ION NETWORKS INC
Form 10QSB
November 15, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2004

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission File No.: 0-13117

ION NETWORKS, INC.

(Exact Name of Small Business Issuer in Its Charter)

Delaware	22-2413505
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

120 CORPORATE BOULEVARD, SOUTH PLAINFIELD, NJ 07080

(Address of Principal Executive Offices)

(908) 546-3900

(Issuer's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the proceeding 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 __.

There were 22,525,500 shares of Common Stock outstanding as of November 10, 2004.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT:

YES __ NO _X_

ION NETWORKS, INC.

FORM 10-QSB

FOR THE QUARTER ENDED SEPTEMBER 30, 2004

PART I. FINANCIAL INFORMATION

2

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

The condensed financial statements included herein have been prepared by the registrant without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Although the registrant believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. It is suggested that these financial statements be read in conjunction with the audited financial statements and the notes thereto included in the registrant's Report on Form 10-KSB for the year ended December 31, 2003.

3

ION NETWORKS, INC.
CONDENSED BALANCE SHEET
As of September 30, 2004
(Unaudited)

ASSETS

Current assets

Cash and cash equivalents
Accounts receivable, less allowance for doubtful accounts of $43,974
Inventory, net
Prepaid expenses and other current assets

Total current assets

Property and equipment, net
Capitalized software, less accumulated amortization of $4,063,481
Other assets

Total assets

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities
Current portion of capital leases
Current portion of long-term debt
Accounts payable
Accrued expenses
Accrued payroll and related liabilities
Deferred income
Sales tax payable
Other current liabilities

Total current liabilities

Long term liabilities
Convertible debenture
Long-term debt, net of current portion

Total long term liabilities

Commitments and contingencies

Stockholders' Equity
Preferred stock - par value $.001 per share; authorized shares; 200,000 shares designated Series A; 166,835 shares issued and outstanding (aggregate liquidation preference $300,303)
Common stock - par value $.001 per share; authorized 50,000,000 shares; 23,125,500 shares issued and outstanding
Additional paid-in capital
Notes receivable from former officer (see note 5)
Accumulated deficit

Total stockholders' equity

Total liabilities and stockholders' equity

The accompanying notes are an integral part of these condensed financial statements.

ION NETWORKS, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine End Septem 20
Net sales	$ 1,047,054	$ 888,324	$ 2,5
Cost of sales	306,200	214,535	7
Gross margin	740,854	673,789	1,7
Research and development expenses	167,247	116,080	4
Selling, general and administrative expenses	530,768	454,509	1,7
Restructuring, asset impairment and other	(63,716)	(213,071)	
charges	(63,716)	(405,402)	
Depreciation and amortization expenses	100,617	163,597	3
Total operating expenses	734,916	521,115	2,4
Income(loss) from operations	5,938	152,674	(6
Other income	--	3,465	
Interest income	257	4,308	
Interest expense	(496)	(1,681)	
Net income(loss)	$ 5,699	$ 158,766	$ (6

Per share data
Net income(loss) per share

Basic	$ 0.00	$ 0.01	$
Diluted	$ 0.00	$ 0.01	$
Weighted average number of common shares outstanding			
Basic	22,883,652	23,900,500	23,5
Diluted	27,633,535	25,581,263	23,5

The accompanying notes are an integral part of these condensed financial statements.

ION NETWORKS, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine Months Ended September 30, 2004	For th Ended
Cash flows from operating activities		
Net loss	$(626,171)	$
Adjustments to reconcile net loss to net cash used in operating activities:		
Restructuring, asset impairments and other charges, non-cash	63,716	
Depreciation and amortization	322,061	
Non-cash stock-based compensation	58,750	
Interest income from notes receivable from former officers	(19,253)	
Changes in operating assets and liabilities:		
Accounts receivable	(126,992)	
Inventory	219,540	
Prepaid expenses and other current assets	54,984	
Other assets	465	
Accounts payable and other accrued expenses	(136,731)	
Accrued payroll and related liabilities	73,261	
Deferred income	(21,452)	
Sales tax payable	(43,273)	
Other current liabilities	--	
Net cash used in operating activities	(181,095)	
Cash flows from investing activities		
Acquisition of property and equipment	(6,947)	
Capitalized software expenditures	(173,504)	
Proceeds from the sale of fixed assets	--	
Restricted cash	--	
Net cash used in investing activities	(180,451)	
Cash flows from financing activities		

Principal payments on debt and capital leases	(67,277)
Issuance of convertible debenture	200,000
Proceeds from the exercise of stock options	11,250
Net cash provided by (used in) financing activities	143,973
Effect of exchange rates on cash	--
Net decrease in cash and cash equivalents	(217,573)
Cash and cash equivalents - beginning of period	357,711
Cash and cash equivalents - end of period	$ 140,138

The accompanying notes are an integral part of these condensed financial statements.

6

ION NETWORKS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
September 30, 2004
(Unaudited)

NOTE 1 - CONDENSED FINANCIAL STATEMENTS

ION Networks, Inc ("ION" or the "Company") designs, develops, manufactures and sells infrastructure security and management products to corporations, service providers and government agencies. The Company's hardware and software products are designed to form a secure auditable portal to protect IT and network infrastructure from internal and external security threats. ION's infrastructure security solution operates in the IP, data center, and telephony environments and is sold by a direct sales force and indirect channel partners mainly throughout North America and Europe.

The condensed balance sheet as of September 30, 2004, the condensed statements of operations for the three and nine month periods ended September 30, 2004 and 2003 (consolidated), and the statements of cash flows for the nine month periods ended September 30, 2004 and 2003 (consolidated), have been prepared by the Company without audit.) In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to make the Company's financial position, results of operations and cash flows at September 30, 2004 and 2003 not misleading have been made. The results of operation for the three and nine months ended September 30, 2004 and 2003 are not indicative of a full year or any other interim period.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the audited financial statements and notes there to included in the report on Form 10-KSB for the year ended December 31, 2003.

The Company's financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. At September 30, 2004, the Company had an accumulated deficit of $43,952,909 and a working capital of $52,668. The Company also realized net income of $5,699 and net loss of $626,171 for the three and nine month periods ended September 30, 2004, respectively. The Company continues to experience a shortfall in the cash necessary to expand operations. Management and the Board of Directors are exploring various alternatives to secure funding necessary to meet its cash requirements. These factors raise substantial doubt about the entity's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The accompanying condensed financial statements include the accounts of ION Networks, Inc. and its subsidiaries (collectively, the "Company") and have been prepared on the accrual basis of accounting. All inter-company balances and transactions have been eliminated in consolidation. During the year ended December 31, 2003, the Company ceased the operation of its subsidiaries.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET LOSS PER SHARE OF COMMON STOCK

Basic net loss per share excludes dilution for potentially dilutive securities and is computed by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net loss per share reflects the potential dilution that could occur if securities or other instruments to issue common stock were exercised or converted into common stock. Potentially dilutive securities are excluded from the computation of diluted net loss per share when their inclusion would be antidilutive. Potentially dilutive securities of the Company include the following:

	For the three months ended		For the nine
	Sept, 30,2004 (Unaudited)**	Sept. 30, 2003 (Unaudited)**	Sept. 30, 2004 (Unaudited)*
Weighted average shares outstanding, basic	22,883,652	23,900,500	23,527,872
Incremental shares of common stock equivalents	1,731,076	12,413	--
Conversion of preferred stock to common stock	1,668,350	1,668,350	--
Conversion of convertible debenture to common stock	1,350,457	--	--

Weighted average shares outstanding, diluted	27,633,535	25,581,263	23,527,872

* Since there was a loss attributable to common shareholders in the nine months ended September 30, 2004 and 2003, the basic weighted average shares outstanding were used in calculating diluted loss per share. Potential common shares of 10,193,618 and 7,327,037 for the nine months ended September 30, 2004 and 2003, respectively were excluded from the computation of diluted earnings per share.

** Potential common shares of 3,484,811 and 5,031,187 for the three months ended September 30, 2004 and 2003, respectively were excluded from the computation of diluted earnings per share.

STOCK COMPENSATION

The Company accounts for stock-based employee compensation arrangements in accordance with provisions of Accounting Principals Board ("APB") Opinion No. 25, "ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES", and comply with the disclosure requirements of Statement of Financial Accounting Standards ("SFAS") No. 123, "ACCOUNTING FOR STOCK-BASED COMPENSATION" as amended by SFAS No. 148 "ACCOUNTING FOR STOCK-BASED COMPENSATION - TRANSITION AND DISCLOSURE, AN AMENDMENT OF FASB STATEMENT NO. 123," issued in December 2002. Under APB Opinion No. 25, compensation expense is based on the difference, if any, generally on the date of grant, between the fair value of our stock and the exercise price of the option. The Company accounts for equity instruments issued to non-employee vendors in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force ("EITF") Issue No. 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees from Acquiring, or in Conjunction with Selling, Goods and Services." All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the date on which the counter party's performance is complete.

8

ION NETWORKS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
September 30, 2004
(Unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STOCK COMPENSATION (CONTINUED)

If the Company had elected to recognize compensation costs based on the fair value at the date of grant for awards for the three and nine month periods ended September 30, 2004 and 2003, consistent with the provisions of SFAS No. 123, the Company's net income(loss) and basic and diluted net income(loss) per share would have increased to the pro forma amounts indicated below:

	Three months ended September 30, 2004 (Unaudited)	Three months ended September 30, 2003 (Unaudited)	Nine months ended September 30, 2004 (Unaudited)	Nine months ended September 30, 2003 (Unaudited)
Net income (loss)				
As reported	$ 5,699	$ 158,766	$(626,171)	$(667,513)
Add back (Deduct): Stock based employee compensation determined under fair value methods for all awards granted	(26,948)	41,746	(367,252)	(135,761)
Pro forma net income (loss)	$ (21,249)	$ 200,512	$(993,423)	$(803,274)
Basic and diluted net income (loss) per share of common stock				
As reported	$ 0.00	$ 0.01	$ (0.03)	$ (0.03)
Pro forma	$ 0.00	$ 0.01	$ (0.04)	$ (0.03)

WARRANTY COSTS

The Company estimates its warranty costs based on historical warranty claim experience. Future costs for warranties applicable to sales recognized in the current period are charged to cost of sales. The warranty accrual is reviewed quarterly to reflect the remaining obligation. Adjustments are made when actual warranty claim experience differs from estimates. The warranty accrual included in other current liabilities as of September 30, 2004 approximated $48,000.

NOTE 3 - INVENTORY

Inventory, net of allowance for obsolescence of $167,829 at September 30, 2004, consists of the following:

Raw materials	$ 63,487
Work-in-progress	4,355
Finished goods	414,660
	$ 482,502

ION NETWORKS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
September 30, 2004
(Unaudited)

NOTE 4 - COMMITMENTS AND CONTINGENCIES

On March 29, 2004, the Company agreed to a final separation agreement with its former President and Chief Executive Officer. As part of the agreement, the Company agreed to accept the return of 2,000,000 shares of the Company's common stock as full payment for the former officers' total indebtedness to the Company of $294,493. In addition, the former officer released the Company from any obligations, which may have arisen from the separation of the officer from the Company.

On August 5, 2004, the Company issued, for $200,000 cash, a convertible debenture (the "Debenture") to one of the Company's directors. The Debenture matures on August 5, 2008 and bears interest at five (5%) percent per annum, compounded annually. The principal amount of the Debenture is convertible into shares of the Company's common stock, $.001 par value at a conversion price equal to $0.083 per share (the "Conversion Price"), which is equal to the ten (10) day average of the closing prices of the Company's common stock, as quoted on the OTC Bulletin Board during the five (5) trading days immediately prior to and subsequent to August 5, 2004. The principal amount of the Debenture is convertible at the Conversion Price at the option of the holder, or after December 5, 2005 at the Company's option if the Company's common stock trades at a price of at least $0.166 for twelve (12) trading days in any fifteen (15) trading day period. The Company is also entitled to prepay the principal amount of the Debenture, at any time after August 5, 2005, but shall be required to pay a premium of two (2%) percent in the second year after issuance of the Debenture of the principal amount prepaid, for prepayments made during that period. The Company has granted certain "piggyback" registration rights to the holder to register for resale the shares issuable upon conversion of the Debenture.

NOTE 5 - SUBSEQUENT EVENT

On October 14, 2004, the Company agreed to a final separation agreement with its former President and Chief Operating Officer. As part of the agreement, the Company agreed to accept the return of 600,000 shares of the Company's common stock as full payment for the former officers' total indebtedness to the Company of $216,926. In addition, the former officer released the Company from any obligations, other than the sum of $8,000 to cover certain expenses, which may have arisen from the separation of the officer from the Company.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

OVERVIEW

ION Networks, Inc. (the "Company"), designs, develops, manufactures and sells infrastructure security and management products to corporations, service providers and government agencies. The Company's hardware and software products are designed to form a secure auditable portal to protect IT and network infrastructure from internal and external security threats. ION's products operate in the IP, data center, telecommunications and transport, and telephony environments and are sold by a direct sales force and indirect channel partners mainly throughout North America and Europe.

The Company is a Delaware corporation founded in 1999 through the combination of two companies - MicroFrame ("MicroFrame"), a New Jersey Corporation (the predecessor entity to the Company, originally founded in 1982), and SolCom Systems Limited ("SolCom"), a Scottish corporation located in Livingston, Scotland (originally founded in 1994). The Company liquidated operations in Scotland during the quarter ended June 30, 2003.

RESULTS OF OPERATIONS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004 COMPARED TO THE SAME PERIOD IN 2003:

Net sales for the three month period ended September 30, 2004, were $1,047,054 compared to net sales of $888,324 for the same period in 2003, an increase of $158,730 or 17.9%. Revenues for the third quarter of 2004 were higher compared to the same quarter of 2003 primarily due to increased volume and a change in the product sales mix, with more revenue coming from high-end 5500 products as compared to the same period last year.

Cost of sales for the three month period ended September 30, 2004 was $306,200 compared to $214,535 for the same period in 2003. Cost of sales as a percentage of net sales for the three months ended September 30, 2004 increased to 29.3% from 24.2% for the same period in 2003, resulting in gross margins decreasing to 70.7% from 75.8% as compared to the prior year. Comparing the third quarter of 2004 to the same period 2003, the cost of sales has declined; however, sales prices have declined more rapidly resulting in lower gross margin as a percentage of revenue.

Research and development expenses for the three month period ended September 30, 2004 was $167,247 compared to $116,080 for the same period in 2003 or an increase of $51,167. The increase was attributable primarily to the cost related to increased employee headcount from 5 on September 30, 2003 to 7 on September 30, 2004 and expanded utilization of outside consultants for new product development and conversion to standards based platform.

Selling, general and administrative expenses ("SG&A") for the three months ended September 30, 2004 were $530,768 compared to $454,509 for the same period in 2003, an increase of $76,259. The increase in SG&A expenses was due primarily to increased employee headcount from 18 on September 30, 2003 to 22 on September 30, 2004, offset in part by cost containment programs implemented by management.

Restructuring, asset impairment and other charges for the three months ended September 30, 2004 were a credit of $63,716 compared to a credit of $213,071 for the same period in 2003. In 2003 the Company successfully negotiated a settlement of a $243,071 due to a vendor for the payment of $30,000, resulting in a forgiveness of debt in the amount of $213,071.

Depreciation and amortization expenses for depreciation of fixed assets and amortization of capitalized software was $100,617 for the three months ended September 30, 2004 compared to $163,597 in the same period in 2003. The decrease was due to lower depreciable assets and capitalized software balances subject to amortization.

Net income for the three months ended September 30, 2004 and 2003 amounted to $5,699 and $158,766, respectively. The decrease of net income of $153,067 was due primarily to the positive impact on the third quarter 2003 results of $213,071 related to a non-recurring reduction of certain expenses reflected in restructuring, asset impairment and other charges.

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 COMPARED TO THE SAME PERIOD IN 2003:

Net sales for the nine months ended September 30, 2004, were $2,558,315 compared to net sales of $2,527,643 for the same period in 2003, an increase of $30,672 or 1.2%. This slight increase for the nine months ended September 30, 2004 was due primarily to increased volume offset in part by lower selling prices as compared to the same period last year.

Cost of sales for the nine month period ended September 30, 2004 was $793,954 compared to $689,374 for the same period in 2003. Cost of sales as a percentage of net sales for the nine months ended September 30, 2004 increased to 31.0% from 27.3% for the same period in 2003, resulting therefore in gross margins decreasing to 69.0% from 72.7% as compared to the prior year. The decrease in gross margin as a percentage of revenue is due primarily to increased sales volume on a lower margin product in the current period as compared to the same period last year.

Research and development expenses for the nine month period ended September 30, 2004 was $427,525 compared to $377,834 for the same period in 2003 or an increase of $49,691. The increase was due primarily to expense increases in the quarter ended September 30, 2004 of employee headcount and expanded utilization of outside consultants for new product development and conversion to standards based platform.

Selling, general and administrative expenses ("SG&A") for the nine months ended September 30, 2004 were $1,721,400 compared to $1,937,370 for the same period in 2003, a decrease of $215,970. The decline in SG&A expenses are due primarily to sharply reduced executive compensation, steep reductions in facilities expenditures, including rent, sales and marketing and other overhead items under management instituted cost containment programs. These reductions were partially offset by stock compensation expense for options granted during the three month period ended June 30, 2004.

Restructuring, asset impairment and other charges for the nine months ended September 30, 2004 were a credit of $63,716 compared to a credit of $405,402 for the same period in 2003. In 2003 the Company successfully negotiated a settlement of a $243,071 due to a vendor for the payment of $30,000, resulting in a forgiveness of debt in the amount of $213,071 and the reversal of certain liabilities of $508,458 upon the liquidation of a foreign subsidiary. Partially offset by the Company incurring an asset impairment charge for leasehold improvements and furniture of $192,617.

Depreciation and amortization expenses for depreciation of fixed assets and amortization of capitalized software was $322,061 for the nine months ended September 30, 2004 compared to $604,025 in the same period in 2003. The decrease was due to lower depreciable assets, capitalized software balances subject to amortization in the nine month period ended September 30, 2004 as compared to the same period in 2003.

Net loss for the nine months ended September 30, 2004 and 2003 amounted to $626,171 and $667,513, respectively an improvement of $41,342. This improvement was due primarily to lower selling, general and administrative expenses of $215,970 and lower depreciation and amortization expenses of $281,964, offset in part by lower gross margins of $73,909, and positive restructuring items of $405,402 for the nine month period ended September 30, 2003.

FINANCIAL CONDITION AND CAPITAL RESOURCES

The Company's financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. At September 30, 2004 the Company had an accumulated deficit of $43,952,909 and a working capital of $52,668. The Company also realized a net loss of $626,171 for the nine month period ended September 30, 2004. The Company continues to experience a shortfall in the cash necessary to expand operations. Management and the Board of Directors are exploring various alternatives to secure funding necessary to meet its cash requirements. Any future operations are dependent upon the Company's ability to obtain additional debt or equity financing, and its ability to generate revenues sufficient to fund its operations. There can be no assurances that the Company will be successful in its attempts to generate positive cash flows or raise sufficient capital essential to its survival. Additionally, even if the Company does raise operating capital, there can be no assurances that the net proceeds will be sufficient enough to enable it to develop its business to a level where it will generate profits and positive cash flows. These matters raise substantial doubt about the Company's ability to continue as a going concern. However, the accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to continue as a going concern.

Net cash used in operating activities during the nine months ended September 30, 2004 was $181,095 compared to net cash used during the same period in 2003 of $679,905. The net cash used in operating activities was $498,810 less for the nine months ended September 30, 2004 compared to the same period in 2003 due to the absence of approximately $350,000 of non-cash items. The remainder of the variance was due to the positive impact of changes in working capital items of approximately $137,000 in the nine months ended September 30, 2004 when compared to the same period in 2004

Net cash used in investing activities during the nine months ended September 30, 2004 was $180,451 compared to $28,842 in the same period in 2003. This increase in cash used of $151,609 was primarily due to the release of restricted cash of $125,700 during the nine months ended September 30, 2003.

Net cash provided from financing activities during the nine months ended September 30, 2004 was $143,973 compared to net cash used during the same period in 2003 of $66,918. The increase of $210,891 was primarily due to the issuance of a $200,000 convertible debenture in the third quarter of 2004.

ITEM 3. CONTROLS AND PROCEDURES

Prior to the filing of this report, the Company's management carried out an evaluation, under the supervisions and with the participation of its Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports filed by it under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer of the Company, as appropriate to allow timely decisions regarding required disclosure.

There have been no significant change in the company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected or is reasonably likely to affect its internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

On August 5, 2004, the Company issued, for $200,000 cash, a convertible debenture (the "Debenture") to Stephen M. Deixler, one of the Company's directors. The Debenture matures on August 5, 2008 and bears interest at five (5%) percent per annum, compounded annually. The principal amount of the Debenture is convertible into shares of the Company's common stock, $.001 par value at a conversion price equal to $0.083 per share (the "Conversion Price"), which is equal to the ten (10) day average of the closing prices of the Company's common stock, as quoted on the OTC Bulletin Board during the five (5) trading days immediately prior to and subsequent to August 5, 2004. The principal amount of the Debenture is convertible at the Conversion Price at the option of the holder, or after August 5, 2005 at the Company's option if the Company's common stock trades at a price of at least $0.166 for twelve (12) trading days in any fifteen (15) trading day period. The Company is also entitled to prepay the principal amount of the Debenture, at any time after August 5, 2005, but shall be required to pay a premium of two (2%) percent in the second year after issuance of the Debenture of the principal amount prepaid, for prepayments made during that period. The Company has granted certain "piggyback" registration rights to the holder to register for resale the shares issuable upon conversion of the Debenture. The issuance of the Debenture was pursuant to an exemption granted under Rule 506 of Regulation D, promulgated under the Securities Act of 1933, as amended, in that the purchaser represented his status as an accredited investor, and that he was acquiring the Debenture for investment purposes and not with a view to any sale or distribution. In addition, the Debenture bore a restrictive legend, which stated that the Debenture was a "restricted security" under the Securities Act of 1933, as amended, and a similar legend is required to be placed on any shares issued on conversion of the Debenture. A copy of the Debenture is filed as an exhibit to Form 10-QSB filed on August 13,2004.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On August 27, 2004, the Company held its 2004 Annual Meeting of Stockholders (the "2004 Meeting").

At the 2004 Meeting, the Company's stockholders elected two directors to serve until the 2005 Annual Meeting of Stockholders and until their successors shall be elected and qualified.

The vote with respect to the election of directors was as follows:

	Name	For	Authority Withheld
(a)	Stephen M. Deixler	19,382,623	111,725
(b)	Frank S. Russo	19,400,463	93,885

ITEM 5. OTHER INFORMATION

On November 10, 2004, the Company and its Chief Executive Officer and Chief Financial Officer, Norman E. Corn and Patrick E. Delaney, respectively, entered into an amendment to each of their respective employment contracts. The amendments provide for a lump-sum severance payment upon termination without "Cause" or due to a "Change in Control", by adding the following provision to each such respective employment agreement.

SEVERANCE. Executive's employment may be terminated, at any time immediately upon written notice by the Company, without "Cause". If Executive is terminated without "Cause", or effectively terminated pursuant to a Change in Control for any reason other than for "Cause," Executive shall be entitled to a lump sum severance payment equal to eighteen (18) months of base salary in effect as of the termination date, less withholdings and deductions required by law. Executive and Company agree that such severance payment shall also constitute liquidated damages and is a reasonable approximation of Employee's damages as a result of such termination.

"Cause" is defined as termination of Executive by the Company for the following infractions by the Executive: gross negligence, felony conviction and significant breach of Executive's duties pursuant to this agreement.

A Change in Control is defined as (i) a sale of all or substantially all of the assets or all of the outstanding equity of the Company or (ii) the merger or consolidation of the Company with or into another entity or any other corporate reorganization if persons who were not shareholders of the Company immediately prior to such merger, consolidation or reorganization own immediately after such merger, consolidation or other reorganization fifty percent (50%) or more of the voting powers of the outstanding securities of each of (A) the continuing or surviving entity and (B) any direct or indirect parent corporation of such continuing or surviving entity.

On August 31, 2004, the Company entered into an employment offer with Henry Hill (a copy of which is attached as an exhibit to this report). Under the terms of the employment offer, Mr. Hill is employed as the Company's Senior Vice President, Technical Services, and is to be paid a base salary of $150,000 per year. Mr. Hill's employment can be terminated by the Company at any time without "cause", provided that in such event Mr. Hill would be entitled to a one-time lump-sum payment equal to 6 months of his base salary. In addition, Mr. Hill received stock options to purchase 500,000 shares of the Company's common stock.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

Exhibit No.	Description
10.1	Employment Agreement dated August 31, 2004 by and between the Company and Henry A. Hill
31.1	Section 302 Certification of the Chief Executive Officer.*
31.2	Section 302 Certification of the Chief Financial Officer.*
32.1	Section 906 Certification of the Chief Executive Officer.*
32.2	Section 906 Certification of the Chief Financial Officer.*

* Filed herewith

16

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 15, 2004

ION NETWORKS, INC.

/s/ Norman E. Corn

Norman E. Corn, Chief Executive Officer

/s/ Patrick E. Delaney

Patrick E. Delaney, Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
10.2	Employment Agreement dated August 31, 2004 by and between the Company and Henry A. Hill
31.1	Section 302 Certification of the Chief Executive Officer.*
31.2	Section 302 Certification of the Chief Financial Officer.*
32.1	Section 906 Certification of the Chief Executive Officer.*
32.2	Section 906 Certification of the Chief Financial Officer.*

* Filed herewith