ONSPAN NETWORKING INC
Form 10QSB
February 13, 2004

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, 2003

Commission File Number: 0-22991

ONSPAN NETWORKING, INC.
(Exact name of small business issuer as specified in its charter)

NEVADA	87-0460247
(State of Incorporation)	(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 [X] No [ ].

The number of shares outstanding of registrant's common stock, par value $.012 per share, as of December 31, 2003 was 968,677.

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

ONSPAN NETWORKING, INC. AND SUBSIDIARY

INDEX

ONSPAN NETWORKING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2003
(UNAUDITED)

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 12,049
Deposits	3,705
Prepaid Insurance	5,367
Inventory - Home	1,489,776
Total current assets	1,510,897
Property and equipment, net	1,908
	$ 1,512,805
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	$ 33,199
Accrued dividend	30,946
Accrued wages	22,000
Accrued interest	17,940
Note Payable	100,000
Loan Payable	675,000
Amounts due to purchasers of discontinued operations	55,929

Total current liabilities	935,014
COMMITMENT AND CONTINGENCIES	
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	7,873,709
Accumulated deficit	(7,307,544)
Total stockholders' equity	577,791
	$ 1,512,805

See accompanying notes to condensed consolidated financial statements.

3

ONSPAN NETWORKING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED DECEMBER 31, 2003 AND 2002
(UNAUDITED)

	THREE MONTHS ENDED DECEMBER 31,	
	2003	2002
COSTS AND EXPENSES:		
Salaries and wages	$ 22,000	$ 39,000
Other selling, general and administrative expenses	82,641	63,665
	104,641	102,665
Earnings (loss) from operations	(104,641)	(102,665)
OTHER INCOME (EXPENSE):		
Interest income	-	4,113
Unrealized (loss) on marketable equity securities	-	(19,000)
Total other income (expense)	-	(14,887)
EARNINGS (LOSS) BEFORE INCOME TAXES	(104,641)	(117,552)
INCOME TAX (BEFEFIT) EXPENSE	-	-
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	(104,641)	(117,552)
NET EARNINGS (LOSS)	(104,641)	(117,552)
DIVIDENDS ON PREFERRED SHARES	-	-
NET EARNINGS (LOSS) APPLICABLE TO COMMON SHARES	$(104,641)	$(117,552)

BASIC AND DILUTED NET EARNINGS (LOSS) PER SHARE		
CONTINUED OPERATIONS	$ (0.11)	$ (0.12)
WEIGHTED AVERAGE SHARES OUTSTANDING		
BASIC	968,677	968,677
DILUTED	968,677	968,677

See accompanying notes to condensed consolidated financial statements.

ONSPAN NETWORKING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED DECEMBER 31, 2003
(UNAUDITED)

	Preferred Stock		Common Stock		Paid-in	Retained
	Shares	Par Value	Shares	Par Value	Capital	Earnings
BALANCE, September 30, 2003	2,713	$ 2	968,677	$ 11,624	$7,873,709	$(7,202,903
Net (loss)	-	-	-	-	-	(104,641
BALANCE, December 31, 2003	2,713	$ 2	968,677	$ 11,624	$7,873,709	$(7,307,544

See accompanying notes to condensed consolidated financial statements.

ONSPAN NETWORKING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED DECEMBER 31, 2003 AND 2002
(UNAUDITED)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$(104,641)	$ (117,552)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	148	230
Deferred income taxes	-	-
Unrealized loss from marketable securities	-	19,000
Change in assets and liabilities (excluding effects of acquisitions):		
Accounts receivable	-	-
Income tax receivable	-	45,147
Inventory	(25,433)	-

Prepaid expenses	4,918	11,833
Accounts payable	(32,835)	(378)
Accrued expenses	30,507	30,000
Net cash used in operating activities	(127,336)	(11,720)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(689)	-
Net cash (used in) provided by investing activities	(689)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan payable	100,000	-
Payment to purchasers of discontinued operations	-	-
Net cash used in financing activities	100,000	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(28,025)	(11,720)
CASH AND CASH EQUIVALENTS, beginning of period from continuing operations	40,074	1,030,611
CASH AND CASH EQUIVALENTS, end of period	$ 12,049	$ 1,018,891

See accompanying notes to condensed consolidated financial statements.

6

ONSPAN NETWORKING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED DECEMBER 31, 2003 AND 2002
(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 in property. The liabilities Onspan retained include the dividend payable amount due to purchasers of discontinued operations, and the balance of the note payable.

On April 22, 2003 the Company created a new subsidiary, Coventry 1 Inc. which is a Nevada Corporation. The Company's other subsidiary Onspan SmartHouse, Inc., is a Florida Corporation.

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. The Company's recently changed its business focus to residential real estate development and building construction services. From 1985 until 2002, the Company's business primarily concentrated on sales of computer hardware and software. In April of 2003, the Company changed its focus to investing in and revitalizing single family homes in established residential neighborhoods in suburban areas. The Company closed on this property on June 19, 2003. The Company has entered into a contract with Garcia Brenner & Stromberg architects to design the project. The Company intends to renovate and expand the existing single-family home project on this site. This project, known as Coventry 1 Inc., has entered into the permitting stage.

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, 2003, which is included in the Company's Form 10-KSB for the year ended September 30, 2003. 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, 2003 and 2002, include the accounts of the Company and its wholly owned subsidiaries.

PRINCIPLES OF CONSOLIDATION - The accompanying consolidated financial statements for the period ended December 31, 2003 include the accounts of Onspan Networking, Inc. and its subsidiaries, Coventry 1, Inc. and Onspan Smarthouse Inc. All significant intercompany accounts and transactions have been eliminated.

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, 2003, because of the short maturity of these instruments.

REVENUE RECOGNITION - The Company recognizes revenue from all homebuilding activities at the closing of the sale using the deposit method. During construction, all direct material and labor costs and those indirect costs related to acquisition and construction are capitalized, and all customer deposits are treated as liabilities. Capitalized costs are charged to earnings upon closing. Costs incurred in connection with completed homes and selling, general, and administrative costs are charged to expense as incurred. Provision for estimated losses on uncompleted contracts and on speculative projects is made in the period in which such losses are determined

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

1. Trading securities reported at fair value with unrealized gains and losses included in earnings;

2. Securities available-for-sale reported at fair value with unrealized gains and losses reported in other comprehensive income; and

3. Held-to-maturity securities reported at amortized cost.

PREFERRED STOCK - At December 31, 2003, 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. 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, 2003.

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.

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.

C. INVENTORY HOME

Inventory - home which is reflected at cost consists of the following at December 31, 2003 :

Home Basis	$1,440,865
Improvements	48,911
Total Basis	$1,489,776

10

D. PROPERTY AND EQUIPMENT

Property and equipment, which are reflected at cost, consist of the following at December 31, 2003:

Computer equipment	$ 4,378
Total property and equipment	$ 4,378
Less: accumulated depreciation	(2,470)
Property and equipment, net	$ 1,908

Depreciation expense for the three months ended December 31, 2003 and 2002 is $148 and $230, respectively.

E. REVOLVING CREDIT NOTE

The Company has a demand line of credit with a related party (Evolve One Inc), totaling $1,000,000, under which the Company may borrow on an unsecured basis at

5% annually. There was $675,000 outstanding under this line of credit at December 31, 2003. Evolve One has deferred receiving the first payment of interest due under the Note at December 19, 2003.As of December 31,2003 the Company has accrued $17,940 in interest on this note. As of December 31, 2003, Evolve One, Inc did not have sufficient cash reserves to fully fund the available credit under the line of credit.

The terms of the demand line of credit state that the Company must issue options to purchase common stock equal to 10% of the dollar amount of the loan advance at an exercise price of $0.10 per share, and options to purchase common stock equal to 90% of the dollar amount of the loan advance at the ten trading day average at the time of the draw ($0.30 at June 30, 2003). Under these terms, the Company issued 675,000 stock options resulting in a charge to interest expense of $110,008.

F. NOTE PAYABLE - SHAREHOLDER

On October 24, 2003 the Company entered into a Note Purchase Agreement with our President, Herbert Tabin. If the note is not repaid or converted by the due date , then the company will issue to Mr. Tabin a three year warrant to purchase shares of the Company's common stock, par value $.012 per share for the aggregate exercise price of $5,000, at a price per share equal to $0.01.

The Note Purchase agreement, is a Convertible Prommisory Note for $100,000 was issued by the Company on October 24, 2003 to Mr. Tabin. This note is due on July 31, 2004,and accrues interest at a rate of 5.25% per annum payable at maturity. If the Company defaults on this note, the aggregate principle plus accrued interest will be eligible to be converted immediately into shares of common stock . If the note is not repaid or converted by the due date, then the company will issue to Mr. Tabin a three year warrant to purchase shares of the Company's common stock, par value $.012 per share for the aggregate exercise price of $5,000, at a price per share equal to $0.01.

11

G. 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:

	2003	2002
Net loss from continuing operations	$(104,641)	$(117,552)
Denominator for basic earnings per share -		
Weighted average shares	968,677	968,677
Effect of dilutive securities - stock options	-	-
Denominator for diluted earnings per share -		
Weighted average shares adjusted for dilutive securities	968,677	968,677
Basic and diluted earnings (loss) per common share:		
Net loss)	$ (.11)	$ (.12)

H. 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 filed an answer disputing the amounts claimed and seeking reimbursement for certain expenses incurred by the Company on behalf of the plaintiff. The parties have engaged in settlement discussions, which have been unsuccessful to date.

2. Securities Actions:

a. Richard T. Clark and Joel C. Holt v. OnSpan Networking, Inc. and Herbert Tabin, Case No. 03-CV-298K (N.D. Okla.) (Removed from state court May 1, 2003); This action asserts claims for violation of Oklahoma securities law, fraud, breach of contract, and breach of fiduciary duties. The action seeks damages in the amount of $300,000, for each plaintiff, the plaintiffs' attorneys' fees and costs, and certain other relief. The case was filed in Oklahoma State court on March 28, 2003, and it was removed to federal court on May 1, 2003. The Company has filed a Motion to Dismiss the matter.

12

b. D. Mark White v OnSpan Networking, Inc. and Herbert Tabin, Case No. 352198686 03 (District Court, Tarrant County Texas) (Complaint filed May 2, 2003) This action asserts claims for violation of Texas securities law, fraud, and breach of fiduciary duties. The action seeks unspecified damages, restitution in the amount of $300,000, punitive damages, pre-judgment interest, the plaintiffs' attorneys' fees and costs, and certain other relief. The case was filed in Texas state court on May 2, 2002. The Company has filed a Motion to Dismiss Plaintiff's Amended Complaint.

No discovery has taken place in either of these two actions. The Company will vigorously defend both of these actions.

I. GOING CONCERN

The accompanying condensed financials were prepared assuming that the Company will continue as a going concern. The Company is currently a party to several legal proceedings and although the Company will vigorously defend all of these actions, the Company is unable to estimate with any reasonable certainty what liability it may have to these litigants. There are no assurances that the Company will be successful in defending these legal proceedings, or if successful the cost of defending these legal proceedings may significantly deplete the capital of the Company impairing the Company's ability to continue as a going concern. Accordingly, there are no assurances that the Company will be successful in achieving the above plans, or that such plans, if consummated, will enable the Company to obtain profitable operations or continue as a going concern, in addition the Company's lender does not have sufficient cash reserves to fund the available credit line.

J. CONCENTRATIONS

GEOGRAPHICAL

Currently, all of the Company's material revenues to be derived in 2004 are from one house located in Palm Beach County within the State of Florida. Accordingly, the Company could be adversely affected by natural disasters, such as hurricanes or other tropical storms or events, economic downturns, significant unemployment, and other economic conditions that may occur from time to time in Florida, which may not have as much impact on more geographically diversified competitors.

FINANCIAL

The Company is currently reliant on construction/mortgage financing provided by one lender - Evolve One Inc. Any financial or legal impairment of this lender may have an impact on our current projects. An impairment of our lender may force the Company to cancel outstanding projects, may cause project delays or may ultimately force the Company to sell its projects.

K. SUBSEQUENT EVENTS

On January 26, 2004 , Gary Schultheis exercised 122,000 employee stock options. These options had an exercisable price of .30 a share.

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 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. The Company's recently changed its business focus to residential real estate development and building construction services. From 1985 until 2002, the Company's business primarily concentrated on sales of computer hardware and software. In April of 2003, the Company changed its focus to investing in and revitalizing single family homes in established residential neighborhoods in suburban areas. The Company closed on this property on June 19, 2003. The Company has entered into a contract with Garcia Brenner & Stromberg architects to design the project. The Company intends to renovate and expand the existing single-family home project on this site. This project, known as Coventry 1 Inc., has entered the permitting stage.

RISK FACTORS

REAL ESTATE DEVELOPMENT INDUSTRY

Ownership of properties in the categories of which the Company invests is highly fragmented among individuals, partnerships, public and private corporations, and REITs. No single entity or person dominates the market for such properties. At any given time, a significant number of home properties as well as individual lots and tracts suitable for single-family homes are available for purchase in the various markets where the Company may seek additional acquisitions. Industry risks include environmental hazards; changes in general or local economic conditions; changes in interest rates and the availability of permanent mortgage financing which may render the acquisition, sale, or refinancing of a property difficult or unattractive and which may make debt service burdensome; changes in real estate and zoning laws; changes in income taxes, real estate taxes, or federal or local economic or rent controls; floods, earthquakes, and other acts of nature; and other factors beyond the control of any firm involved in the real estate development industry. Further, the Company, as other companies it size, will in all probability continue to encounter problems in obtaining contractors who, in turn, are able to obtain performance bonds for building contracts; obtaining bank financing for construction; and obtaining financing without personal guarantees of its officers and directors, all of which materially adversely affect its ability to carry on its business. The illiquidity of real estate investments generally may impair an industry participant's ability to respond promptly to changing circumstances. See "Risk Factors," below.

CERTAIN RISK FACTORS ASSOCIATED WITH REAL ESTATE AND RELATED INVESTMENTS.

The Company is subject to the risks associated with ownership, operation, and financing of real estate. These risks include, but are not limited to, liability for environmental hazards; changes in general or local economic conditions; changes in interest rates and the availability of construction and permanent mortgage financing which may render the acquisition, sale, or refinancing of a property difficult or unattractive and which may make debt service burdensome; changes in real estate and zoning laws; bonding requirements; permitting requirements, changes in income taxes, real estate taxes, or federal or local economic or rent controls; floods, earthquakes, and other acts of nature; and other factors beyond the company's control. The illiquidity of real estate investments generally may impair the Company's ability to respond promptly to changing circumstances. Under federal, state, and local environmental laws, ordinances, and regulations, the Company may be liable for removal or remediation costs, as well as other costs (such as fines or injuries to persons and property) where our employees may have arranged for removal, disposal, or treatment of hazardous or toxic substances. In addition, environmental laws impose liability for release of asbestos-containing materials into the air, and third parties can seek recovery from the Company for personal injury associated with those materials.

LIMITED REVENUES; LIMITED RELEVANT OPERATING HISTORY; SIGNIFICANT AND CONTINUING OPERATING LOSSES; NEGATIVE CASH FLOW; ACCUMULATED DEFICIT.

Since its change in focus the Company has not had any revenues from sales of its properties. Accordingly, the Company has a limited relevant operating history upon which an evaluation of its prospects can be made. Such prospects must be considered in light of the risks, expenses and difficulties frequently encountered in the establishment of a relatively new business in the real estate development industry, which is a continually evolving industry characterized by an increasing number of market entrants and intense competition, as well as the risks, expenses and difficulties encountered in the real estate development and building construction business. The Company prior to its change has incurred operating losses and has an accumulated deficit of approximately $7,307,544. There can be no assurance that the Company will be successful in generating revenues at a sufficient quantity or margin or that the Company will ever achieve profitable operations.

SIGNIFICANT CAPITAL REQUIREMENTS; NEED FOR ADDITIONAL CAPITAL.

The Company's capital requirements have been and will continue to be significant. The Company has been dependent primarily on existing capital and a credit line. Future capital needs may be satisfied by either the private placement of equity securities and/or debt financings. The Company based on its cash requirements and exposure to liability from shareholder lawsuits is unsure if existing capital will be sufficient for the next twelve months. In the event that the Company's plans (due to unanticipated expenses, delays, problems, or otherwise), the Company would be required to seek additional funding. Any such additional funding could be in the form of additional equity capital. The Company is currently, contemplating, pursuing potential funding opportunities. However, there can be no assurance that any of such opportunities will result in actual funding or that additional financing will be available to the Company when needed, on commercially reasonable terms, or at all. If the Company is unable to obtain additional financing if needed, it will likely be required to curtail its real estate development plans and may possibly cease its operations. Any additional equity financings may involve substantial dilution to the Company's then-existing shareholders.

MANAGEMENT OF GROWTH AND ATTRACTION AND RETENTION OF KEY PERSONNEL.

Management of the Company's growth may place a considerable strain on the Company's management, operations and systems. The Company's ability to execute any future business strategy will depend in part upon its ability to manage the demands of a growing business. Any failure of the Company's management team to effectively manage growth could have a material adverse affect on the Company's business, financial condition or results of operations. The Company's future success depends in large part on the

continued service of its key management personnel. The Company believes that its future success also depends on its ability to attract and retain skilled technical, managerial and marketing personnel. Competition for qualified personnel is intense. The Company has from time to time experienced difficulties in recruiting qualified personnel. Failure by the Company to attract and retain the personnel it requires could have a material adverse affect on the financial condition and results of operations of the Company.

VOLATILITY OF MARKET PRICE; ISSUANCE OF SUBSTANTIAL NUMBER OF SHARES; AUTHORIZED SHARES; PROXY RULES.

The Company's Common Stock has been traded since 1994. The Company believes that factors such as (but not limited to) the sale of common stock issued on conversion of the Company's debentures, announcements of developments related to the Company's business, fluctuations in the Company's quarterly or annual operating results, failure to meet expectations, general economic conditions, interest rate changes or money supply fluctuations and developments in the Company's relationships with clients and suppliers will cause the price of the Company's Common Stock to fluctuate substantially. In recent years the stock market has experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. Such fluctuations could adversely affect the market price of the Company's Common Stock.

PENNY STOCK REGULATIONS AND REQUIREMENTS FOR LOW PRICED STOCK.

The Commission adopted regulations which generally define a "penny stock" to be any non-Nasdaq equity security that has a market price of less than $5.00 per share, subject to certain exceptions. Based upon the price of the Company's

Common Stock as currently traded on the OTC Bulletin Board, the Company's stock is subject to Rule 15g-9 under the Exchange Act which imposes additional sales practice requirements on broker-dealers which sell securities to persons other than established customers and "accredited investors." For transactions covered by this Rule, a broker-dealer must make a special suitability determination for the purchaser and have received a purchasers' written consent to the transaction prior to sale. Consequently, the Rule may have a negative effect on the ability of shareholders to sell common shares of the Company in the secondary market.

MANAGEMENT CONTROLS THE COMPANY'S FUNDS.

Management has broad discretion over how to spend the funds held by the Company. Although management will endeavor to act in the best interests of the shareholders, there can be no assurance that the decision to utilize proceeds will prove profitable to the Company.

THE COMPANY MAY NOT BE SUCCESSFUL.

The Company is to compete in the competitive market of real estate development and housing construction. The Company's prospects for success will depend on management's ability to successfully market its lots or houses to buyers and its

apartment projects to renters. As a result, demand and market acceptance for our projects is subject to a high level of uncertainty. The Company currently has limited resources to undertake the activities that will be necessary to acquire property and build real estate projects. If the Company is unable to expand its efforts, it will not generate substantial additional revenues. Investors should be aware that if the Company is not successful in the operation of its current business, or any future acquisition endeavors, each investor's entire investment in the Common Stock of the Company could become worthless. Even if the Company is successful in our operations and potential acquisitions, it is not certain that investors will derive a profit from investment in the Company.

THE COMPANY RELIES ON ITS MANAGEMENT.

The Company is dependent upon the members of management set forth herein. If the current management is no longer able to provide services to the Company, its business will be negatively affected.

ADDITIONAL DEBT, OR EQUITY FINANCING MAY AFFECT INVESTOR'S ABILITY TO SELL COMMON STOCK.

The Company's common stock currently trades on the OTC Bulletin Board under the symbol ONSP. Stocks trading on the OTC Bulletin Board generally attract a smaller number of market makers and a less active public market and may be subject to significant volatility. If the Company raises additional money from the sale of its Common Stock, the market price could drop and investor's ability to sell stock could be diminished. Further, even if the Company is able to increase its authorized shares, there can be no assurance that it will be able to obtain sufficient shareholder votes in the future for any such increase, which votes are required by Nevada law.

THE COMPANYS STRATEGY INCLUDES PURSUING STRATEGIC ACQUISITIONS THAT MAY NOT BE SUCCESSFUL

The Company will consider acquiring businesses that are intended to add products and or services. Acquisitions involve a number of operational risks that the acquired business may not be successfully integrated, may distract management attention, may involve unforeseen costs and liabilities, and possible regulatory costs, some or all of which could have a materially adverse effect on the Company's financial condition or results of operations. Additionally, the Company may make acquisitions with cash or with stock, or a combination thereof. If the Company does make any such acquisitions, various associated risks may be encountered, including potential dilution to the Company's then current shareholders, as a result of additional shares of common stock being issued in connection with the acquisitions.

THE COMPANY'S STOCK PRICE WILL FLUCTUATE AND MAY FALL BELOW EXPECTATIONS OF SECURITIES ANALYSTS AND INVESTORS, WHICH COULD SUBJECT THE COMPANY TO LITIGATION

The market price of the Company's common stock may fluctuate significantly in response to a number of factors, some of which are beyond its control. These factors include:

- quarterly variations in operating results;
- changes in accounting treatments or principles;
- existing litigation;
- announcements by the Company or its competitors of new products and services offerings, significant contracts, acquisitions or strategic relationships;
- additions or departures of key personnel;
- any future sales of the Company's common stock or other securities;
- stock market price and volume fluctuations of publicly-traded companies in general and Internet-related companies in particular; and
- general political, economic and market conditions.

It is likely that in some future quarter the Company's operating results may fall below the expectations of securities analysts and investors, which could result in a decrease in the trading price of the Company's common stock. In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. The Company may be the target of similar litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources, which could seriously harm the Company's business and operating results.

THERE IS A LIMITED PUBLIC MARKET FOR THE COMPANY'S COMMON STOCK AND THERE ARE NO ASSURANCES OF A CONTINUED TRADING MARKET FOR THE COMPANY'S COMMON STOCK

The Company's common stock is currently quoted on the OTC Bulletin Board (R) Market (OTCBB) under the symbol "ONSP". The Company's common stock is thinly traded. There are no assurances the Company will maintain its OTC Bulletin Board (R) listing. If the Company's common stock should be delisted from the OTC

Bulletin Board(R) Market, it is likely that the stock would then be quoted on the Pink Sheets Market, which could materially and / or adversely effect any future liquidity in the Company's common stock.

INABILITY TO SECURE AN INDEPENDENT AUDIT COMMITTEE MEMBER

Due to the potential exposure to litigation and small compensation, it may be difficult to secure an Independent Audit Committee Member. If the Company is unable to secure an Independent Audit Committee Member, it may be in violation of current audit standards and may be subject to possible de-listing of which could have a materially adverse affect on the Company's financial condition or results of operations.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recorded at cost and is depreciated on a straight-line basis over the estimated useful lives of such assets. Changes in circumstances such as technological advances, changes to the Company's business model or changes in the Company's capital strategy could result in the actual useful lives differing from the Company's estimates. In those cases where the Company determines that the useful life of property, plant and equipment should be shortened, the Company will depreciate the net book value in excess of the estimated salvage value over its revised remaining useful life.

DEFERRED TAX ASSETS

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.

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 31,2003 and 2002, aggregated $0 and ($19,000), respectively.

Available-for-sale assets, which are also required to be reported at fair value, 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, 2003, 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 Small Cap market and now trade on the Over-The-Counter Bulletin Board 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 effected a 1 for 12 reverse stock split of its issued and outstanding common stock. 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. April 22, 2003 the Company created a new subsidiary, Coventry 1 Inc. that is a Nevada Corporation. The Company's other subsidiary Onspan SmartHouse, Inc., is a Florida Corporation.

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. Competition; and 5. Success of marketing, advertising and promotional campaigns.

A. LIQUIDITY AND CAPITAL RESOURCES

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 Small Cap market and now trade on the Over-The-Counter Bulletin Board 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 effected a 1 for 12 reverse stock split of its issued and outstanding common stock. 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. April 22, 2003 the Company created a new subsidiary, Coventry 1 Inc. that is a Nevada Corporation. The Company's other subsidiary Onspan SmartHouse, Inc., is a Florida Corporation.

During the three months ended December 31, 2003, working capital decreased $105,182 to $575,883 from $681,065. During this same period, stockholders' equity decreased $104,641 to $577,791 from $682,432. The decrease in stockholders' equity is entirely due to the net loss for the period. The Company has budgeted significant capital expenditures for the current fiscal year to make improvements on the house. The Company is currently reliant on construction/mortgage financing provided by one lender - Evolve One Inc. As of December 31, 2003, Evolve One, Inc did not have sufficient cash reserves to fully fund the available credit under the line of credit. Any financial or legal impairment of this lender may have an impact on our current project. An impairment of our lender may force the Company to cancel outstanding project, may cause project delays or may ultimately force the Company to sell its project.

The Company is currently a party to several legal proceedings and although the Company will vigorously defend all of these actions, the Company is unable to estimate with any reasonable certainty what liability it may have to these litigants. There are no assurances that the Company will be successful in defending these legal proceedings, or if successful the cost of defending these legal proceedings may significantly deplete the capital of the Company impairing the Company's ability to continue as a going concern. Accordingly, there are no assurances that the Company will be successful in achieving the above plans, or that such plans, if consummated, will enable the Company to obtain profitable operations or continue as a going concern.

B. RESULTS OF OPERATIONS

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE - The Company's selling, general and administrative expenses, including salaries and wages amounted to $104,641 during the three months ended December 31, 2003 as compared to $102,665 during the three months ended December 31, 2002. The increase of $1,976 includes primarily a decrease of ($17,000) for salaries , ($30,000) legal settlement and ($11,883) for D & O insurance , off set by a increase of $46,568 for legal fees due to the three ongoing lawsuits and $7,225 in rent.

INCOME TAXES - The Company recorded $39,360 in deferred income tax expense for the three-month period ended December 31, 2003, a 100% valuation allowance was taken against this amount as of December 31, 2003. 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

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.

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 former subsidiary of the Company, claims that these tax refunds belong to the plaintiff. The Company has filed an answer disputing the amounts claimed and seeking reimbursement for certain expenses incurred by

the Company on behalf of the plaintiff. The parties have engaged in settlement discussions, which have been unsuccessful to date.

2. Securities Actions:

a. Richard T. Clark and Joel C. Holt v. OnSpan Networking, Inc. and Herbert Tabin, Case No. 03-CV-298K (N.D. Okla.) (Removed from state court May 1, 2003); This action asserts claims for violation of Oklahoma securities law, fraud, breach of contract, and breach of fiduciary duties. The action seeks damages in the amount of $300,000, for each plaintiff, the plaintiffs' attorneys' fees and costs, and certain other relief. The case was filed in Oklahoma State court on March 28, 2003, and it was removed to federal court on May 1, 2003. The Company has filed a Motion to Dismiss the matter.

b. D. Mark White v OnSpan Networking, Inc. and Herbert Tabin, Case No. 352198686 03 (District Court, Tarrant County Texas) (Complaint filed May 2, 2003) This action asserts claims for violation of Texas securities law, fraud, and breach of fiduciary duties. The action seeks unspecified damages, restitution in the amount of $300,000, punitive damages, pre-judgment interest, the plaintiffs' attorneys' fees and costs, and certain other relief. The case was filed in Texas state court on May 2, 2002. The Company has filed a Motion to Dismiss Plaintiff's Amended Complaint.

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

a) Exhibits

4.0 Long Term Incentive Stock Options Plan (1)

31.1	Certification of President Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of President Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

b) 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 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. 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.

25

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 13, 2004 By: /s/ Herbert Tabin

Herbert Tabin, President

Date: February 13, 2004 By: /s/ Marissa Dermer

Marissa Dermer, Chief Financial
and Principal Accounting Officer

26