Three months ended June 30,	
	2003	2004
Stock options	1,248	1,967
Convertible preferred stock	12,893	4,225
Warrants	337	1,917

Not included in the table above, were the following rights to purchase common stock where the average exercise price was greater than the average common share price during the period and, accordingly, they were excluded from diluted net earnings per common share for the three month periods ended June 30, 2003 and 2004:

(Shares in thousands)	Three months e June 30,	
	2003	
Average share price of IPIX common stock	$ 2.76	$
Stock options:		
Average exercise price of options	$ 21.68	$
Shares excluded	929	
Common Warrants (average exercise price $165.33)	137	

6. RESTRUCTURING AND OTHER

During the six months ended June 30, 2004, $0.2 million of payments were made against the Company's restructuring accrual. No additions were made to the accrual during the six months ended June 30, 2004. At June 30, 2004 the remaining balance in the restructuring accrual was $0.2 million.

7. STOCK-BASED COMPENSATION - FAIR VALUE DISCLOSURES

We comply with the disclosure provisions of Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 "Accounting for Stock-based Compensation" ("FAS 123"). We have elected, however, to continue accounting for stock-based compensation issued to employees using Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under APB 25, compensation expense is based on the difference, if any, on the date of grant, between the fair value of our stock and the exercise price of the option. Stock and other equity instruments issued to non-employees have been accounted for in accordance with FAS 123 and Emerging Issues Task Force Issue No. 96-18, "Accounting for Equity Instruments Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods, or Services," and have been valued using the Black-Scholes model.

Pro forma information regarding our net income (loss) is required by FAS 123 and FAS 148 "Accounting for Stock-Based Compensation, Transition and Disclosure", and has been determined as if we had accounted for the stock options under the fair value method of FAS 123.

8

The computations for pro forma basic and diluted loss per share follow:

(In thousands, except per share data)	Three months ended June 30, 2003	2004
	(unaudited)	
Net loss available to common stockholders..........................	$ (118)	$ (3,6
Less total stock-based employee compensation expense determined under fair value based methods for all awards.........	(431)	(9
Adjusted net loss available to common stockholders..................	$ (549)	$ (4,5
Basic and diluted loss per common share:		
Net loss available to common stockholders before pro forma charges..	$ (0.02)	$ (0.2
Net effect of pro forma charges....................................	(0.06)	(0.0
Adjusted net loss per common share available to common stockholders....	$ (0.08)	$ (0.2

Grants under the ESPP have a look-back feature and a 15% discount and accordingly under FAS 123 would have had compensation expense calculated as a result. The fair value disclosure associated with the ESPP grants is included in the fair value pro-forma information above.

8. COMMITMENTS AND CONTINGENCIES

Commitments

The table below shows our contractual obligations as of June 30, 2004:

(In thousands)	Paymen	
	Total	Remainder of 2004
Capital leases..	$ 279	$ 279
Operating leases..	2,728	495
Total...	$ 3,007	$ 774

At June 30, 2004, the Company had $0.6 million of its cash deposits restricted as collateral on a letter of credit for certain co-location facility leases expiring in 2005 and, accordingly, classified as long term restricted cash. In addition, as of June 30, 2004, the Company has prepaid $0.5 million of its obligations to the co-location facility.

Contingencies

On November 15, 2002, a First Amended Consolidated Complaint for violation of federal securities laws was filed against Homestore.com, Inc. ("Homestore") by the California Teachers' Retirement System ("CalSTRS"). The Complaint is a class action lawsuit filed on behalf of stockholders of Homestore which flows from alleged misstatements and omissions made by Homestore and the other named defendants, which include us. The Complaint alleges that during 2001, Homestore and IPIX entered into fraudulent reciprocal transactions intended to artificially bolster and maintain Homestore's and our respective stock prices. The Complaint alleges that Homestore's public statements with respect to these transactions are attributable to us and violate Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. We joined with other co-defendants and filed a joint motion to dismiss, alleging that the Complaint fails to state a claim upon which relief may be granted, among other things. On March 7, 2003, the United States District Court for the District of Central California granted our motion to dismiss, with prejudice. On April 7, 2004, the California Teachers' Retirement System filed a notice of appeal with the United States Court of Appeals for the Ninth Circuit appealing the dismissal of the First Amended Consolidated Complaint for violation of federal securities laws filed against Homestore.com, Inc, us and the other named defendants. On July 22, 2004, CalSTRS and IPIX filed a Stipulation of Dismissal with the Court of Appeals pursuant to which the appeal was dismissed, with prejudice, against IPIX.

In June 2003, we filed a lawsuit against Ford Oxaal and Minds-Eye-View, Inc. in the United States District Court for the Eastern District of Tennessee alleging patent infringement of certain patents and other causes of action. The defendants in the lawsuit have filed counterclaims against the Company in their response to our action. The litigation is in the pre-trial motion stage at the current time.

We are not currently a party to any other legal proceedings the adverse outcome of which, individually or in the aggregate, we believe could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Indemnification Provisions

During the ordinary course of business, in certain limited circumstances, the Company has included indemnification provisions within certain of its contracts. Pursuant to these agreements, the Company will indemnify, hold harmless and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally parties with which the Company has commercial relations, in connection with certain intellectual property infringement claims by any third party with respect to the Company's products and services. To date, the Company has not incurred any costs in connection with such indemnification clauses.

9. SEGMENTS

We currently have three reportable segments. The accounting policies of the segments are the same as those of the Company. Management evaluates the performance of the segments and allocates resources to them based on evaluations of the segment's revenues and gross profit. There are no inter-segment revenues.

We do not make allocations of corporate costs to the individual segments and do not identify separate assets of the segments in making decisions regarding the performance or the allocation of resources to them.

Information about the reported segments is as follows:

(In thousands)	Three months ended June 30, 2003	Three months ended June 30, 2004
Revenue:		
Security	$ 86	$ 404
AdMission	6,058	288
InfoMedia	408	609
Total	$ 6,552	$ 1,301
Gross profit (loss):		
Security	$ 4	$ 116
AdMission	4,290	(272)
InfoMedia	121	312
Total	$ 4,415	$ 156

10. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject us to a concentration of credit risk consist of cash, cash equivalents, short term investments and accounts receivable. Cash, cash equivalents and short term investments are deposited with high quality financial institutions. Our accounts receivable are derived from revenue earned from customers located in the U.S. and abroad. We perform ongoing credit evaluations of our customers' financial condition and we do not require collateral from our customers.

The following table summarizes the revenue from customers in excess of 10% of total revenues:

	Three months ended June 30, 2003	Three months ended June 30, 2004
Homestore	3%	9%
eBay	87%	--%
UK Distributor	--%	35%

At June 30, 2004, Homestore represented 13% of accounts receivable and our UK distributor represented 48% of accounts receivable. There are no amounts due from eBay as of June 30, 2004. At December 31, 2003, Homestore represented 22% and our UK Distributor represented 3% of accounts receivable. There were no amounts due from eBay as of December 31, 2003.

11. LIQUIDATION PREFERENCE AND PREFERRED STOCK DIVIDENDS

On September 26, 2001, Image Investor Portfolio, a separate series of Memphis Angels, LLC ("Image") and certain strategic investors completed the purchase of 1,115,080 shares of the Series B Preferred Stock for total consideration of $22.3 million. Each share of the Series B Preferred Stock is convertible into approximately 9.2 shares of our Common Stock and is entitled to vote on matters submitted to holders of Common Stock on an as-converted basis. At any time that the holders of the Series B Preferred Stock hold more than 50% of our voting stock, a voluntary liquidation, dissolution or winding up of the Company must be approved by at least five of the seven members of our board of directors.

Holders of Series B Preferred Stock, in preference to holders of any other series of Preferred Stock and in preference to the holders of Common Stock (collectively, "Junior Securities"), accrue dividends at the rate of eight percent (8%) of the price paid per annum on each outstanding share of Series B Preferred Stock ("Series B Dividends"). The Series B Dividends are cumulative, accrue daily and shall be payable, when and if declared by the Board, upon conversion or as an accretion to the Liquidation Preference, as defined below. Accrued Series B Dividends may be paid in cash or common stock, at the election of the Series B Preferred stockholder. Holders of Series B Preferred Stock participate on an as-if converted basis in any common stock dividends.

Upon any liquidation event, before any distribution or payment shall be made to the holders of any Junior Securities, the holders of Series B Preferred Stock shall be entitled to be paid out of the assets of the Company legally available for distribution, or the consideration received in such Transaction, an amount per share of Series B Preferred Stock equal to the price paid plus all accrued and unpaid Series B Dividends for each share of Series B Preferred Stock held by them (the "Liquidation Preference"). If, upon any such liquidation event, the assets of the Company are insufficient to make payment in full to all holders of Series B Preferred Stock of the Liquidation Preference, then such assets shall be distributed among the holders of Series B Preferred Stock at the time outstanding, ratably in proportion to the full amounts to which they would otherwise be respectively entitled.

During the second quarter, 613,483 shares of Series B Preferred stock plus accumulated dividends were converted into 6,261,574 shares of the Company's Common Stock. The Company did not receive any proceeds from the conversions. As of June 30, 2004, 390,347 shares of Series B Preferred Stock remain outstanding and the Liquidation Preference was $9.5 million, which includes $1.7 million in accrued dividends in arrears on the Series B Preferred Stock which have not been declared to be paid. During the second quarter, 791 shares of Series B Preferred stock, issued by the exercise of 1,000 shares of the Series B Warrants, were converted into 7,286 shares of the Company's Common Stock. The Company did not receive any proceeds from the Warrant exercise.

12. RELATED PARTY TRANSACTIONS

Transactions with eBay, Inc.

In September 2001, eBay acquired Series B Preferred Stock from the Company and as a result beneficially owned more than 10% of the Company's common stock through April 2004. Pursuant to an agreement dated April 19, 2000, as amended, the Company provided to eBay, Inc. image management services to eBay's online auction Web sites. Pursuant to that agreement, the Company issued eBay a warrant to purchase 60,000 shares of Common Stock at an exercise price of $203.80 per share. The warrant expires on April 19, 2010. Under this agreement, as amended, the Company generated revenue of $5.7 million and $11.1 million for the quarter and six months ended June 30, 2003, respectively. As announced in June 2003, the Company amended the then current commercial agreement with eBay to include a one-time $8.0 million license fee from eBay for IPIX technology and other services. The license fee was recognized by the Company in the fourth quarter of 2003 and the Company no longer provides any products or services to eBay.

The Company's visual content services agreement with eBay required the Company to pay marketing fees to eBay of $16.0 million over a two-year period. As of September 26, 2001, the Company had paid $9.5 million of the $16.0 million commitment and agreed to extend the additional $6.5 million of payments through September 2003. The commitment has been paid in full. In accordance with EITF 01-09, during the quarter and six months ended June 30, 2003, $0.5 million and $1.0 million, respectively, of these fees was offset against revenue which amount represented the excess over the fair value of the benefit received.

In 2001 and 2002, the Company sold to eBay, and eBay leased back to the Company, certain computer equipment utilized to provide image management services to eBay and other customers. The purchase price for the equipment was approximately $5.3 million. The transactions resulted in no gain or loss to the Company. In the six months ended June 30, 2003, we paid eBay $1.0 million pursuant to

11

these lease schedules. In the fourth quarter of 2003, the Company returned the underlying equipment, with a net carrying amount of $0.9 million, associated with these lease obligations and eBay forgave the remaining balances due of $1.1 million.

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

The following discussion is intended to assist in the understanding and assessment of significant changes and trends related to our results of operations and our financial condition together with our consolidated subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K. Historical results and percentage relationships set forth in the statement of operations, including trends which might appear, are not necessarily indicative of future operations.

OVERVIEW

Our Business

Over the past few years, we have restructured the Company around our higher gross margin businesses. We are now organized into three market focused business units: IPIX Security, IPIX AdMission and IPIX InfoMedia.

IPIX Security: Supplies Full-360 video surveillance technology for critical government and commercial security applications. Patent protected technology used in digital video systems that provide complete and continuous situational awareness.

IPIX AdMission: Enables local advertisers with the means to create rich, visual ads showcasing their businesses, products and services. The AdMission platform is implemented on a large scale for managing media across the Internet. It allows advertisers and consumers to successfully conclude commercial transactions by communicating the value of advertised goods and services through accompanying media.

IPIX InfoMedia: Provides for creation of Full-360 degree panoramic photography and movies content. Markets are professional photographers, ad and creative media agencies, Web developers and visual documentation.

Products

CommandView - Two, multi-mega-pixel network cameras, with fisheye lens, patented Full-360 viewing technology and camera management software to provide a unique award-winning 'see everything' video surveillance and security camera system that can see in all directions, simultaneously with no moving parts and no blind spots.

AdMission - A hosted media platform enabling local advertisers to create rich, visual ads showcasing their businesses, products and services. AdMission enhanced ads are an upsell to print classified and display ads. They include logos, photos, fast facts, printable coupons and information about the advertiser's business, products and services. Consumers are rewarded with a convenient informative presentation that appears directly within their search results. AdMission ads communicate product and service offerings effectively and result in better-qualified leads to advertisers.

Interactive Studio - A single integrated solution for panorama photographers that can automate a wide variety of tasks previously requiring separate tools. Makes creating multiple Full-360 degree images as simple as a drag-and-drop of fisheye source images into the application, selecting the output file formats desired and hitting the save button. Features include image editors, image format converter tools and high dynamic range image compositors.

Target Markets

CommandView - Commercial facilities such as banks and retail outlets. Homeland security infrastructure protection related to ports, harbors, waterways, dams, conventional and nuclear power stations, utilities, airports and mass transit rail systems. In the military, perimeter force protection, unmanned vehicles and special operations.

AdMission - Newspaper classified and display advertising (online and print); yellow page directories (online); and local search platforms (online).

Interactive Studio - Visual documentation markets such as facilities management; private and government infrastructure management and service departments; and vertical market data-warehouse solutions providers such as insurance and mapping.

Business Models

IPIX Security: Sell camera systems via world-wide network of distributors. Camera systems will retail from $1,000 to $25,000, depending upon configuration. Traditional distributor discounts will apply (25 to 35%).

IPIX AdMission: Partner with publishers and software vendors of the publishing industry. Recurring revenue share on premiums charged for visually enhanced ads. Fixed infrastructure support costs, with very low marginal cost as volumes grow.

IPIX InfoMedia: Market software platform and supporting hardware products primarily over the internet.

Business Trends and Conditions

On March 31, 2004, our Security business unit launched a new family of Full-360 degree real-time video camera systems. Shipment of these products to distributors began in late June 2004. These new camera systems will generate revenues from their sale primarily to distributors. We continue to develop additional products for the security and surveillance market.

Substantially all of our recurring revenue in the past was derived from transaction fees generated by our AdMission business unit. In particular, eBay represented approximately 87% and 85% of total revenue for the quarter and six months ended June 30, 2003, respectively. We no longer provide any products or services to eBay as of November 1, 2003. Since April 1, 2004, we have continued to diversify and add additional AdMission customers and have launched two new products: AdMission Classifieds and AdMission Directories which are currently targeted at newspaper and yellow page publishers for online and in-print classified advertising and other business opportunities.

Our Full-360 degree technology used by the InfoMedia business unit primarily generates revenues in two ways: licenses of software and the resale of camera equipment. In the past, we utilized "keys" to license our InfoMedia technology to capture and save a single immersive image. With the launch of Interactive Studios in the first quarter of 2004, we now offer time-based seat or user licenses which permit an unlimited number of immersive images to be captured and saved within a specific time period, usually a year. We sell our Full-360 products primarily into the real estate, travel and hospitality and visual documentation markets. The cost of sales for our licenses is low in proportion to the related revenue. The cost of sales for the sale of camera equipment has generally been 50% to 75% of related revenues.

We also provide professional services to customers that request specific customizations or integrations of our products and services. Providing professional services is labor intensive and our cost of sales for professional service tends to be 40% to 60% of revenues.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, uncollectible receivables and other long-lived assets and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements: revenue recognition; valuation allowances, specifically the allowance for doubtful accounts; and other long-lived assets; and significant accruals. We believe that full consideration has been given to all relevant circumstances that we may be subject to, and our financial statements accurately reflect management's best estimate of the results of operations, financial position and cash flows for the periods presented.

Management has discussed the development and selection of the following critical accounting policies, estimates and assumptions with the Audit Committee of our Board of Directors and the Audit Committee has reviewed these disclosures. We believe the following represent our critical accounting policies:

Revenue Recognition

We recognize revenue in accordance with SOP 97-2, "Software Revenue Recognition" and Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements." We derive revenue from product sales and services we provide to customers. Product revenue includes InfoMedia hardware and licenses, IPIX Security hardware and licenses, as well as AdMission license revenue. Service revenues are primarily from transactions where a seller uses IPIX image management products to enhance their on-line offering.

Product revenue is recognized upon shipment or delivery provided there are no uncertainties surrounding product acceptance, persuasive evidence of an arrangement exists, there are no significant vendor obligations, the fees are fixed or determinable and collection is reasonably assured. Initial license fees are recognized when a contract exists, the fee is fixed or determinable, software delivery has occurred and collection of the receivable is reasonably assured. If there are continuing obligations, then license fees are recognized ratably over the life of the contract. Revenue from product sales to distributors is recognized upon shipment ("sell-in") if the distributor relationship does not create substantial uncertainty regarding fixed or determinable fees and collectibility. If at the outset of an arrangement we determine the arrangement fee is not, or is presumed to not be, fixed and determinable, revenue is deferred and subsequently recognized as amounts become due and payable.

Transaction hosting revenues are recognized ratably as transactions are performed provided there was persuasive evidence of an arrangement, the fee was fixed or determinable and collection of the resulting receivable was reasonably assured. Revenues generated from professional services are recognized as the related services are performed. When such professional services are combined with on-going transaction services or are deemed to be essential to the functionality of the delivered software product, revenue from the entire arrangement is recognized while the transaction services are performed, on a percentage of completion method or not until the contract is completed in accordance with SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts," and ARB No. 45, "Long-Term Construction-Type Contracts." Reimbursements received for out-of-pocket expenses incurred are characterized as revenue in the statement of operations.

Where multiple elements exist in an arrangement, the arrangement fee is allocated to the different elements based upon verifiable objective evidence of the fair value of the elements, as governed under EITF 00-21, which is codified in SEC Staff Accounting Bulletin No. 104 "SAB 104." Multiple element arrangements primarily involve an arrangement with professional services and transaction hosting. Revenue is recognized as each element is earned, namely upon completion of the services, provided that the fair value of the undelivered element(s) has been determined, the delivered element has stand-alone value, there is no right of return on delivered element(s), and we are in control of delivery of the undelivered element(s).

Royalties derived from desktop imaging products were recognized as revenues upon receipt of the royalty sell-through reports from customers, which are generally in the quarter following the quarter in which the sale by the customer took place.

Payments received in advance are initially recorded as deferred revenue and recognized as obligations are fulfilled.

Allowances for Doubtful Accounts

Significant management judgments and estimates must be made and used in connection with establishing the doubtful account allowances in any accounting period. Management specifically analyzes accounts receivable and historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. Material differences could result in the amount and timing of expense recorded if management had different judgment or utilized different estimates.

Goodwill

During the fourth quarter of 2003, certain events, including the end of the agreement with eBay, led the Company to perform an impairment review of goodwill. The eBay agreement ended in November 2003 and was the primary source of cash flows for the technology associated with goodwill in the AdMission business unit. This review indicated that goodwill was being carried at

amounts in excess of the fair value based on estimated discounted future cash flows of the AdMission business unit. As a result, an impairment charge was recorded to expense in the year ended December 31, 2003. No balance remains in goodwill.

Significant Accruals, including Restructuring Charges and Sales Tax

We recorded restructuring charges associated with vacated facilities. The key assumptions associated with these charges include the timing and amount of sub-lease income. In addition, in establishing and providing for sales tax accruals, we make judgments based on the actual tax laws and guidance. While management believes that its judgments and interpretations regarding tax liabilities are appropriate, significant differences in actual experience may materially affect our future financial results.

RESTRUCTURING ACTIONS

During the years ended December 31, 2000 thru December 31, 2003, the Company executed several restructuring actions and recorded related charges during each of those fiscal years. During the three and six months ended June 30, 2004, $0.1 million and $0.2 million, respectively, of payments were made against the Company's restructuring accrual. No additions were made to the accrual during the three or six months ended June 30, 2004. At June 30, 2004, the remaining balance in the restructuring accrual was $0.2 million.

RESULTS OF OPERATIONS

Financial results from prior periods are not useful in comparison to 2004 results because of the previously announced amendment of the Company's service agreements with eBay to a one-time 2003 license fee and since the Company launched its security business products in the second quarter of 2004. The following table presents, for the periods indicated, the percent relationship to total revenues of select items in our statements of operations.

	Three months ended June 30,	
	2003	2004
Revenue:		
Security	1.3%	31.1%
AdMission	92.5	22.1
InfoMedia	6.2	46.8
Total revenue	100.0	100.0
Cost of revenue:		
Security	1.2	22.1
AdMission	27.0	43.1
InfoMedia	4.4	22.8
Total cost of revenue	32.6	88.0
Gross profit	67.4	12.0
Operating expenses:		
Sales and marketing	31.2	127.1
Research and development	17.9	76.6
General and administrative	12.7	71.1
Total operating expenses	61.8	274.8
Income (loss) from operations	5.6	(262.8)
Other	(0.5)	1.2
Net income (loss)	5.1%	(261.6)

15

Quarter Ended June 30, 2003 Compared to the Quarter Ended June 30, 2004

(Dollars in thousands)	Three months e June 30,	
	2003	
Revenue:		
Security	$ 86	$
AdMission	6,058	
InfoMedia	408	

Total revenue	6,552
Cost of revenue:	
Security	82
AdMission	1,768
InfoMedia	287
Total cost of revenue	2,137
Gross profit	4,415
Operating expenses:	
Sales and marketing	2,044
Research and development	1,168
General and administrative	834
Total operating expenses	4,046
Income (loss) from operations	369
Other	(34)
Net income (loss)	$ 335

Revenue.

Security: On March 31, 2004, the Security business unit launched its new family of Full-360 degree security cameras. Prior to this launch, the Security business unit had primarily been developing the products and testing them in field beta trials. The first finished products were shipped during late June, 2004.

AdMission: Decreased in the quarter ended June 30, 2004 over the quarter ended June 30, 2003 due to decreased volumes of images processed, primarily related to the change in relationship with eBay as of November 2003.

InfoMedia: Increased in the quarter ended June 30, 2004 over the quarter ended June 30, 2003 primarily due to the increased sales of the new software platform launched in the first quarter of 2004.

Cost of Revenue.

Security: Cost of revenues consists of the costs to purchase and assemble the components of the video cameras sold during the quarter. In second quarter 2003, the business unit recognized virtually no revenues or cost of revenues.

AdMission: Cost of revenue consists of our direct expenses associated with the processing, hosting and distribution of digital content. With the reduced volumes of images to process during the second quarter of 2004 relative to the second quarter of 2003, the AdMission business unit decreased depreciation expense by reducing the capital committed to image processing ($0.7 million), lowered its purchase of bandwidth and managed care services from third party co-location facilities ($0.4 million) and reduced the number of personnel and other expenses incurred in the management of the network ($0.1 million). Gross profit in the second quarter of 2004 was negative because of fixed costs associated with the running and management of the network.

InfoMedia: Cost of revenues consists of the costs of the digital camera and related components included in an InfoMedia kit. Cost of revenue in the second quarter of 2004 was approximately unchanged relative to

2003. Cost of revenue as a percent of revenue decreased from 71% in the second quarter of 2003 to 49% in the second quarter of 2004 primarily because of the increase in software sales due to the launch of its new software platform in the first quarter of 2004.

Sales and Marketing. Sales and marketing expenses consist primarily of salaries for marketing, sales and business development personnel. Sales and marketing expenses also include commissions and related benefits for sales personnel and consultants, traditional advertising and promotional expenses. Sales and marketing expenses decreased in the quarter ended June 30, 2004 over the quarter ended June 30, 2003, primarily due to the changed relationship with eBay ($0.7 million) offset by an increase in growth of sales and marketing activities in our Security business unit ($0.3 million).

Research and Development. Research and development expenses consist primarily of personnel costs related to building and enhancing our digital media infrastructure and immersive imaging technology. Research and development expenses decreased in the quarter ended June 30, 2004 over the quarter ended June 30, 2003, due to the changed relationship with eBay ($0.4 million), offset by an increase in growth of research and development for our new family of Full-360 degree security cameras ($0.2 million).

General and Administrative. General and administrative expenses consist primarily of salaries and related benefits for administrative and executive staff, fees for outside professional services and other costs associated with being a public company. General and administrative expenses increased in the quarter ended June 30, 2004 over the quarter ended June 30, 2003 primarily as a result of additional expenses incurred in association with compliance with public company regulations, including Sarbanes-Oxley.

Six Months Ended June 30, 2003 Compared to the Six Months Ended June 30, 2004

	Six months en June 30,	
(Dollars in thousands)	2003	
Revenue:		
Security	$ 91	$
AdMission	11,660	
InfoMedia	1,192	
Total revenue	12,943	
Cost of revenue:		
Security	86	
AdMission	3,550	
InfoMedia	625	
Total cost of revenue	4,261	

Gross profit	8,682	---
Operating expenses:		
Sales and marketing	3,805	
Research and development	2,428	
General and administrative	1,663	
Total operating expenses	7,896	
Income (loss) from operations	786	(
Other	(83)	
Net income (loss)	$ 703	$ (

Revenue.

Security: On March 31, 2004, the Security business unit launched its new family of Full-360 degree security cameras. Prior to this launch, the Security business unit had primarily been developing the products and testing them in field beta trials. The first finished products were shipped during late June, 2004.

AdMission: Decreased in the six months ended June 30, 2004 over the six months ended June 30, 2003 due to decreased volumes of images processed, primarily related to the change in relationship with eBay as of November 2003.

InfoMedia: During the first six months of 2003, InfoMedia recognized $0.3 million in royalties while in the first six months of 2004 the group recognized virtually no royalty revenues. In February 2004, InfoMedia launched Interactive Studios to eventually replace the sale of one-use keys, which generated royalty income in 2003. This decrease in revenues in 2004 was offset by sales of the new products launched in the first quarter of 2004.

17

Cost of Revenue.

Security: Cost of revenues consists of the costs to purchase and assemble the components of the video cameras sold during the period. In 2003, the business unit recognized virtually no revenues or cost of revenues.

AdMission: Cost of revenue consists of our direct expenses associated with the processing, hosting and distribution of digital content. With the reduced volumes of images to process during the first six months of 2004 relative to the first six months of 2003, the AdMission business unit decreased depreciation expense by reducing the capital committed to image processing ($1.3 million), lowered its purchase of bandwidth and managed care services from third party co-location facilities ($0.7 million) and reduced the number of personnel and other expenses incurred in the management of the network ($0.3 million). Gross profit in the first six months of 2004 was negative because of fixed costs associated with the running and management of the network.

InfoMedia: Cost of revenues consists of the costs of the digital camera and related components included in an InfoMedia kit. Cost of revenue declined in the first six months of 2004 relative to 2003, primarily due to fewer kit sales and change in product mix between hardware and software. Cost of revenue as a percent of revenue increased from 53% in the first six months of 2003 to 55% in the first six months of 2004 primarily because in the first six months of 2003 the group recognized

$0.3 million of royalties, which have no cost of revenues, where as in the first six months of 2004 the group recognized virtually no royalty revenues. The remaining difference in cost of revenues between the first six months is related to product mix of the types of camera kits sold.

Sales and Marketing. Sales and marketing expenses consist primarily of salaries for marketing, sales and business development personnel. Sales and marketing expenses also include commissions and related benefits for sales personnel and consultants, traditional advertising and promotional expenses. Sales and marketing expenses decreased in the six months ended June 30, 2004 over the six months ended June 30, 2003, primarily due to the changed relationship with eBay ($1.3 million) offset by an increase in growth of sales and marketing activities in our Security business unit ($0.5 million).

Research and Development. Research and development expenses consist primarily of personnel costs related to building and enhancing our digital media infrastructure and immersive imaging technology. Research and development expenses decreased in the six months ended June 30, 2004 over the six months ended June 30, 2003, due to the result of the changed relationship with eBay ($0.8 million), offset by an increase in growth of research and development for our new family of Full-360 degree security cameras ($0.3 million).

General and Administrative. General and administrative expenses consist primarily of salaries and related benefits for administrative and executive staff, fees for outside professional services and other costs associated with being a public company. General and administrative expenses decreased in the six months ended June 30, 2004 over the six months ended June 30, 2003, due to the decrease in personnel costs and outside professional services ($0.2 million), partially offset by increased costs of being a public company ($0.1 million).

LIQUIDITY AND CAPITAL RESOURCES

Since inception, we have financed our operations through our registered public offerings, the private placements of capital stock, a convertible debenture, a convertible promissory note and warrant and option exercises. At June 30, 2004, we had $15.5 million of cash, restricted cash and short term investments, of which $1.4 million was restricted.

Summary Consolidated Cash Flow Data

(In thousands)	Three months ended June 30, 2003	Three months ended June 30, 2004
Net cash provided by (used in) operating activities	$ 3,636	$ (3,339)
Net cash used in investing activities	(90)	(37)
Net cash provided by (used in) financing activities	406	9,862
Effect of exchange rate changes on cash	(1)	--
Net increase (decrease) in cash and cash equivalents	3,951	6,472
Cash and cash equivalents, beginning of period	4,729	6,981
Cash and cash equivalents, end of period	$ 8,680	$ 13,453

Cash flows from operating activities in the second quarter of 2004, reflects a net loss of $3.4 million, compared to net income of $0.3 million in the second quarter of 2003. Our net income for the three months ended June 30, 2003 included $0.9 million of non-cash depreciation charges, whereas the three months ended June 30, 2004 included $0.2 million of such charges. During the second quarter of 2003, the Company had positive net cash flows from working capital of $3.6 million, primarily as a result of $3.0 million for the collection of deferred revenue in the second quarter. During the second quarter of 2004, the Company invested $0.1 million in additional working capital for its three business units.

Net cash used in investing activities in the second quarter of 2004 and 2003 was primarily related to the acquisition of computer software and hardware.

Net cash provided by financing activities in the second quarter of 2004 was primarily related to $4.9 million of net proceeds from the private placement of common stock in April 2004, $0.5 million of proceeds from an AIR exercise, $4.5 million of proceeds from the exercise of stock options, $0.1 million of proceeds from the sale of common stock to employees under the Company's ESPP, net of $0.1 million of payments made on capital lease obligations. Net cash provided by financing activities in the second quarter of 2003 related to $1.0 million of proceeds from the exercise of stock options, net of $0.6 million of payments on capital lease obligations. The capital lease payments in 2003 were larger than in 2004 because in the fourth quarter of 2003, the Company returned equipment under lease from eBay in exchange for the retirement of the remaining obligations under the leases.

Cash flows from operating activities in the six months of 2004, reflects net loss of $6.6 million, compared to a net income of $0.7 million the six months of 2003. Our net income for the six months ended June 30, 2003 included $1.9 million of non-cash depreciation charges, whereas the six months ended June 30, 2004 included $0.5 million of such charges. During the six months of 2003, the Company had positive net cash flows from working capital of $4.1 million, primarily as a result of $3.0 million for the collection of deferred revenue in the second quarter. During the six months of 2004, the Company invested $0.6 million in additional working capital for its three business units.

Net cash used in investing activities in the six months of 2004 and 2003 was primarily related to the acquisition of computer software and hardware.

Net cash provided by financing activities in the six months of 2004 was primarily related to $4.9 million of net proceeds from the private placement of common stock in April 2004, $0.5 million of proceeds from AIR exercise, $4.8 million of proceeds from the exercise of stock options, $0.1 million of proceeds from the sale of common stock to employees under the Company's ESPP, net of $0.3 million of payments made on capital lease obligations. Net cash used in financing activities in the six months of 2003 related to $1.0 million of proceeds from the exercise of stock options, net of $1.3 million payments on capital lease obligations. The capital lease payments in 2003 were larger than in 2004 because in the fourth quarter of 2003, the Company returned equipment under lease from eBay in exchange for the retirement of the remaining obligations under the leases.

During the quarter ended June 30, 2004 and in the prior fiscal periods, the Company experienced certain going concern issues related to cash flow and profitability. During the first six months of 2004, the Company has generated approximately $10 million in cash from the sale of its common stock. In addition, the Company believes that it will improve its operating cash flows through the sale of new products launched in the first six months of 2004.

During 2003, the Company changed its relationship with its largest customer, eBay, which represented 87% of revenue for the year ended December 31, 2003. eBay licensed technology from the Company that had previously been used by the Company to provide eBay with recurring services. After 2003, the Company no longer provides any services to eBay. As a result, the Company has a limited operating history as it will operate in 2004 and upon which an evaluation of its business and prospects may be made. In addition, the Company is subject to generally prevailing economic conditions and, as such, the Company's operating results in 2004 will be dependent upon its ability to provide quality products and services, the success of its customers and the appropriations processes of various commercial and governmental entities.

Management believes, however, that the Company has sufficient cash resources to meet its funding needs through at least the next twelve months. The Company finished the second quarter of 2004 with approximately $15.5 million in cash reserves (cash and cash equivalents of $13.5 million, short-term restricted investments of $0.8 million, long-term restricted cash of $0.6 million and short-term investments of $0.6 million). The Company has three business units all at different stages in their development. Management expects to continue to make significant investments in the development, sale and marketing of new products for the security market and in the image management business, which may consume some of the Company's cash reserves.

Management's focus is to manage our cash requirements and focus our operations on revenue generation and controlled spending. Our long-term strategy remains unchanged. We will continue to invest in research and development for our Security and image management products and in the expansion of our distribution channels for security and the offline publications and online classified advertising businesses.

INFLATION

Inflation has not had a significant impact on our operations to date.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of June 30, 2004, we had $15.5 million of cash, cash equivalents, short-term and long-term restricted cash and short-term investments. Our interest income is sensitive to changes in the general level of United States interest rates, particularly since the majority of our investments are in short-term instruments. Due to the nature of our short-term investments, we concluded that we do not have material market risk exposure.

Item 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. Our chief executive officer and chief financial officer have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-14(c)) as of the end of the period covered by this quarterly report. Based on that evaluation, the chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective to ensure that material information relating to the Company and our consolidated subsidiaries is made known to such officers by others within these entities, particularly during the period for which this quarterly report was prepared, in order to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls. There have not been any significant changes in our internal controls or in other factors during the period covered by this quarterly report that materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

FORWARD-LOOKING STATEMENTS

This quarterly report contains statements about future events and expectations which are characterized as forward-looking statements. Forward-looking statements are based on our management's beliefs, assumptions and expectations of our future economic performance, taking into account the information currently available to them. These statements are not statements of historical fact. Forward-looking statements involve risks and uncertainties that may cause our actual results, performance or financial condition to be materially different from the expectations of future results, performance or financial condition we express or imply in any forward-looking statements. Factors that could contribute to these differences include those discussed in "Risk Factors" of our annual report on Form 10-K filed with the SEC on March 31, 2004.

The words "believe", "may", "will", "should", "anticipate", "estimate", "expect", "intends", "objective" or similar words or the negatives of these words are intended to identify forward-looking statements. We qualify any forward-looking statements entirely by these cautionary factors.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Item 3, Legal Proceedings in our Annual Report on Form 10-K. On April 7, 2004, the California Teachers' Retirement System ("CalSTRS") filed a notice of appeal with the United States Court of Appeals for the Ninth Circuit appealing the dismissal of the First Amended Consolidated Complaint for violation of federal securities laws filed against Homestore.com, Inc, us and the other named defendants. On July 22, 2004, CalSTRS and IPIX filed a Stipulation of Dismissal with the Court of Appeals pursuant to which the appeal was dismissed, with prejudice, against IPIX.

Item 2. Changes In Securities And Use Of Proceeds

On April 5, 2004, we completed the sale of 909,090 shares of our common stock, resulting in net proceeds received of approximately $4.9 million, and additional investment rights ("AIR") to purchase another 888,180 shares of our unregistered common stock in a private offering to accredited institutional investors ("PIPE"). The shares of common stock were sold at $5.50 per share and the shares of common stock underlying the AIR are purchasable at $6.05 per share. The AIR is exercisable until September 28, 2004. During the quarter ended June 30, 2004, we issued 88,818 shares of common stock upon exercise of the part of the AIR. The proceeds to the Company from the AIR exercise were $0.5 million. The common stock and the common stock underlying the AIR have been registered under the Securities Act of 1933, as amended, and may be offered or sold in the United States. The Company's Form S-3 provides a description of this transaction and copies of the executed documents.

During the three months ended March 31, 2004, we issued 442,144 shares of common stock upon exercise of stock options. The total proceeds to the Company from the first quarter option exercises were $0.6 million, $0.3 million of which was collected on April 1, 2004. During the quarter ended June 30, 2004, we issued

1,511,680 shares of common stock upon exercise of stock options. The proceeds to the Company from the option exercises were $4.3 million. During the quarter ended June 30, 2004, we sold 91,140 shares of common stock to employees under the IPIX Employee Stock Purchase Plan ("ESPP"). The proceeds to the Company from the ESPP purchases were $0.1 million.

During the second quarter, 613,483 shares of Series B Preferred stock plus accumulated dividends were converted into 6,261,574 shares of the Company's Common Stock. The Company did not receive any proceeds from the conversions. As of June 30, 2004, 390,347 shares of Series B Preferred Stock remain outstanding. During the second quarter, 791 shares of Series B Preferred stock, issued by the exercise of 1,000 shares of the Series B Warrants, were converted into 7,286 shares of the Company's Common Stock. The Company did not receive any proceeds from the Warrant exercise.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission Of Matters To A Vote Of Security Holders

On May 4, 2004, we held the annual meeting of our stockholders to vote upon the election of directors. The common stockholders voted to elect two directors to serve until the 2007 annual meeting of stockholders. Our common stockholders elected Laban P. Jackson to the Board of Directors by a vote of 6,575,379 for, 12,383 against, and 0 abstentions and broker non-votes. Our common stockholders also elected Donald W. Strickland to the Board of Directors by a vote of 6,575,166 for, 12,597 against, and 0 abstentions and broker non-votes. Andrew P. Seamons was elected to the Board of Directors by the holders of our Series B Preferred Stock by a vote of 8,331,053 as-converted common shares for, 0 against and 0 abstentions and broker non-votes.

David M. Wilds and Michael D. Easterly continue to serve as members of the board of directors until their terms expire at the annual meeting of stockholders in 2005.

Item 5. Other Information

None.

Item 6. Exhibits And Reports On Form 8-K

Exhibit Number	Exhibit Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

Reports On Form 8-K

The Company filed the following Current Reports on Form 8-K during the quarter ended June 30, 2004:

Date Filed	Event Reported
April 7, 2004..........	Item 5. Announcing IPIX agreed to sell 909,090 shares of its unregis
April 16, 2004.........	Items 7 and 12. Earnings release regarding financial results for the
June 18, 2004..........	Item 4. Announcing dismissal by our Audit Committee of Pricewaterhou and the engagement of Armanino McKenna LLP to serve as our accountant 2004.

IPIX CORPORATION
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: July 23, 2004

IPIX CORPORATION
(Registrant)

/s/ Paul Farmer

Paul Farmer
Authorized Officer
Chief Financial Officer and
Chief Accounting Officer

IPIX CORPORATION
INDEX TO EXHIBITS FOR FORM 10-Q
FOR QUARTER ENDED JUNE 30, 2004

EXHIBIT NO.	EXHIBIT DESCRIPTION
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer