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ION NETWORKS INC
Form 8-K
March 26, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported): March 18, 2003

ION NETWORKS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

000-13117

22-2413505

(State or Other Jurisdiction
of Incorporation)

(Commission File Number)

(I.R.S. Employer
Identification No.)

1551 South Washington Avenue
Piscataway, New Jersey

08854

(Address of Principal Executive Offices) (Zip Code)

(Registrant's telephone number, including area code): (732) 529-0100

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Item 5. Other Events.

On March 18, 2003, ION Networks, Inc. (the "Company") issued a press release announcing its financial results for the three month and nine month periods ended December 31, 2002. A copy of the press release, which is incorporated by reference herein and made a part hereof, is filed with this Current Report on Form 8-K as Exhibit 99.1.

On March 24, 2003, the Company issued a press release announcing it will be delisted from the Nasdaq SmallCap Market at the opening of business on March 28, 2003. A copy of the press release, which is incorporated by reference herein and made a part hereof, is filed with this Current Report on Form 8-K as Exhibit 99.2.

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Item 7. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Not applicable.

(b) Not applicable.

(c) EXHIBITS.

| EXHIBIT NO. ----- | DESCRIPTION ----- |
|----------------------|---|
| 99.1 | Press Release of the Company dated March 18, 2003, announcing its financial results for the three month and nine month periods ended December 31, 2002. |
| 99.2 | Press Release of the Company dated March 24, 2003, announcing it will be delisted from the Nasdaq SmallCap Market at the opening of business on March 28, 2003. |

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 hereunto duly authorized.

Date: March 26, 2003

ION NETWORKS, INC.

By: /S/ CAMERON SAIFI

Cameron Saifi
Executive Vice President and Chief
Operating Officer

EXHIBIT INDEX

| EXHIBIT NO. ----- | DESCRIPTION ----- |
|----------------------|--|
| 99.1 | Press Release of the Company dated March 18, 2003. |
| 99.2 | Press Release of the Company dated March 24, 2003. |

EXHIBIT 99.1

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ION NETWORKS REPORTS FINANCIAL RESULTS FOR 3 MONTH AND 9 MONTH PERIODS ENDED DECEMBER 31, 2002

PISCATAWAY, N.J March 18, 2003--ION Networks Incorporated (Nasdaq: IONN), a leading provider of security and management solutions that protect critical infrastructure from internal and external security threats, today announced results for the fiscal fourth quarter and year ended December 31, 2002.

Net sales for the quarter ended December 31, 2002 were approximately \$853,000 compared to approximately \$1.5 million in the previous quarter ended September 30, 2002. Net sales were approximately \$2.2 million in the quarter ended December 31, 2001.

The Company incurred a net loss for the quarter ended December 31, 2002 of approximately \$2.2 million or \$0.10 per share, which includes restructuring and impairment of asset charges of \$508,000 or \$0.02 per share. This compares with a net loss of approximately \$1.35 million or \$0.06 per share for the previous quarter and approximately \$1.4 million or \$0.07 per share for the quarter ended December 31, 2001.

| | Three months Ended (Unaudited) | | Nine Months Ended (Unaudited) | |
|--------------------------|-----------------------------------|-----------|----------------------------------|-----------|
| | 12/31/02 | 12/31/01 | 12/31/02 | 12/31/01 |
| Net sales | \$ 853 | \$ 2,214 | \$ 3,335 | \$ 5,214 |
| Operating Loss | \$(2,460) | \$(1,647) | \$(5,877) | \$(6,524) |
| Net loss | \$(2,220) | \$(1,372) | \$(5,628) | \$(5,110) |
| Net loss per share | \$ (0.10) | \$ (0.07) | \$ (0.25) | \$ (0.10) |
| Basic and diluted shares | 23,318 | 18,543 | 22,843 | 18,543 |

In 000s except "per share" amounts

For the quarter ended December 31, 2002, gross margins fell to 40 percent, compared to 63 percent for the previous quarter and 51 percent for the quarter ended December 31, 2001. The anticipated gross margin of 65 percent for the quarter ended December 31, 2002 was not achieved as a result of the discontinuation of ION Secure 3200 appliances and the lower than expected revenues in that quarter.

"The challenges that continue to weigh on the technology sector have slowed our progress in achieving our objective to reach break-even," commented Kam Saifi, ION Network's President and CEO. "While our pipeline continues to advance, the sales cycle remains extended far beyond normal terms. As we negotiate the task of restarting the company amid unfavorable market conditions, we firmly believe ION has the potential to emerge as a leader in the security market with its unique and differentiated solutions. For ION to continue its operations, our

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immediate plans are (a) to secure approximately \$1 million in additional capital and (b) very carefully managing operating costs. As more companies become cognizant of their intellectual property's vulnerability to expensive and time-consuming security breaches, we expect the significance of ION's comprehensive solution to gain further market penetration."

CONFERENCE CALL

ION Networks will host a conference call at 5 p.m. (EST) today, Tuesday, March 18, to discuss the Company's financial results for the quarter. The conference call can be accessed by dialing 888-214-7563 and providing the following reservation number: 21130260. It is recommended that participants call at least 10 minutes before the call is scheduled to begin.

ABOUT ION NETWORKS

ION Networks, Inc. is a leading provider of security and management solutions that protect critical information and infrastructure from internal and external security threats. The ION Secure suite helps customers protect critical infrastructure and maximize operational efficiency while lowering operational costs. ION Networks' customers include AT&T, Bank of America, British Telecom, Citigroup, Entergy, Fortis Bank, Oracle, Sprint and the U.S. Government. Headquartered in Piscataway, New Jersey, the Company has installed tens of thousands of its products worldwide.

More information can be obtained from WWW.ION-NETWORKS.COM.

ION Networks(TM) and ION Secure(TM) are trademarks of ION Networks, Incorporated. All other trademarks and registered trademarks in this document are the properties of their respective owners.

Any statements contained in this press release that do not describe historical facts may constitute forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Any forward-looking statements contained herein are based on current expectations, but are subject to a number of risks and uncertainties. These statements include, but are not limited to, statements regarding the Company's plans to secure additional capital and the Company's ability to gain further market recognition. The factors that could cause actual future results to differ materially from the forward-looking statements include the following: fluctuations in customer demand; changes in the Company's sales force and management; fluctuations in spending on technology generally and security solutions in particular; insufficiency of operating capital; general economic conditions (both domestic and abroad); the rapid technological change which characterizes the Company's markets; the risks associated with competition; the risks associated with the expansion of the Company's sales channels; the risk of new product introductions and customer

acceptance of new products; the risks associated with international sales as the Company expands its markets; and the ability of the Company to compete successfully in the future, as well as other risks identified in the Company's Securities and Exchange Commission Filings, including but not limited to those appearing within the Company's most recent Form 10-KSB and amendments thereto, and form 10-QSB, respectively filed with the Securities and Exchange Commission on August 21, 2002 and November 14, 2002.

***** Financial Tables Follow *****

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ION NETWORKS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

| | For the Three Months Ended December 31, 2002 | December 31, 2001 | For the Nine Months December 31, Dec 2002 |
|---|--|----------------------|---|
| Net sales | \$852,692 | \$2,214,216 | \$3,335,160 |
| Cost of sales | \$513,969 | \$1,092,872 | \$ 1,428,037 |
| Gross margin | 338,723 | 1,121,344 | 1,907,123 |
| Research and development expenses | 250,319 | 211,929 | 766,521 |
| Selling, general and administration expenses | 1,768,224 | 1,870,157 | 5,519,665 |
| Restructuring, asset impairment and other charges | 508,458 | 217,467 | 662,828 |
| Depreciation and amortization expenses | 271,748 | 468,830 | 835,315 |
| Total Operating Expense | 2,798,749 | 2,768,383 | 7,784,329 |
| Loss from operations | (2,460,026) | (1,647,039) | (5,877,206) |
| Other Income | 236,728 | 264,725 | 236,728 |
| Interest income | 11,584 | 17,932 | 36,781 |
| Interest expense | (8,022) | (7,510) | (19,524) |
| Loss before income tax expense | (2,219,736) | (1,371,892) | (5,623,221) |
| Income tax expense | - | - | 5,301 |
| Net loss | \$ (2,219,736) | \$ (1,371,892) | \$ (5,628,522) |
| PER SHARE DATA | | | |
| Net loss per share | | | |
| Basic & diluted | \$ (0.10) | \$ (0.07) | \$ (0.25) |
| Weighted average number of common shares outstanding: | | | |
| Basic & diluted | 23,317,620 | 18,542,991 | 22,843,009 |

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ION NETWORKS, INC AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| | DECEMBER 31, 2002 | DECEMBER 31, 2001 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 865,684 | \$ 1,746,632 |
| Accounts receivable, net of allowance for doubtful accounts of \$90,521 and \$148,781 respectively | 561,762 | 1,475,021 |
| Inventory, net | 1,259,268 | 1,436,102 |
| Prepaid expenses and other current assets | 203,934 | 255,609 |
| Related party notes receivable | - | 98,537 |
| Total current assets | 2,890,648 | 5,011,901 |
| Restricted cash | 125,700 | 375,000 |
| Property and equipment, net | 485,735 | 948,248 |
| Capitalized software, less accumulated amortization of \$3,920,223 and \$3,197,791 respectively | 764,429 | 967,120 |
| Goodwill and other acquisition related intangibles, less accumulated amortization of \$1,000,000 and \$963,021 respectively | - | 63,523 |
| Other assets | 14,878 | 19,588 |
| | \$4,281,390 | \$ 7,385,380 |
| | \$4,281,390 | \$ 7,385,380 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Current portion of capital leases | \$ 87,057 | \$ 74,426 |
| Current portion of long-term debt | 4,004 | 61,320 |
| Accounts payable | 1,195,023 | 1,128,145 |
| Accrued expenses | 906,154 | 397,035 |
| Accrued payroll and related liabilities | 185,358 | 668,625 |
| Deferred income | 155,021 | 179,381 |
| Other current liabilities | 173,342 | 296,782 |
| | 2,705,959 | 2,805,714 |
| Total current liabilities | 2,705,959 | 2,805,714 |
| Long-term portion of capital leases | 73,551 | 165,775 |
| Long-term debt, net of current portion | 5,717 | 8,702 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock-par value \$.001 per share; authorized shares - 1,000,000 at December 31, 2002 and 2001, designated shares - 200,000 at December 31, 2002 and none at December 31, 2001; issued and outstanding 166,835 at December 31, 2002 & none at December 31, 2001 | 167 | - |
| Common stock, par value \$.001 per share; authorized shares 50,000,000, issued and outstanding 24,875,500 shares at December 31, 2002; issued and outstanding | | |

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| | | |
|---|--------------|--------------|
| 21,124,801 shares at December 31, 2001 | 24,876 | 21,124,801 |
| Additional paid-in capital | 44,680,740 | 40,764,833 |
| Notes receivable from officers | (473,405) | (536,100) |
| Accumulated deficit | (42,722,946) | (35,876,875) |
| | ----- | ----- |
| Accumulated other comprehensive (loss) income | (13,269) | 32,210 |
| | ----- | ----- |
| Total stockholders' equity | 1,496,163 | 4,405,188 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$4,281,390 | \$ 7,385,388 |
| | ===== | ===== |

EXHIBIT 99.2

ION NETWORKS ANNOUNCES NASDAQ DELISTING

PISCATAWAY, N.J March 24, 2003--ION Networks Incorporated (Nasdaq: IONN), a leading provider of security and management solutions that protect critical infrastructure from internal and external security threats, today announced that it received a letter from The Nasdaq Stock Market, Inc. on March 19, 2003, advising that the Company has not regained compliance with the minimum \$1.00 closing bid price per share requirement, as set forth in Marketplace Rule 4310(c)(4) and is not eligible for an additional 90 calendar day compliance period given that it does not meet the initial listing requirements of The Nasdaq SmallCap Market under Marketplace Rule 4310(c)(2)(A).

ION's securities will consequently be delisted from The Nasdaq SmallCap Market at the opening of business on March 28, 2003 and may thereafter be available for immediate quotation on the OTC Bulletin Board under the same symbol, IONN.

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Any statements contained in this press release that do not describe historical facts may constitute forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Any forward-looking statements contained herein are based on current expectations, but are subject to a number of risks and uncertainties. These statements include, but are not limited to, statements regarding the delisting of the Company's securities from the Nasdaq SmallCap Market and subsequent immediate quotation on the OTC Bulletin Board.

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The factors that could cause actual future results to differ materially from the forward-looking statements include the following: fluctuations in customer demand; changes in the Company's sales force and management; fluctuations in spending on technology generally and security solutions in particular; insufficiency of operating capital; general economic conditions (both domestic and abroad); the rapid technological change which characterizes the Company's markets; the risks associated with competition; the risks associated with the expansion of the Company's sales channels; the risk of new product introductions and customer acceptance of new products; the risks associated with international

sales as the Company expands its markets; and the ability of the Company to compete successfully in the future, as well as other risks identified in the Company's Securities and Exchange Commission Filings, including but not limited to those appearing within the Company's most recent Form 10-KSB and amendments thereto, and form 10-QSB, respectively filed with the Securities and Exchange Commission on August 21, 2002 and November 14, 2002.