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ONSPAN NETWORKING INC
Form 10QSB
February 12, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

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

For Quarter Ended: December 31, 2002

Commission File Number: 0-22991

ONSPAN NETWORKING, INC.

(Exact name of small business issuer as specified in its charter)

NEVADA

(State of Incorporation)

87-0460247

(IRS Employer ID No)

6413 CONGRESS AVENUE, SUITE 230, BOCA RATON, FL 33487

(Address of principal executive office)

(561) 988-2334

(Issuer's telephone number)

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

The number of shares outstanding of registrant's common stock, par value \$.012 per share, as of December 31, 2002 was 968,677.

Transitional Small Business Disclosure Format (Check one): Yes No .

ONSPAN NETWORKING, INC. AND SUBSIDIARY

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PART I - UNAUDITED FINANCIAL INFORMATION

ONSPAN NETWORKING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2002
(UNAUDITED)

ASSETS

Current assets

Cash and cash equivalents	\$ 1,018,891
Marketable equity securities	61,000

Total current assets	1,079,891

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Property and equipment, net	2,049

	\$ 1,081,940
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities	
Accounts payable	\$ 5,161
Accrued dividend	30,946
Amounts due to purchasers of discontinued operations	55,929

Total current liabilities	92,036
Stockholders' equity	
Preferred stock; \$.001 par value; authorized 12,500 shares; issued and outstanding 2,713 shares; liquidation preference \$271,300	2
Common stock, \$.012 par value. Authorized 8,333,333 shares; issued and outstanding 968,677 shares	11,624
Paid-in capital	7,773,134
Accumulated deficit	(6,794,856)

Total stockholders' equity	989,904

	\$ 1,081,940
	=====

See accompanying notes to condensed consolidated financial statements.

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ONSPAN NETWORKING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED DECEMBER 31, 2002 AND 2001
(UNAUDITED)

	Three Months Ended December 31,	
	2002	2001
	-----	-----
Costs and expenses:		
Salaries and wages	39,000	15,000
Other selling, general and administrative expenses	33,665	86,847
	-----	-----
	72,665	101,847
	-----	-----
Earnings (loss) from operations	(72,665)	(101,847)
Other income (expense):		
Interest income	4,113	7,884
Unrealized (loss) on marketable equity securities	(19,000)	(308,000)
Other expense	(30,000)	-
	-----	-----
Total other income (expense)	(44,887)	(300,116)
	-----	-----
Earnings (loss) before income taxes and	(117,552)	(401,963)

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discontinued operations		
Income tax (benefit) expense	-	(178,094)
	-----	-----
Earnings (loss) from continuing operations	(117,552)	(223,869)
Income from discontinued operations	-	31,521
	-----	-----
Net earnings (loss)	(117,552)	(192,348)
Dividends on preferred shares	-	-
	-----	-----
Net earnings (loss) applicable to		
common shares	\$ (117,552)	\$ (192,348)
	=====	=====
Basic and diluted net earnings (loss) per share		
Continued operations	\$ (0.12)	\$ (0.23)
	=====	=====
Discontinued operations	\$ -	\$ 0.03
	=====	=====
Total	\$ (0.12)	\$ (0.20)
	=====	=====
Weighted average shares outstanding		
Basic	968,677	967,735
	=====	=====
Diluted	968,677	967,735
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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ONSPAN NETWORKING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED DECEMBER 31, 2002
(UNAUDITED)

	Preferred Stock		Common Stock		Paid-in	Retained
	Shares	Par Value	Shares	Par Value	Capital	Earnings
	-----	-----	-----	-----	-----	-----
Balance, September 30, 2002 ..	2,713	\$2	968,677	\$11,624	\$7,773,134	\$(6,677,304)
Net (loss)	-	-	-	-	-	(117,552)
	-----	---	-----	-----	-----	-----
Balance, December 31, 2002 ...	2,713	\$2	968,677	\$11,624	\$7,773,134	\$(6,794,856)
	=====	==	=====	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

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ONSPAN NETWORKING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED DECEMBER 31, 2002 AND 2001

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(UNAUDITED)

	2002	2001
	----	----
Cash flows from operating activities		
Net income	\$ (117,552)	\$ (192,348)
Less: Earnings from discontinued operations, net ...	\$ -	\$ 31,521
	-----	-----
(Loss) from continuing operations	\$ (117,552)	\$ (223,869)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	230	208
Deferred income taxes	-	(152,413)
Unrealized loss from marketable securities	19,000	308,000
Change in assets and liabilities (excluding effects of acquisitions):		
Accounts receivable	-	-
Income tax receivable	45,147	(25,681)
Prepaid expenses	11,833	(7,753)
Accounts payable	(378)	30,450
Accrued expenses	30,000	-
	-----	-----
Net cash used in operating activities	(11,720)	(71,058)
	-----	-----
Cash flows from investing activities		
Capital expenditures	-	(773)
	-----	-----
Net cash (used in) provided by investing activities	-	(773)
	-----	-----
Cash flows from financing activities		
Payment of notes payable	-	(6,781)
Payment to purchasers of discontinued operations .	-	(25,095)
	-----	-----
Net cash used in financing activities	-	(31,876)
	-----	-----
Net decrease in cash and cash equivalents		
from continuing operations	(11,720)	(103,707)
Net cash used in (provided by) discontinued operations		
	-	8,000
Net (decrease) increase in cash and cash equivalents	(11,720)	(95,707)
Cash and cash equivalents, beginning of period		
from continuing operations	1,030,611	1,283,673
	-----	-----
Cash and cash equivalents, end of period	\$ 1,018,891	\$ 1,187,966
	=====	=====

Continued

See accompanying notes to condensed consolidated financial statements.

ONSPAN NETWORKING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED DECEMBER 31, 2002 AND 2001
(UNAUDITED)
(CONTINUED)

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	2002	2001
	----	----
Supplemental Cash Flow Information		
Cash paid for interest and income taxes are as follows:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -
Financed insurance premiums	\$ -	\$57,000

See accompanying notes to condensed consolidated financial statements.

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ONSPAN NETWORKING, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED DECEMBER 31, 2002 AND 2001
(UNAUDITED)

A. ORGANIZATION

Onspan Networking, Inc. (the "Company" or "Onspan"), a Nevada corporation, is a holding company. The financial statements include the accounts of the Company and the discontinued operations of InterLAN Communications, Inc. ("InterLAN") (<http://www.interlancom.com>). Onspan changed its name from Network Systems International, Inc. effective February 10, 2001.

Originally incorporated in 1985, as Network Information Services, Inc., Network Systems International, Inc. ("NESI"), a Nevada corporation, was the surviving corporation of a reverse merger completed in April 1996. The Company became a publicly traded entity in connection with the re-organization.

On July 10, 1998, the Company's stock was officially approved for listing on the NASDAQ small cap market and the Company's common stock began trading on NASDAQ Small Cap under the symbol NESI. As of April 2, 2002, the securities were de-listed from the Nasdaq SmallCap market and now trade on the Over-The-Counter Bulletin Board under the symbol ONSP.

On November 10, 2000, Onspan completed the acquisition of 100% of the issued and outstanding common stock of InterLAN, a Virginia corporation.

On August 5, 2002, the Company sold and transferred the stock of its wholly-owned subsidiary, InterLAN Communications, Inc. to G. Anthony Munno, Martin Sainsbury Carter and Brian Ianniello, who were executives and employees of InterLAN. In exchange for the assignment of the InterLAN stock, Messrs. Munno, Carter and Ianniello transferred 21,168 shares of Onspan common shares, and Onspan was relieved of substantially all obligations and guarantees provided to third parties. Onspan also retained the right to a certain tax refund in amount of \$45,147 owing to InterLAN. These individuals also resigned in all capacities as directors, officers and/or employees of Onspan. Onspan retained the following assets of the corporation in cash of \$1,078,883, the marketable securities, the prepaid expenses, the entire income tax receivable, and \$2,611

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in property. The liabilities Onspan retained include the dividend payable amount due to purchasers of discontinued operations, and the balance of the note payable.

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The financial statements included in this report have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission for interim reporting and include all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation. These financial statements have not been audited.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations for interim reporting. The Company believes that the disclosures contained herein are adequate to make the information presented not misleading. However, these financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report for the year ended September 30, 2002, which is included in the Company's Form 10-KSB for the year ended September 30, 2002. The financial data for the interim periods presented may not necessarily reflect the results to be anticipated for the complete year.

B. ACCOUNTING POLICIES

BASIS OF PREPARATION The financial statements at December 31, 2002 and 2001, include the accounts of the Company and the discontinued operations of InterLAN Communications, Inc.

CASH AND CASH EQUIVALENTS - The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

FAIR VALUE OF FINANCIAL INSTRUMENTS - The carrying values of cash and cash equivalents, accounts receivable, marketable equity securities, notes receivable, income taxes receivable, accounts payable, amounts due to purchasers of discontinued operations and note payable approximate fair value as of December 31, 2002, because of the short maturity of these instruments.

INVESTMENT SECURITIES - Investments are classified into three categories as follows:

- o Trading securities reported at fair value with unrealized gains and losses included in earnings;
- o Securities available-for-sale reported at fair value with unrealized gains and losses reported in other comprehensive income;
- o Held-to-maturity securities reported at amortized cost.

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PREFERRED STOCK - At December 31, 2002, the Company had 2,713 shares outstanding of its Series A Convertible Preferred Stock ("Series A"). This issue has a stated liquidation preference value of \$100 per share redeemable at the Company's option, has no voting rights, and each preferred share is convertible into 4 shares of the Company's common stock as adjusted for the 1 for 12 reverse stock split. Dividends on the Series A were to be paid monthly in cash at a rate of 12% of the original issue. The Company's Board of Directors, elected for the payment of cash dividends on its Series A to be suspended. This decision was

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made in light of the general economic conditions. In particular, the Board took such actions as necessary to preserve the Company's working capital in order to ensure the continued viability of the Company. The Board of Directors is unable at this time to predict if the Company will resume the payment of cash dividends on its Series A 12% Cumulative Convertible Preferred Stock. However, the Company has accrued dividends on these shares in the amount of \$30,946 at December 31, 2002.

INCOME TAXES - The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 109, the liability method is used in accounting for income taxes and deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

STOCK OPTION PLAN - The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, in accounting for its stock option plan. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price.

EARNINGS PER SHARE - The financial statements are presented in accordance with Statement of Financial Accounting Standards No. 128 ("SFAS 128"), "Earnings Per Share". Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the potential dilution from the exercise or conversion of securities into common stock.

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

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PROPERTY AND EQUIPMENT - Property and equipment are stated at cost. Expenditures for significant renewals and improvements are capitalized. Repairs and maintenance are charged to expense as incurred. Depreciation is computed using an accelerated method for both financial and tax purposes based upon the useful lives of the assets.

RECLASSIFICATION

Certain prior year amounts have been reclassified to conform with current year presentation.

C. MARKETABLE EQUITY SECURITIES

The cost of investment securities as shown in the accompanying balance sheet and their estimated market value at December 31, 2002 is as follows:

	2002

Trading securities:	
Cost	\$ 504,000

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Unrealized loss ..	(443,000)

	\$ 61,000
	=====

The Company included unrealized losses in the amount of \$19,000 and \$308,000 in earnings for the three months ended December 31, 2002 and 2001, respectively. Unrealized gains and losses are recognized based on changes in the fair value of the securities as quoted on national and inter-dealer stock exchanges.

D. PROPERTY AND EQUIPMENT

Property and equipment, which are reflected at cost, consist of the following at December 31, 2002:

Computer equipment	\$ 3,689

Total property and equipment	\$ 3,689
Less: accumulated depreciation	(1,640)

Property and equipment, net	\$ 2,049
	=====

Depreciation expense for the three months ended December 31, 2002 and 2001 is \$230 and \$208, respectively.

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E. DISCONTINUED OPERATIONS

	2002	2001
	----	----
Net Sales - Interlan	\$ -	\$912,060
Income from discontinued operations	\$ -	\$ 31,521
	====	=====
Net income per common share		
Basic	-	.03
Diluted	-	.03

F. EARNINGS PER SHARE

Basic earning (loss) per share is computed by dividing earnings available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect per share amounts that would have resulted if dilutive potential common stock had been converted to common stock. The following reconciles amounts reported in the financial statements:

	2002	2001
	----	----
Loss from continuing operations	\$(117,552)	\$(223,869)
Income from discontinued operations	-	31,521
	-----	-----
Net loss	\$(117,552)	\$(192,348)
	=====	=====

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Denominator for basic earnings per share -		
Weighted average shares	968,677	967,735
Effect of dilutive securities - stock options	-	-
	-----	-----
Denominator for diluted earnings per share -		
Weighted average shares adjusted for dilutive securities	968,677	967,735
	=====	=====
Basic and diluted earnings (loss) per common share:		
Loss from continuing operations	\$ (.12)	\$ (.23)
Earnings from discontinued operations	-	.03
	-----	-----
Net earnings (loss)	\$ (.12)	\$ (.20)
	-----	-----

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G. LEGAL PROCEEDINGS

1. Network Systems International of North Carolina, Inc. v Network Systems International, Inc. and Onspan Networking, Inc. (02-CvS-10154)
(Complaint filed September 13, 2002).

This action asserts a claim for breach of contract against the Company, seeking certain tax refunds obtained by the Company. The plaintiff, a former subsidiary of the Company, claims that these tax refunds belong to the plaintiff. The Company has not yet filed an answer to the Complaint. The Company disputes the amounts claimed and intends to seek reimbursement for certain expenses incurred by the Company on behalf of the plaintiff. The Company has made a settlement offer.

2. Soles Brower Smith & Company v. Network Systems International Inc. and Network Systems International of North Carolina, Inc. 02-CvS-7103
(Complaint filed June 11, 2002)

This action was brought by a business broker that formerly represented the Company in attempts to sell Vercom Software, Inc. a former subsidiary of the company. The Complaint seeks relief for breach of contract.

The Company has asserted a defense based on the fact that it transferred its shares of Vercom and had no involvement in the sale of Vercom, which forms the basis of Plaintiff's complaint. In addition, the Company has asserted a crossclaim against Network Systems International of North Carolina, Inc. for indemnification. The Company intends to oppose plaintiff's claims vigorously and will seek early dismissal of the action. Given the early stage of this action, we are unable to assess the likely outcome of this action or the magnitude of loss if any were to occur.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CRITICAL ACCOUNTING POLICIES

The Company has identified the policies outlined below as critical to its business operations and an understanding of its results of operations. The

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listing is not intended to be a comprehensive list of all of the Company's accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States, with no need for management's judgment in their application. The impact and any associated risks related to these policies on the Company's business operations is discussed throughout Management's Discussion and Analysis or plan of operations where such policies affect the Company's reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see the Notes to Consolidated Financial Statements. The Company's preparation of the financial statements requires it to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the Company's financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

PLAN OF OPERATION

Prior to August 5, 2002, the Company, a Nevada corporation, was a holding company, that through its wholly owned subsidiary, InterLAN Communications, Inc. ("InterLAN"), developed data communications and networking infrastructure solutions for business, government and education. Following August 5, 2002, the Company, announced a change in its strategy and subsequently sold its operating division InterLAN. As a result, currently we no longer have any meaningful, operations or sources of revenue. The Company's operations since then include a current plan to seek, investigate, and if warranted, merge or acquire one or more properties or businesses, and to pursue other related activities intended to enhance shareholder value. Although we have reviewed a number of opportunities, we have not yet completed a transaction. A limiting factor has been the pending litigation brought against the Company, as included in Note G to the financial statements.

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DEFERRED TAX ASSET

The Company records a valuation allowance to reduce the carrying value of its deferred tax assets to an amount that is more likely than not to be realized. While the Company has considered future taxable income and prudent and feasible tax planning strategies in assessing the need for the valuation allowance, should the Company determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the carrying value of the deferred tax assets would be charged to income in the period in which such determination was made. As of December 31, 2002, a 100% valuation allowance has been established and no deferred tax asset recognized.

INVESTMENTS

Investments are classified as either available-for-sale or trading securities and are held for resale in anticipation of short-term market movements or until such securities are registered or are otherwise unrestricted. At December 31, 2002, investments consisted entirely of common stock held for resale. Trading account assets, consisting of marketable equity securities, are stated at fair value. Unrealized gains or losses on trading securities are recognized in the statement of operations on a monthly basis based on changes in the fair value of the security as quoted on national or inter-dealer stock exchanges. Net unrealized losses related to investments held for trading as of December 31, 2002, aggregated (\$443,000).

Available-for-sale assets, which are also required to be reported at fair value,

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with unrealized gains and losses excluded from earnings are reported as a separate component of stockholders' equity (net of the effect of income taxes). As of December 31, 2002, the Company held no available-for-sale securities.

HISTORY OF BUSINESS

Originally incorporated in 1985, as Network Information Services, Inc., Network Systems International, Inc. ("NESI"), a Nevada corporation, was the surviving corporation of a reverse merger completed in April 1996. The Company became a publicly traded entity in connection with the re-organization. On July 10, 1998, the Company's stock was officially approved for listing on the NASDAQ small cap market and the Company's common stock began trading on NASDAQ Small Cap under the symbol NESI. As of April 2, 2002, the securities were de-listed from the Nasdaq SmallCap market and now trade on the Over-The-Counter Bulletin Board(R) under the symbol ONSP.

Effective February 10, 2001 the Company changed its name from Network Systems International, Inc., to Onspan Networking, Inc. (the "Company" or "Onspan"). On October 9, 2001, the Company affected a 1 for 12 reverse stock split of its issued and outstanding common stock.

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Prior to August 5, 2002, the Company, a Nevada corporation, was a holding company, that through its wholly owned subsidiary, InterLAN Communications, Inc. ("InterLAN"), developed data communications and networking infrastructure solutions for business, government and education. On August 5, 2002, the Company completed the sale of its operating division InterLAN and announced a change in its strategy of business as discussed under Discontinued Operations below.

DISCONTINUED OPERATIONS

On August 5, 2002, the Company sold and transferred the stock of its wholly-owned subsidiary, InterLAN Communications, Inc. to G. Anthony Munno, Martin Sainsbury Carter and Brian Ianniello, who were executives and employees of InterLAN. In exchange for the assignment of the InterLAN stock, Messrs. Munno, Carter and Ianniello transferred 21,168 shares of Onspan common shares, and Onspan was relieved of substantially all obligations and guarantees provided to third parties. Onspan also retained the right to a certain tax refund in amount of \$45,147 owing to InterLAN. These individuals also resigned in all capacities as directors, officers and/or employees of Onspan. Onspan retained the following assets of the corporation - cash of \$1,078,883, the marketable securities, the prepaid expenses, the entire income tax receivable, and \$2,611 in property. The liabilities retained include the dividend payable, amount due to purchasers of discontinued operations, and the balance of the note payable.

FORWARD LOOKING STATEMENTS

From time to time, the Company may publish forward-looking statements relative to such matters as anticipated financial performance, business prospects, technological developments and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. All statements other than statements of historical fact included in this section or elsewhere in this report are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include: 1. General economic factors including, but not limited to, changes in interest rates and trends in disposable income; 2. Information and technological advances; 3. Cost of products sold; 4.

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Competition; and 5. Success of marketing, advertising and promotional campaigns. Effective August 5, 2002 the Company completed the sale of its operating line of business (InterLAN) as discussed under Discontinued Operations in Item 1, accordingly, the following discussion will deal with the Company's Plan of Operation. The operations of InterLAN, for the three month period ended December 31, 2001 have been reclassified as loss from discontinued operations.

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A. LIQUIDITY AND CAPITAL RESOURCES

During the three months ended December 31, 2002, working capital decreased \$117,322 to \$987,855 from \$1,105,177. During this same period, stockholders' equity decreased \$117,552 to \$989,904 from \$1,107,456. The decrease in stockholders' equity is entirely due to the net loss for the period. The Company has not budgeted any significant capital expenditures for the current fiscal year for its current operations. The Company has adequate cash resources to meet its current needs

B. RESULTS OF OPERATIONS

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE - The Company's selling, general and administrative expenses, including salaries and wages amounted to \$72,665 during the three months ended December 31, 2002 as compared to \$101,847 during the three months ended December 31, 2001. The decrease of \$29,182 includes a increase of \$24,000 for salaries, off set by a decreases of (\$26,000) for accounting fees (\$7,250) in costs related to annual shareholder meeting, (\$5,000) in stock transfer fees related to the reverse split, (\$13,000) in legal fees due to the reverse split , and (\$4,000) in filing fees due to being not listed on the Nasdaq .

INCOME TAXES - The Company recorded \$43,655 in deferred income tax expense for the three-month period ended December 31, 2002, a 100% valuation allowance was taken against this amount as of December 31, 2002. The Company recorded \$178,094 in deferred income tax benefit for the three-month period ended December 31, 2001.

MARKETABLE EQUITY SECURITIES - As of December 31, 2002, the Company held 100,000 shares of eResource Capital Group (AMEX:RCG) ("eResource") with a cost basis of \$504,000 \$5.04 per share. For the three months ended December 31, 2002, the Company recorded an unrealized loss from trading securities of (\$19,000) on the Company's stock and had a quoted market value of \$61,000 or \$0.61 (sixty one cents) per share.

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PART II - OTHER INFORMATION

ITEM 1

LEGAL PROCEEDINGS

1. Network Systems International of North Carolina, Inc. v Network Systems International, Inc. and Onspan Networking, Inc. (02-CvS-10154) (Complaint filed September 13, 2002).

This action asserts a claim for breach of contract against the Company, seeking certain tax refunds obtained by the Company. The plaintiff, a

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former subsidiary of the Company, claims that these tax refunds belong to the plaintiff. The Company has not yet filed an answer to the Complaint. The Company disputes the amounts claimed and intends to seek reimbursement for certain expenses incurred by the Company on behalf of the plaintiff. The Company has made a settlement offer.

2. Soles Brower Smith & Company v. Network Systems International Inc. and Network Systems International of North Carolina, Inc. 02-CvS-7103 (Complaint filed June 11, 2002)

This action was brought by a business broker that formerly represented the Company in attempts to sell Vercom Software, Inc. a former subsidiary of the company. The Complaint seeks relief for breach of contract.

The Company has asserted a defense based on the fact that it transferred its shares of Vercom and had no involvement in the sale of Vercom, which forms the basis of Plaintiff's complaint. In addition, the Company has asserted a crossclaim against Network Systems International of North Carolina, Inc. for indemnification. The Company intends to oppose plaintiff's claims vigorously and will seek early dismissal of the action. Given the early stage of this action, we are unable to assess the likely outcome of this action or the magnitude of loss if any were to occur.

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ITEM 5.

OTHER INFORMATION

There is no immediate family relationship between or among any of the Directors and Executive Officers, except Ms. Dermer who is the sister-in-law of Mr. Tabin.

Evaluation of disclosure controls and procedures

Within the 90 days prior to the filing date of this report, the Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. This evaluation was done under the supervision and with the participation of the Company's President and Chief Financial Officer. Based upon that evaluation, they concluded that the Company's disclosure controls and procedures are effective in gathering, analyzing and disclosing information needed to satisfy the Company's disclosure obligations under the Exchange Act.

Changes in internal controls

There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls since the most recent evaluation of such controls.

ITEM 6.

EXHIBITS AND REPORTS ON FORM 8-K

1. Form 8-K filed with the Securities and Exchange Commission October 16, 2001 announcing the Onspan Networking, Inc. (the "Company"), filed a Certificate pursuant to Section 78.207 of the Nevada Statutes whereby the Company decreasing the number of issued and outstanding shares of common stock, par value \$.012, at a rate of one for twelve (1:12), and

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proportionately decreasing the number of authorized shares of common stock at a rate of one for twelve (1:12). As a result, the Company's authorized common stock has been reduced from 100,000,000 shares to 8,333,333 shares, and the number of issued and outstanding shares of common stock were reduced from 11,574,619 to approximately 964,552 shares.

- 2. Form 8-K filed with the Securities and Exchange Commission August 8, 2002 announcing on August 5, 2002, the Company sold and transferred the stock of its wholly-owned subsidiary, InterLAN Communications, Inc. to G. Anthony Munno, Martin Sainsbury Carter and Brian Ianniello, who were executives and employees of InterLAN. In exchange for the assignment of the InterLAN stock, Messrs. Munno, Carter and Ianniello transferred 21,168 shares of Onspan common shares, and Onspan was relieved of substantially all obligations and guarantees provided to third parties.

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Onspan also retained the right to a certain tax refund owing to InterLAN. These individuals also resigned in all capacities as directors, officers and/or employees of Onspan. InterLAN provides data communications and network solutions and consulting services.

Table with 2 columns: Exhibit, Description. Row 1: 4.0, Long Term Incentive Stock Options Plan (1)

(1) Incorporated by reference to the company's report on form S-8 dated July 27, 2001

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SIGNATURE

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.

ONSPAN NETWORKING, INC.

Date: February 12, 2003

By: /s/ Herbert Tabin
Herbert Tabin, President

Date: February 12, 2003

By: /s/ Marissa Dermer
Marissa Dermer, Chief Financial and Principal Accounting Officer

CERTIFICATION OF PRESIDENT

I, Herbert Tabin, President of Onspan Networking, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Onspan Networking, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors: (or persons performing the equivalent functions)
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls, and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 12, 2003

By: /s/ Herbert Tabin

Herbert Tabin,

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Marissa Dermer, Chief Financial Officer of Onspan Networking, Inc., certify that:

1 I have reviewed this quarterly report on Form 10-KSB of Onspan Networking, Inc.

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

- a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors: (or persons performing the equivalent functions)

- a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls, and
- b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 12, 2003

By: /s/ Marissa Dermer

Marissa Dermer,
Chief Financial Officer

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EXHIBIT INDEX

Exhibit # -----	Description -----
99.1	Certification of President Relating to a Periodic Report containing Financial Statements
99.2	Certification of Chief Financial Officer Relating to a Periodic Report containing Financial Statements

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