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ONSPAN NETWORKING INC  
Form 10QSB  
August 15, 2005

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: JUNE 30, 2005

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)

1515 N. FEDERAL HWY, SUITE 300, BOCA RATON, FL 33432

-----  
(Address of principal executive office)

(561) 864-1084

-----  
(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 August 15, 2005 was 1,090,677.

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

ONSPAN NETWORKING, INC. AND SUBSIDIARY

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### PART I - UNAUDITED FINANCIAL INFORMATION

ONSPAN NETWORKING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEET  
JUNE 30, 2005  
(UNAUDITED)

#### ASSETS

##### CURRENT ASSETS

Prepaid Expenses .....	\$ 2,372
Marketable Securities .....	207,400
	-----
Total current assets .....	209,772
Property and equipment, net .....	2,212
Website .....	20,000
	-----
Total other assets .....	22,212
	-----
Total assets .....	\$ 231,984
	=====

#### LIABILITIES AND STOCKHOLDERS' DEFICIT

##### CURRENT LIABILITIES

Bank overdraft .....	\$ 7,260
Accounts payable .....	6,529
Accrued wages .....	237,200
	-----
Total current liabilities .....	250,989

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### Commitments and contingencies

#### STOCKHOLDERS' DEFICIT

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 1,090,677 shares .....	13,088
Paid-in capital .....	7,908,845
Accumulated other comprehensive income .....	174,300
Accumulated deficit .....	(8,115,240)
-----	
Total stockholders' deficit .....	(19,005)
-----	
Total liabilities and stockholders' deficit .....	\$ 231,984
=====	

See accompanying notes to condensed consolidated financial statements.

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### ONSPAN NETWORKING, INC. AND SUBSIDIARY

#### CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS THREE AND NINE MONTHS ENDED JUNE 30, 2005 AND 2004 (UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		NINE MONTHS ENDED JUNE 30,	
	2005	2004	2005	2004
<b>COSTS AND EXPENSES:</b>				
Salaries and wages .....	45,600	21,000	106,600	86,500
Other selling, general and administrative expenses .....	25,907	100,803	182,675	386,883
	71,507	121,803	289,275	473,383
Loss from operations .....	(71,507)	(121,803)	(289,275)	(473,383)
<b>OTHER INCOME (EXPENSE):</b>				
Interest income .....	68	-	814	4
Interest expense .....	-	(2,107)	-	(4,632)
Total other income (expense) .....	68	(2,107)	814	(4,628)
LOSS BEFORE INCOME TAXES .....	(71,439)	(123,910)	(288,461)	(478,011)
INCOME TAX (BENEFIT) EXPENSE .....	-	-	-	-
NET LOSS .....	\$ (71,439)	\$ (123,910)	\$ (288,461)	\$ (478,011)
=====				
<b>BASIC AND DILUTED NET LOSS PER SHARE</b>				
CONTINUED OPERATIONS .....	\$ (0.07)	\$ (0.11)	\$ (0.26)	\$ (0.46)
=====				
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>				

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BASIC AND DILUTED .....	1,090,677	1,090,677	1,090,677	1,038,137
	=====	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

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ONSPAN NETWORKING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT  
NINE MONTHS ENDED JUNE 30, 2005  
(UNAUDITED)

	Preferred Stock Shares	Par Value	Common Stock Shares	Par Value	Paid-in Capital	Accumulated Other Comprehensive income (loss)	Re Ea
	-----	-----	-----	-----	-----	-----	---
BALANCE, September 30, 2004 ..	2,713	\$2	1,090,677	\$13,088	\$7,908,845	\$ -	\$(7
Preferred dividends reversal .....	-		-	-	-	-	
Unrealized gain on available- for-sale securities, net .....	-		-	-	-	174,300	
Net loss .....	-		-	-	-	-	
	-----	--	-----	-----	-----	-----	---
BALANCE, June 30, 2005 .....	2,713	\$2	1,090,677	\$13,088	\$7,908,845	\$174,300	\$(8
	=====	==	=====	=====	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

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ONSPAN NETWORKING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
NINE MONTHS ENDED JUNE 30, 2005 AND 2004  
(UNAUDITED)

2005

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CASH FLOWS FROM OPERATING ACTIVITIES	
Net Loss .....	\$ (288,461)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:	
Depreciation .....	946
Common stock received in exchange for leasehold improvements .....	(6,100)
Change in assets and liabilities	
Inventory .....	-
Prepaid expenses .....	(2,372)
Accounts payable .....	(18,434)
Accrued expenses .....	92,200
	-----
Net cash (used in) provided by operating activities .....	(222,221)
	-----
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase marketable securities .....	(27,000)
Capital expenditures .....	-
	-----
Net cash used in investing activities .....	(27,000)
	-----
CASH FLOWS FROM FINANCING ACTIVITIES	
Bank overdraft .....	7,260
Loan from EONE .....	-
Loan Payable, Related Party .....	-
Proceeds from payments on loan payable - related party .....	-
Exercise of Stock Option .....	-
	-----
Net cash provided by (used in) financing activities .....	7,260
	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS	(241,961)
NET CASH (PROVIDED BY) DISCONTINUED OPERATIONS .....	-
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS .....	(241,961)
CASH AND CASH EQUIVALENTS, beginning of period .....	241,961
	-----
CASH AND CASH EQUIVALENTS, end of period .....	\$ -
	=====

See accompanying notes to condensed consolidated financial statements.

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ONSPAN NETWORKING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 NINE MONTHS ENDED JUNE 30, 2005 AND 2004  
 (UNAUDITED)  
 (CONTINUED)

2005  
 ----

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest and income taxes are as follows:

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Interest .....	\$	-
Income taxes .....	\$	-
Financed insurance premiums .....	\$	-

See accompanying notes to condensed consolidated financial statements.

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### ONSPAN NETWORKING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 NINE MONTHS ENDED JUNE 30, 2005 AND 2004  
 (UNAUDITED)

#### A. ORGANIZATION

##### 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. Currently the Company has 3 full time employees.

On May 27, 2004, the Company entered into a stock purchase agreement with Herbert Tabin, its President and Chief Executive Officer, and Gary Schultheis, an employee of the Company, pursuant to which the Company sold its wholly-owned subsidiary, Coventry 1, Inc., to Messrs. Tabin and Schultheis. The sole asset of the subsidiary was a single family home and lot located in Woodfield Country Club, Boca Raton, Florida and related country club golf membership. The purchase price for the shares of the subsidiary was \$1,509,972. The purchase price for the subsidiary was based on a comprehensive certified appraisal as defined by the Uniform Standards of Professional Appraisal Practice (USPAP), and the report conforms to applicable FIRREA guidelines and or requirements. Messrs Tabin and Schultheis bore the cost of the appraisal. The purchase includes the country club golf membership, and the purchaser is responsible for all costs and fees associated with the membership. In addition, the Purchaser shall be responsible for all expenses associated with the property comprising the Subsidiary whether accrued or outstanding or subsequently to be outstanding, including outstanding

ONSPAN NETWORKING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
NINE MONTHS ENDED JUNE 30, 2005 AND 2004  
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tax balance of \$21,188, due to Palm Beach County, Florida for the year 2003, outstanding fees including electric, security etc. totaling \$12,768, as well as an outstanding insurance payable of \$17,043. Messrs. Tabin and Schultheis also agreed to pay the Company 0.75% of the gross sales amount of the property upon any subsequent sale provided the gross sales price exceeds \$2,000,001 The Company, which had received engineering plans, had intended to renovate and expand the existing home on the property. The Company sold the real estate project in order to service mounting legal expenses associated with litigation. The Company used the proceeds from the sale of this division to pay off its debt, which included a note payable to Evolve One, Inc and notes to related parties.

BASIS OF PRESENTATION

The financial statements at June 30, 2005 and 2004 include the accounts of the Company.

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, 2004, which is included in the Company's Form 10-KSB for the year ended September 30, 2004. The financial data for the interim periods presented may not necessarily reflect the results to be anticipated for the complete year.

B. ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements for the period ended June 30, 2005 and June 30, 2004 include the accounts of Onspan Networking, Inc. and its subsidiary, Onspan Smarthouse Inc. All significant intercompany accounts and transactions have been eliminated.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities (VIE)," (revised December 2003 by FIN No. 46R), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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entity through means other than voting rights and accordingly should consolidate the entity. For variable interests in VIEs created before January 1, 2004, the Interpretation will be applied beginning on January 1, 2005. For any VIEs that must be consolidated under FIN No. 46R that were created before January 1, 2004, the assets, liabilities and non-controlling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN No. 46R first applies may be used to measure the assets, liabilities and non-controlling interest of the VIE. The adoption of FIN No. 46R did not have a material impact on the Company's financial position, results of operations or cash flows as the Company does not have any VIEs.

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-01 provides guidance on other-than-temporary impairment models for marketable debt and equity securities accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," and non-marketable equity securities accounted for under the cost method. The EITF developed a basic three-step model to evaluate whether an investment is other-than-temporarily impaired. In September 2004, the FASB issued FASB Staff Position EITF 03-01-1, which delays the effective date until additional guidance is issued for the application of the recognition and measurement provisions of EITF 03-01 to investments in securities that are impaired; however, the disclosure requirements are effective for annual periods ending after June 15, 2004. The adoption of the disclosure provisions of EITF 03-01 did not have a material effect on the Company's results of operations or financial condition.

In November 2004, the FASB issued SFAS 151, Inventory Costs--an amendment of ARB No. 43, Chapter 4 . The Statement amends the guidance of ARB No. 43, Chapter 4, Inventory Pricing , by clarifying that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and by requiring the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. It does not appear that this Statement will have a material effect on the financial position, operations or cash flows of the Company when it becomes effective in 2006.

In November 2004, the FASB issued SFAS 151, Inventory Costs--an amendment of ARB No. 43, Chapter 4 . The Statement amends the guidance of ARB No. 43, Chapter 4, Inventory Pricing , by clarifying that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and by requiring the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. It does not appear that this Statement will have a material effect on the financial position, operations or cash flows of the Company when it becomes effective in 2006.



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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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In December 2004, the FASB issued SFAS No. 123R "Share-Based Payment" ("SFAS 123R"), a revision to SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), and superseding APB Opinion No. 25 "Accounting for Stock Issued to Employees" and its related implementation guidance. SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, including obtaining employee services in share-based payment transactions. SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. Adoption of the provisions of SFAS 123R is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Company is currently in the process of evaluating the potential impact that the adoption of SFAS 123R will have on its consolidated financial position and results of operations.

SFAS No. 154, Accounting Changes and Error Corrections, was issued in May 2005 and replaces APB Opinion No. 20 and SFAS No. 3. SFAS No. 154 requires retrospective application for voluntary changes in accounting principle in most instances and is required to be applied to all accounting changes made in fiscal years beginning after December 15, 2005. The Company's expected April 1, 2006 adoption of SFAS No. 154 is not expected to have a material impact on the Company's consolidated financial condition or results of operations.

### CASH AND CASH EQUIVALENTS

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

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalents, accounts payable and accrued wages approximate fair value as of June 30, 2005, because of the short maturity of these instruments.

### REVENUE RECOGNITION

The Company will recognize revenue when:

1. Persuasive evidence of an arrangement exists
2. Shipment has occurred
3. Price is fixed or determinable, and
4. Collectability is reasonably assured

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ONSPAN NETWORKING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
NINE MONTHS ENDED JUNE 30, 2005 AND 2004  
(UNAUDITED)

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### 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 June 30, 2005, the Company had 2,713 shares outstanding of its Series A Convertible Preferred Stock ("Series A"). Series A 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 to 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 to suspend the payment of Series A dividends. This decision was 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 cancelled the accrued dividends on these shares in the amount of \$30,946 at December 31, 2004.

### 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 the 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.

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### ONSPAN NETWORKING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
NINE MONTHS ENDED JUNE 30, 2005 AND 2004  
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SFAS No. 123 "Accounting for Stock Based Compensation" ("SFAS 123"), requires

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the Company to disclose pro forma information regarding option grants made to its employees. SFAS 123 specifies certain valuation techniques that produce estimated compensation charges that are included in the pro forma results below. These amounts have not been reflected in the Company's Statement of Operations, because Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees," specifies that no compensation charge arises when the price of the employees' stock options equal the market value of the underlying stock at the grant date, as in the case of options granted to the Company's employees.

SFAS No. 123 pro forma numbers are as follows for the years ended June 30, 2005 and 2004:

	2005 ----	2004 ----
Actual net income (loss) .....	\$(288,461) =====	\$(478,011) =====
Pro forma net income (loss) ...	\$(288,461) =====	\$(478,011) =====
Pro forma basic and diluted net Income (loss) per share .....	\$ (.26) =====	\$ (.46) =====

### 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 income tax purposes based upon the useful lives of the assets.

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### ONSPAN NETWORKING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
NINE MONTHS ENDED JUNE 30, 2005 AND 2004  
(UNAUDITED)

### C. MARKETABLE SECURITIES

SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities," requires that all applicable investments be classified as trading securities, available-for-sale securities or held-to-maturity securities. The Company has investments classified as available-for-sale, which are required to be reported

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at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity (net of the effect of income taxes). Fair value is also defined to be the last closing price for the listed security. Due to the size of certain of the Company's investments and their limited trading volume, there can be no assurance that the Company will realize the value which is required to be used by SFAS No. 115.

On October 15, 2004, the Company purchased 150,000 shares for \$.18 per share for an aggregate purchase price of \$27,000. (1,200,000 shares post split ) of Evolve One, Inc, a related party where certain officers and directors of the Company are also officers and directors of Evolve One Inc. in a private transaction exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of the Securities Act.

The Company terminated its sub-lease agreement with Evolve One Inc., as of January 20, 2005. Evolve One, Inc. agreed to compensate the Company 20,000 shares of Evolve One, Inc. restricted common stock for the \$6,100 of capital improvements paid by the Company.

The amortized cost of equity securities as shown in the accompanying balance sheet and their estimated market value at June 30, 2005 are as follows:

	2005
	----
Available-for-sale securities:	
Cost .....	33,100
Unrealized gain .....	174,300
	-----
	207,400
	-----

### D. OTHER COMPREHENSIVE INCOME (LOSS)

The following represents a reconciliation of other comprehensive income for the six months ended June 30, 2005:

Accumulated other comprehensive income (loss) at 9/30/04:	\$ -
Unrealized gain from marketable equity securities .....	\$174,300
	-----
Net accumulated other comprehensive income (loss) .....	\$174,300
	=====

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### ONSPAN NETWORKING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
NINE MONTHS ENDED JUNE 30, 2005 AND 2004  
(UNAUDITED)

### E. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At June 30, 2005 and 2004, the Company had no amounts in excess of FDIC insured limit.

### F. RELATED PARTY

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For the three month period ended June 30, 2005 the Company accrued \$13,200 in salaries for its President Herbert Tabin. As of June 30, 2005 the Company had a total of \$121,200 accrued salaries to Mr. Tabin .

On October 15, 2004 The Company purchased 150,000 shares for \$.18 per share for an aggregate purchase price of \$27,000. (1,200,000 shares post split ) of Evolve One, Inc, a related party where certain officers and directors of the Company are also officers and directors of Evolve One Inc. in a private transaction exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of the Securities Act.

The Company terminated its sub-lease agreement with Evolve One Inc., as of January 20, 2005. The Company was released of any and all rental obligations in accordance with the Sublease agreement dated October 19, 2004. Evolve One, Inc. agreed to compensate the Company 20,000 shares of Evolve One, Inc. restricted common stock for the \$6,100 of capital improvements paid by the Company.

The Company will continue to indemnify the Directors by paying legal fees incurred and accruing any expected losses resulting from various legal proceedings.

### 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:

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### ONSPAN NETWORKING, INC. AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS NINE MONTHS ENDED JUNE 30, 2005 AND 2004 (UNAUDITED)

	2005 ----	2004 ----
Net (loss) .....	\$ (288,461)	\$ (478,011)
	=====	=====
Denominator for basic earnings per share - Weighted average shares .....	1,090,677	1,038,137
Effect of dilutive securities - stock options .....	-	-
	-----	-----
Denominator for diluted earnings per share - Weighted average shares adjusted for dilutive securities	1,090,677	1,038,137
	=====	=====
Basic and diluted earnings (loss) per common share: Net (loss) .....	\$ (.26)	\$ (.46)
	=====	=====

### 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

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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 filed counterclaims for refund of monies paid by the Company and owed by the Plaintiff, as well as for a declaratory judgment that any tax liability of the Company owed to the North Carolina Department of Revenue must be reimbursed by the Plaintiff. The parties agreed to settle all claims, and the action was dismissed on October 26, 2004. Pursuant to the settlement agreement, the Company paid the Plaintiff \$39,800, and the Company and the Plaintiff each released all claims. Additionally, several shareholders affiliated with the Plaintiff agreed to transfer their shares to the Company. Those shares will be cancelled upon surrender. The number of shares to be cancelled is currently undetermined.

### 2. Securities Actions:

RICHARD T. CLARK AND JOEL C. HOLT V. HERBERT TABIN AND GARY SCHULTHEIS, United States District Court Northern District of Oklahoma, Case No. 03-CV-289K(J). On March 28, 2003, Plaintiffs Richard Clark and Joel Holt ("Plaintiffs") filed a petition in the Tulsa County District Court alleging claims against the Company and its President, CEO and Director, Herbert Tabin ("Tabin"), for, among other things, fraud, breach of fiduciary duty, and breach of contract. On May 1, 2003, the Company, along with Tabin, removed this action to the United States District Court for the Northern District of Oklahoma and filed a Motion to Dismiss all claims. On October 15, 2003, Plaintiffs withdrew their claims and filed an Amended Complaint asserting claims against Tabin, both individually and derivatively, on behalf of the Company. Plaintiffs also asserted claims against the Company. Plaintiffs sought damages in the amount of \$300,000 each,

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ONSPAN NETWORKING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
NINE MONTHS ENDED JUNE 30, 2005 AND 2004  
(UNAUDITED)

as well as punitive damages. The Company retained independent counsel to conduct an investigation into the allegations by Plaintiffs made derivatively on behalf of the Company and, based on that investigation, determined that no action on behalf of the Company was warranted. Defendants also filed a Motion to Dismiss all of the allegations in the Amended Complaint. On October 19, 2004, Plaintiffs filed a Second Amended Complaint in which they dropped the Company as a defendant and dropped the derivative shareholder claims. Plaintiffs added Gary Schultheis as an individual defendant. The Second Amended Complaint alleges claims against Tabin and Schultheis individually and motions to dismiss the Second Amended Complaint are now pending before the Court.

### 3. Potential Tax Liability:

In 2003, the North Carolina Department of Revenue has contacted the Company with regard to state income taxes for the tax year ended September 30, 1999. Upon investigation, the Company has determined that former management did not file a state income tax return in North Carolina for that year, although a return was filed in Florida for that year and returns were filed in North Carolina for two then subsidiaries of the company. The Company is in the process of investigating the situation and of evaluating what action should be taken as a result of the inquiry by the North Carolina Department of Revenue. The Company has been unable to estimate with any reasonable certainty what liability it may have to the State of North Carolina.

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### I. GOING CONCERN

The accompanying condensed financials were prepared assuming that the Company will continue as a going concern. The Company was 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.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### CRITICAL ACCOUNTING ESTIMATES AND 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. 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 had acquired its first property on June 19, 2003. The Company, which had received engineering plans for the real estate project, had intended to renovate and expand the existing single-family home on this site. However on May 27, 2004 the Company completed the sale of Coventry 1, Inc. and utilized the cash received for legal expenses. 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

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to continue as a going concern.

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### RISK FACTORS

#### SIGNIFICANT CAPITAL REQUIREMENTS; NEED FOR ADDITIONAL CAPITAL.

The Company's capital requirements have been and will continue to be significant. The Company had been dependent primarily on existing capital. Future capital needs may be satisfied by either the private placement of equity securities, loans and/or other debt financings. The Company based on its cash requirements and exposure to liability from shareholder lawsuits is unsure if current loans will be sufficient for the next twelve months. The Company is currently, contemplating, pursuing potential funding opportunities which could be debt or equity. 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 it will likely cease its operations. Any additional 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.

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#### 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



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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 15c-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 purchaser's 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 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 COMPANY'S 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

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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:

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- 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
- 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.

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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 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.

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 June 30, 2005, investments consisted entirely of available for sale securities. 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. There were no

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losses related to investments held for trading as of June 30, 2005 and 2004.

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 June 30, 2005, the Company held 1,220,000 shares of Evolve One, Inc. common stock.

### 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

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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. Currently the Company has 3 full time employees.

### 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

During the nine months ended June 30, 2005, working capital decreased \$82,269 to (\$41,217) from \$41,052. During this same period, stockholders' equity decreased \$83,215 to (\$19,005) from \$64,210. The decrease in stockholders' equity is due to the (\$288,461) net loss for the period, offset by a increase of \$174,300 due to the unrealized gain on available for sale securities and the \$30,946 due to the reversal of accrued dividend on preferred stock. The Company has not budgeted any significant capital expenditures for the current fiscal year

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### B. 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

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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.

### C. RESULTS OF OPERATIONS

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE - The Company's selling, general and administrative expenses, including salaries and wages amounted to \$289,275 during the nine months ended June 30, 2005 as compared to \$473,373 during the nine months ended June 30, 2004. The decrease of \$184,098 includes primarily a increase of \$20,100 for salaries offset by a decrease of (\$5,700) for accounting fees, (\$169,200) for legal fees, (\$14,300) in travel, (\$5,300 ) in telephone, (\$3,500) in utilities and (\$14,300) in rent.

#### INCOME TAXES

In 2003, the North Carolina Department of Revenue has contacted the Company with regard to state income taxes for the tax year ended September 30, 1999. Upon investigation, the Company has determined that former management did not file a state income tax return in North Carolina for that year, although a return was filed in Florida for that year and returns were filed in North Carolina for two then subsidiaries of the company. The Company is in the process of investigating the situation and of evaluating what action should be taken as a result of the inquiry by the North Carolina Department of Revenue. The Company has been unable to estimate with any reasonable certainty what liability it may have to the State of North Carolina.

#### OTHER COMPREHENSIVE INCOME (LOSS)

During the nine months ended June 30, 2005, the Company recorded an increase in its net unrealized gain from available-for-sale securities in the amount of \$174,300, due to an increase in market value. Available-for-sale securities consists primarily of Evolve One, Inc. (EVLO). There can be no assurance that the Company will realize the value assigned, under Statement of Accounting Standards #115 (Accounting for Certain Investments in Debt and Equity Securities), to these securities.

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### ITEM 3. CONTROLS AND PROCEDURES

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer, of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Principal Financial Officer have concluded that our disclosure controls and procedures as of June 30, 2005 (the "Evaluation

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Date") were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There were no significant changes in our internal controls or in other factors that could significantly affect these controls during the quarter ended June 30, 2005.

Disclosure controls and procedures (as defined in the Exchange Act Rules 13a-14(c) and 15d-14(c)) are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management to allow timely decisions regarding required disclosure.

The Certifying Officers have also indicated that there were no significant changes in our internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

Our management, including each of the Certifying Officers, does not expect that our disclosure controls or our internal controls will prevent all error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and their can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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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 former subsidiary of the Company, claims that these tax refunds belong to the plaintiff. The Company filed counterclaims for refund of monies paid by the Company and owed by the Plaintiff, as well as for a declaratory judgment that any tax liability of the Company owed to the North Carolina Department of

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Revenue must be reimbursed by the Plaintiff. The parties agreed to settle all claims, and the action was dismissed on October 26, 2004. Pursuant to the settlement agreement, the Company paid the Plaintiff \$39,800, and the Company and the Plaintiff each released all claims. Additionally, several shareholders affiliated with the Plaintiff agreed to transfer their shares to the Company. Those shares will be cancelled upon surrender. The number of shares to be cancelled is currently undetermined.

### 2. Securities Actions:

RICHARD T. CLARK AND JOEL C. HOLT V. HERBERT TABIN AND GARY SCHULTHEIS, United States District Court Northern District of Oklahoma, Case No. 03-CV-289K(J). On March 28, 2003, Plaintiffs Richard Clark and Joel Holt ("Plaintiffs") filed a petition in the Tulsa County District Court alleging claims against the Company and its President, CEO and Director, Herbert Tabin ("Tabin"), for, among other things, fraud, breach of fiduciary duty, and breach of contract. On May 1, 2003, the Company, along with Tabin, removed this action to the United States District Court for the Northern District of Oklahoma and filed a Motion to Dismiss all claims. On October 15, 2003, Plaintiffs withdrew their claims and filed an Amended Complaint asserting claims against Tabin, both individually and derivatively, on behalf of the Company. Plaintiffs also asserted claims against the Company. Plaintiffs sought damages in the amount of \$300,000 each, as well as punitive damages. The Company retained independent counsel to conduct an investigation into the allegations by Plaintiffs made derivatively on behalf of the Company and, based on that investigation, determined that no action on behalf of the Company was warranted. Defendants also filed a Motion to Dismiss all of the allegations in the Amended Complaint. On October 19, 2004, Plaintiffs filed a Second Amended Complaint in which they dropped the Company as a defendant and dropped the derivative shareholder claims. Plaintiffs added Gary Schultheis as an individual defendant. The Second Amended Complaint alleges claims against Tabin and Schultheis individually and motions to dismiss the Second Amended Complaint are now pending before the Court.

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### 3. Potential Tax Liability:

In 2003, the North Carolina Department of Revenue has contacted the Company with regard to state income taxes for the tax year ended September 30, 1999. Upon investigation, the Company has determined that former management did not file a state income tax return in North Carolina for that year, although a return was filed in Florida for that year and returns were filed in North Carolina for two then subsidiaries of the company. The Company is in the process of investigating the situation and of evaluating what action should be taken as a result of the inquiry by the North Carolina Department of Revenue. The Company has been unable to estimate with any reasonable certainty what liability it may have to the State of North Carolina.

### RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities (VIE)," (revised December 2003 by FIN No. 46R), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. For variable interests in VIEs created before January 1, 2004, the Interpretation will be applied beginning on January 1, 2005. For any VIEs that must be consolidated under FIN No. 46R that were created before January 1, 2004, the assets, liabilities and non-controlling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being

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recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN No. 46R first applies may be used to measure the assets, liabilities and non-controlling interest of the VIE. The adoption of FIN No. 46R did not have a material impact on the Company's financial position, results of operations or cash flows as the Company does not have any VIEs.

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-01 provides guidance on other-than-temporary impairment models for marketable debt and equity securities accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," and non-marketable equity securities accounted for under the cost method. The EITF developed a basic three-step model to evaluate whether an investment is other-than-temporarily impaired. In September 2004, the FASB issued FASB Staff Position EITF 03-01-1, which delays the effective date until additional guidance is issued for the application of the recognition and measurement provisions of EITF 03-01 to investments in securities that are impaired; however, the disclosure requirements are effective for annual periods ending after June 15, 2004. The adoption of the disclosure provisions of EITF 03-01 did not have a material effect on the Company's results of operations or financial condition.

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In November 2004, the FASB issued SFAS 151, Inventory Costs--an amendment of ARB No. 43, Chapter 4 . The Statement amends the guidance of ARB No. 43, Chapter 4, Inventory Pricing , by clarifying that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and by requiring the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. It does not appear that this Statement will have a material effect on the financial position, operations or cash flows of the Company when it becomes effective in 2006.

In November 2004, the FASB issued SFAS 151, Inventory Costs--an amendment of ARB No. 43, Chapter 4 . The Statement amends the guidance of ARB No. 43, Chapter 4, Inventory Pricing , by clarifying that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and by requiring the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. It does not appear that this Statement will have a material effect on the financial position, operations or cash flows of the Company when it becomes effective in 2006.

In December 2004, the FASB issued SFAS No. 123R "Share-Based Payment" ("SFAS 123R"), a revision to SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), and superseding APB Opinion No. 25 "Accounting for Stock Issued to Employees" and its related implementation guidance. SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, including obtaining employee services in share-based payment transactions. SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. Adoption of the provisions of SFAS 123R is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Company is currently in the process of evaluating the potential impact that the adoption of SFAS 123R will have on its consolidated financial position and results of operations.

SFAS No. 154, Accounting Changes and Error Corrections, was issued in May 2005

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and replaces APB Opinion No. 20 and SFAS No. 3. SFAS No. 154 requires retrospective application for voluntary changes in accounting principle in most instances and is required to be applied to all accounting changes made in fiscal years beginning after December 15, 2005. The Company's expected April 1, 2006 adoption of SFAS No. 154 is not expected to have a material impact on the Company's consolidated financial condition or results of operations.

### 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.

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### ITEM 6. EXHIBITS

The following documents are filed as a part of this report or are incorporated by reference to previous filings, if so indicated:

- 31.1 Certification dated August 15, 2005 pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a) of the Principal Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Herbert Tabin, Chief Executive Officer
- 31.2 Certification dated August 15, 2005 pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a) of the Principal financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Marissa Dertmer, Chief Financial Officer
- 32.1 Certification dated August 15, 2005 pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, made by Herebert Tabin, Chief Executive Officer.
- 32.2 Certification dated August 15, 2005 pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, made by Marissa Dermer, Chief Financial Officer.

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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: August 15, 2005

By: /s/ Herbert Tabin  
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Herbert Tabin, President

Date: August 15, 2005

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



