

CLACENDIX, INC.  
Form 10-Q  
November 14, 2008

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

For the quarterly period ended September 30, 2008

OR

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-13117

**Clacendix, Inc.**

(Exact Name of registrant as specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

22-2413505  
(IRS Employer Identification Number)

201Route 46 Parsippany, NJ  
(Address of Principal Executive Offices)

07054  
(Zip Code)

(973) 402-4251  
(Telephone number)

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 o.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company x

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
x No o

There were 33,047,161 shares of Common Stock outstanding as of November 13, 2008.

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**CLACENDIX, INC. AND SUBSIDIARY**

**FORM 10-Q**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2008**

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

The condensed consolidated financial statements included herein have been prepared by us without audit pursuant to the rules and regulations of the Securities and Exchange Commission. 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 our report on Form 10-KSB for the year ended December 31, 2007 as filed with the Securities and Exchange Commission.

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**CLACENDIX, INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY COMMENCING JANUARY 1, 2008)**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>September 30,</b>	<b>December 31,</b>
	<b>2008</b>	<b>2007</b>
	(Unaudited)	
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,251,399	\$ 2,525,641
Restricted cash	321,329	320,000
Other receivables	1,033	397,868
Prepaid expenses and other current assets	5,981	9,527
Total assets	\$ 1,579,742	\$ 3,253,036
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Accounts payable	\$ 130,751	\$ 333,880
Accrued expenses	107,317	164,248
Accrued payroll and related liabilities	17,262	897,248
Accrued interest - related party	15,814	15,814
Total liabilities	271,144	1,411,190
Commitments and contingencies		
Stockholders' Equity		
Preferred stock - par value \$.001 per share; authorized 1,000,000 shares; 200,000 shares designated Series A; 155,557 shares issued and outstanding (aggregate liquidation preference \$280,003)	156	156
Common stock - par value \$.001 per share; authorized 750,000,000 shares; 33,047,161 shares issued and outstanding	33,048	33,048
Additional paid-in capital	45,870,896	45,862,529
Accumulated deficit	(44,053,887)	(44,053,887)
Deficit accumulated during the development stage	(541,615)	—
Total stockholders' equity	1,308,598	1,841,846
Total liabilities and stockholders' equity	\$ 1,579,742	\$ 3,253,036

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

**CLACENDIX, INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY COMMENCING JANUARY 1, 2008)**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

	For the Three Months Ended September 30, 2008	For the Three Months Ended September 30, 2007	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007
Net sales	\$	—	\$ 744,643	\$ —
Cost of sales		—	361,652	—
Gross margin		—	382,991	—
Operating expenses:				
Research and development		—	72,002	236
Selling, general and administrative expenses	129,230	561,402	564,277	1,845,414
Depreciation expense	—	5,767	—	16,236
Total operating expenses	129,230	639,171	564,513	2,101,150
Loss from operations	(129,230)	(256,180)	(564,513)	(802,551)
Other income	—	758	—	2,098
Interest (expense) - related party		(4,137)		(4,137)
Interest income/(expense)	9,246	(17,369)	37,593	(48,965)
Loss before income taxes	(119,984)	(276,928)	(526,920)	(853,555)
Income tax expense	13,239	370	14,695	2,682
Net loss	\$ (133,223)	\$ (276,558)	\$ (541,615)	\$ (856,237)
Per share data:				
Net loss per common share				
Basic and diluted	\$ 0.00	\$ (0.01)	\$ (0.02)	\$ (0.03)
Weighted average number of common shares outstanding				
Basic and diluted	33,047,161	32,785,565	33,047,161	32,785,565

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

**CLACENDIX, INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY COMMENCING JANUARY 1, 2008)**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007
Cash flows from operating activities		
Net loss	\$ (541,615)	\$ (856,237)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	—	281,707
Non-cash stock-based compensation	8,367	139,989
Provision for doubtful accounts	—	20,142
Provision for inventory reserve	—	(29,777)
Interest on notes payable	—	3,123
Interest on notes payable - related party	-	3,915
Deferred rent	—	2,251
Amortization of deferred financing costs	—	24,525
Amortization of debt discount	—	488
Interest income on restricted cash	(1,329)	—
Changes in operating assets and liabilities:		
Accounts receivable	—	64,247
Other receivables	396,835	—
Inventories	—	273,350
Prepaid expenses and other current assets	3,546	13,121
Other assets	—	10,085
Accounts payable	(203,129)	48,374
Accrued expenses	(56,931)	(21,378)
Accrued payroll and related liabilities	(879,986)	4,099
Deferred income	—	(32,099)
Net cash used in operating activities	(1,274,242)	(50,075)
Cash flow from investing activities		
Acquisition of property and equipment	—	(1,379)
Capitalized software expenditures	—	(439,899)
Net cash used in investing activities	—	(441,278)
Cash flows from financing activities		
Principal payments on debt and capital leases	—	(1,891)
Advances under notes payable	—	150,000
Advances under notes payable - related parties	—	175,000
Borrowings from revolving credit facility	—	395,269
Repayment of revolving credit facility	—	(472,943)
Deferred financing costs	—	(10,000)

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Net cash provided by financing activities	—	235,435
Net decrease in cash and cash equivalents	(1,274,242)	(255,918)
Cash and cash equivalents - beginning of period	2,525,641	265,936
Cash and cash equivalents - end of period	\$ 1,251,399	\$ 10,018

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



**CLACENDIX, INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY COMMENCING JANUARY 1, 2008)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2008

(Unaudited)

**NOTE 1 - ORGANIZATION, BASIS OF PRESENTATION AND PLAN OF OPERATION**

*Organization and Basis of Presentation*

Clacendix, Inc., a Delaware corporation was founded, as ION Networks, Inc. (“ION”), in 1999 through the combination of two companies -- MicroFrame, a New Jersey Corporation, and SolCom Systems Limited, a Scottish corporation located in Livingston, Scotland. ION designed, developed, manufactured and sold network and information security and management products to corporations, service providers and government agencies. On December 31, 2007, ION Networks, Inc. changed its name to Clacendix, Inc., in connection with the sale of substantially all of its operating assets to Cryptek, Inc., a Delaware Corporation (“Cryptek”), as described below. The accompanying condensed consolidated financial statements include the accounts of Clacendix, Inc. and ION Networks, N.V., a wholly-owned, inactive subsidiary (collectively, the “Company”). All material inter-company balances and transactions have been eliminated in consolidation.

The condensed consolidated balance sheet as of September 30, 2008, the condensed consolidated statements of operations for the three and nine months ended September 30, 2008 and 2007, and cash flows for the nine months ended September 30, 2008 and 2007, 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, 2008 and for the three and nine months ended September 30, 2008 and 2007 not misleading have been made. The results of operations for the three and nine months ended September 30, 2008, are not necessarily indicative of results that would be expected for the 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 thereto included in the report on Form 10-KSB for the year ended December 31, 2007, filed with the Securities and Exchange Commission.

On December 31, 2007, the Company sold substantially all of the operating assets of the Company to Cryptek, Inc. Stockholder approval was required, and obtained, with respect to such sale. Since the date of this transaction, the Company exists as a shell company with no operations, and is reporting as a development stage company.

*Plan of Operation*

The plan of operation of the Company is to seek a target company with which to merge or to complete a business combination. In any transaction, it is expected that the Company would be the surviving legal entity and the shareholders of the Company would retain a percentage ownership interest in the post-transaction company. The Company does not plan to restrict its search to any specific business, industry or geographic location, and it may participate in a business venture of virtually any kind or nature.

The Company may seek a business opportunity with entities which have recently commenced operations, or that desire to utilize the public marketplace in order to raise additional capital in order to expand into new products or markets, to develop a new product or service, or for other corporate purposes. The Company may acquire assets and

establish wholly owned subsidiaries in various businesses or acquire existing businesses as subsidiaries.

The Company can give no assurance that any such a transaction will occur, or that if such a transaction were to occur, it would enhance the Company's future operations or financial results, or specifically that the Company would become and remain profitable as a result of such transaction. If the Company is not able to complete a transaction within a reasonable time frame, the Company may liquidate.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Net Loss Per Share of Common Stock*

Basic net loss per share 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 of 5,660,974 and 10,073,013 at September 30, 2008 and 2007, respectively are excluded from the computation of diluted net loss per share, as their inclusion would be antidilutive.

## Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with the fair value recognition provisions of Statement of Financial Accounting Standards No. 123R, entitled "Share Based Payment" ("FAS 123R"). Stock-based compensation expense for all share-based payment awards is based on the grant-date fair value estimated in accordance with the provisions of FAS 123R. The Company recognizes these compensation costs over the requisite service period of the award, which is generally the option vesting term. As of September 30, 2008, the fair value of unvested options totaled \$1,793. Stock based compensation for the three and nine months ended September 30, 2008 and 2007 was recorded in the accompanying condensed consolidated statements of operations as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2008	2007	2008	2007
Cost of Sales	\$ —	\$ 851	\$ —	\$ 3,860
Research & Development	—	4,853	—	29,226
Selling, General & Administrative	2,060	28,142	8,367	106,903
Totals	\$ 2,060	\$ 33,846	\$ 8,367	\$ 139,989

The fair value of share-based payment awards was estimated using the Black-Scholes option pricing model with the following assumptions and weighted average fair values as follows:

	Nine months ended September 30,	
	2008	2007
Risk-free interest rate	2.61-3.27%	4.52%-5.05%
Dividend yield	N/A	N/A
Expected volatility range	227-233%	202-224%
Expected life in years	5	5
Expected forfeiture rate (through term)	0%	0%

The Company accounts for the expected life of share options in accordance with the "simplified" method provisions of Securities and Exchange Commission Staff Accounting Bulletin ("SAB") No. 110 (December 2007), which enables the use of the simplified method for "plain vanilla" share options as defined in SAB No. 107.

A summary of option activity for the nine months ended September 30, 2008 is as follows:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2008	5,490,407	\$ 0.27	2.75 years	
Granted	52,500	\$ 0.06	4.67 years	
Canceled	(2,650,003)	\$ 0.44	3.43 years	
Outstanding at September 30, 2008	2,892,904	\$ 0.12	0.95 years	\$ 413
Exercisable at September 30, 2008	2,810,404	\$ 0.11	0.91 years	\$ 413

The weighted-average grant-date fair value of options granted during the three and nine months ended September 30, 2008 amounted to \$0.04 and \$0.06 per share, respectively.

**NOTE 3 - STOCKHOLDERS' EQUITY**

*Common Stock*

On December 31, 2007, at the Company's annual shareholders' meeting, the shareholders' approved a proposal to amend Article Fourth of the certificate of incorporation of the Company to increase the number of authorized shares of common stock from 50,000,000 to 750,000,000. This amendment to the certificate of incorporation was filed on July 14, 2008.

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### *Options*

On March 25, 2008, the Company granted board members immediately exercisable options, under an option plan previously approved by stockholders, to purchase an aggregate of 4,500 shares of common stock with an exercise price of \$0.03 for a total value of \$135, based on the Black-Scholes model.

On May 19, 2008, the Company granted board members immediately exercisable options, under an option plan previously approved by stockholders, to purchase an aggregate of 43,500 shares of common stock with an exercise price of \$0.06 for a total value of \$2,586, based on the Black-Scholes model.

On August 11, 2008, the Company granted board members immediately exercisable options, under an option plan previously approved by stockholders, to purchase an aggregate of 4,500 shares of common stock with an exercise price of \$0.04 for a total value of \$178, based on the Black-Scholes model.

### **NOTE 4 - CONTINGENT LIABILITIES**

In the normal course of business the Company may be involved in legal proceedings, claims and assessments arising in the ordinary course of business. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Management is not aware of any item existing that will have a significant impact on the Company's business or financial condition.

### **NOTE 5 - EMPLOYMENT AGREEMENTS**

On June 19, 2008, the Board of Directors of Clacendix extended the employment term of Norman E. Corn, its Chief Executive Officer, and Patrick E. Delaney, its Chief Financial Officer, through December 31, 2008, unless terminated earlier by either party upon thirty days prior notice. Effective July 1, 2008, Messrs. Corn and Delaney's compensation has been adjusted to an annual base salary of \$100,000, as compared to previous annual base salaries of \$235,000 and \$200,000, respectively, in addition to certain employee benefits.

### **NOTE 6 - NEW ACCOUNTING PRONOUNCEMENTS**

On October 10, 2008, the FASB issue FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP)." The FSP clarifies the application of FASB Statement No. 157 in a market that is not active. The guidance is primarily focused on addressing how the reporting entity's own assumptions should be considered when measuring fair value when relevant observable inputs does not exist; how available observable inputs in a market that is not active should be considered when measuring fair value; and how the use of market quotes should be considered when assessing the relevance of observable and unobservable inputs available to measure fair value. The adoption of FSP FAS 157-3 did not have a material impact on the Company's financial statements.

In May 2008, the FASB issued Statement No. 162 "The Hierarchy of Generally Accepted Accounting Principles." The current hierarchy of generally accepted accounting principles is set forth in the American Institute of Certified Accountants (AICPA) Statement of Auditing Standards (SAS) No. 69, "The meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. Statement No. 162 is intended to improve financial reporting by identifying a consistent framework or hierarchy for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities. This Statement is effective 60 days following the SEC's approval of the Public Company Oversight Board Auditing amendments to SAS 69. The Company is currently evaluating the application of this Statement but does not anticipate that the Statement will have a material effect on the Company's results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133" ("SFAS 161"), to require enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. The Company is currently evaluating the effect that the adoption of SFAS 161 will have on its consolidated results of operations and financial condition, but does not expect it to have a material impact.

In February 2008, the FASB issued Staff Position No. 157-2, Effective Date of FASB Statement No. 157 ("FSP 157-2") that defers the effective date of applying the provisions of SFAS 157 to the fair value measurement of non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (or at least annually), until fiscal years beginning after November 15, 2008. The Company is currently evaluating the effect that the adoption of FSP 157-2 will have on its consolidated results of operations and financial condition, but does not expect it to have a material impact.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (“SFAS 159”) including an amendment of FASB Statement No. 115. SFAS 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. The Company adopted SFAS 159 beginning in the first quarter of 2008, without material effect on the Company’s consolidated financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (“SFAS 157”). SFAS 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors’ requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and has been adopted by the Company in 2008 without material effect on the Company’s consolidated financial position or results of operations.

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

### Information Regarding Forward-Looking Statements

A number of statements contained in this report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the applicable statements. You can identify forward-looking statements by our use of words such as “may”, “will”, “should”, “could”, “expects”, “plans”, “intends”, “anticipates”, “believes”, “estimates”, “potential”, or “continue” or the negative or other variations of these words, or other comparable words or phrases. These statements include, but are not limited to, statements regarding our ability to complete our business objectives. These risks and uncertainties include, but are not limited to:

- our ability to complete a combination with one or more target businesses;
- our success in retaining or recruiting, or changes required in, our officers or directors prior to or following a business combination;
- our potential inability to obtain additional financing to complete a business combination;
- a limited pool of prospective target businesses;
- a potential change in control if we acquire one or more target businesses for stock;
- our public securities' limited liquidity and trading; and
- our ongoing financial performance.

Unless otherwise required by applicable law, the Company assumes no obligation to update any such forward-looking statements, or to update the reasons why actual results could differ from those projected in the forward-looking statements. These risk factors are further described in our annual report on Form 10-KSB for the fiscal year ended December 31, 2007.

### OVERVIEW

Clacendix, Inc., a Delaware corporation was founded, as ION Networks, Inc. (“ION”), in 1999 through the combination of two companies -- MicroFrame, a New Jersey Corporation, and SolCom Systems Limited, a Scottish corporation located in Livingston, Scotland. ION designed, developed, manufactured and sold network and information security and management products to corporations, service providers and government agencies. On December 31, 2007, ION Networks, Inc. changed its name to Clacendix, Inc. The accompanying condensed consolidated financial statements include the accounts of Clacendix, Inc. and ION Networks, N.V., a wholly-owned, inactive subsidiary (collectively, the “Company”).

This discussion and analysis should be read in conjunction with our condensed consolidated financial statements and accompanying notes included elsewhere in this Quarterly Report. This discussion includes forward-looking statements that involve risk and uncertainties. The following financial information for the year ended December 31, 2007, and the periods ended September 30, 2008 and September 30, 2007 should be considered in light of the completion of the sale of substantially all of the operating assets of the Company on December 31, 2007 and the fact that the Company currently has no operations other than to seek a target company with which to merge or to complete a business combination, as further described in our Annual Report on Form 10-KSB for the year ended December 31, 2007. The Company can give no assurance that any such a transaction will occur, or that if such a transaction were to occur, it



would enhance the Company's future operations or financial results, or specifically that the Company would become and remain profitable as a result of such transaction. The Company will not generate any future revenues until, at the earliest, after the consummation of a business combination. If a transaction is not completed by December 31, 2008, the Board of Directors will take whatever steps it deems appropriate at the relevant time in order to further cut the Company's expenses. If the Company is not able to complete a transaction within a reasonable time frame, the Company may liquidate.

On December 31, 2007, the Company sold substantially all of its operating assets to Cryptek, Inc., a privately held Delaware Corporation. Stockholder approval was required, and obtained, with respect to such sale.

## **RESULTS OF OPERATIONS**

*For the three months ended September 30, 2008 compared to the same period in 2007:*

Net sales for the three months ended September 30, 2008 were zero compared to net sales of \$744,643 for the same period in 2007. Cost of sales for the three months ended September 30, 2008 was zero compared to \$361,652 for the same period in 2007. The decrease for third quarter of 2008 compared to the same period last year was due to the sale of substantially all the operating assets of the Company on December 31, 2007.

Research and development expenses for the three months ended September 30, 2008 was zero compared to \$72,002 for the same period in 2007. The decrease in research and development expenses for third quarter of 2008 compared to the same period last year was due to the sale of substantially all the operating assets of the Company on December 31, 2007.

Selling, general and administrative expenses ("SG&A") for the three months ended September 30, 2008 were \$129,230 compared to \$561,402 for the same period in 2007, a decrease of \$432,172. The decrease in SG&A expenses was primarily due to the sale of substantially all the operating assets of the Company on December 31, 2007. SG&A expenses for the three months ended September 30, 2008 comprised mainly of payroll related expenses for salaries, benefits and incentive compensation of \$65,038 and professional fees of \$43,358.

Depreciation expense was zero for the three months ended September 30, 2008 compared to \$5,767 in the same period in 2007. The decrease in depreciation expense for third quarter of 2008 compared to the same period last year was due primarily to the sale of substantially all the operating assets of the Company on December 31, 2007.

The Company incurred a net loss of \$133,223 for the three months ended September 30, 2008, compared to \$276,558 for the same period in 2007. The decrease was due to lower general overhead resulting from the sale of substantially all the operating assets of the Company on December 31, 2007.

*For the nine months ended September 30, 2008 compared to the same period in 2007:*

Net sales for the nine months ended September 30, 2008, were zero compared to net sales of \$2,323,214 for the same period in 2007. Cost of sales for the nine months ended September 30, 2008 was zero compared to \$1,024,615 for the same period in 2007. The decrease for the nine months ended September 30, 2008 compared to the same period last year was due to the sale of substantially all the operating assets of the Company on December 31, 2007.

Research and development expenses for the nine months ended September 30, 2008 was \$236 compared to \$239,500 for the same period in 2007 or a decrease of \$239,264. The decrease in research and development expenses during the nine months ended September 30, 2008 compared to the same period last year was due to the sale of substantially all the operating assets of the Company on December 31, 2007.

Selling, general and administrative expenses ("SG&A") for the nine months ended September 30, 2008 were \$564,277 compared to \$1,845,414 for the same period in 2007, a decrease of \$1,281,137. The decrease in SG&A expenses was primarily due to the sale of substantially all the operating assets of the Company on December 31, 2007. SG&A expenses for the nine months ended September 30, 2008 comprised mainly of payroll related expenses for salaries, benefits and incentive compensation of \$349,824 and professional fees of \$139,257.

Depreciation expense was zero for the nine months ended September 30, 2008 compared to \$16,236 in the same period in 2007. The decrease in depreciation expense for the nine months ended September 30, 2008 compared to the same period last year was due primarily to the sale of substantially all the operating assets of the Company on December 31, 2007.

The Company incurred a net loss of \$541,615 for the nine months ended September 30, 2008, compared to \$856,237 for the same period in 2007. The decrease was due to lower general overhead resulting from the sale of substantially all the operating assets of the Company on December 31, 2007.

## **FINANCIAL CONDITION AND CAPITAL RESOURCES**

The Company's working capital balance as of September 30, 2008 was \$1,308,598 as compared to \$1,841,846 at December 31, 2007. The decrease of \$533,248 was due to the operating expenses of the Company for the nine months ended September 30, 2008. We presently anticipate that cash requirements during the next twelve months will relate to maintaining the corporate entity, complying with the periodic reporting requirements of the Securities and Exchange Commission, evaluating and reviewing possible business ventures and acquisition opportunities and potentially negotiating and consummating any such transactions. The Company believes that it has sufficient cash on hand to meet these cash requirements during the next twelve months.

Net cash used in operating activities during the nine months ended September 30, 2008 was \$1,274,242 compared to net cash used by operating activities of \$50,075 in the same period in 2007, a difference of \$1,224,167. The use of cash in the nine months ended September 30, 2008 included severance payments of \$826,250 and paying accrued payroll of \$52,000.

Net cash used in investing activities during the nine months ended September 30, 2008 was zero compared to the same period in 2007 of \$441,278. Capitalized software expenditures for the nine months ended September 30, 2007 were \$439,899 and zero for the nine months ended September 30, 2008.

Net cash provided by financing activities during the nine months ended September 30, 2008 was zero compared to the nine months ended September 30, 2007 of \$235,435. During the nine months ended September 30, 2007, the Company received advances of \$175,000 and advances from related parties of \$150,000 offset by net repayments on the credit facility of \$77,674.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

### Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with the fair value recognition provisions of Statement of Financial Accounting Standards No. 123R, entitled "Share Based Payment" ("FAS 123R"). Stock-based compensation expense for all share-based payment awards is based on the grant-date fair value estimated in accordance with the provisions of FAS 123R. The Company recognizes these compensation costs over the requisite service period of the award, which is generally the option vesting term.

The Company accounts for the expected life of share options in accordance with the "simplified" method provisions of Securities and Exchange Commission Staff Accounting Bulletin ("SAB") No. 110 (December 2007), which enables the use of the simplified method for "plain vanilla" share options as defined in SAB No. 107.

### *Recent Accounting Pronouncements*

On October 10, 2008, the FASB issue FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP)." The FSP clarifies the application of FASB Statement No. 157 in a market that is not active. The guidance is primarily focused on addressing how the reporting entity's own assumptions should be considered when measuring fair value when relevant observable inputs does not exist; how available observable inputs in a market that is not active should be considered when measuring fair value; and how the use of market quotes should be considered when assessing the relevance of observable and unobservable inputs available to measure fair value. The adoption of FSP FAS 157-3 did not have a material impact on the Company's financial statements.

In May 2008, the FASB issued Statement No. 162 "The Hierarchy of Generally Accepted Accounting Principles." The current hierarchy of generally accepted accounting principles is set forth in the American Institute of Certified Accountants (AICPA) Statement of Auditing Standards (SAS) No. 69, "The meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. Statement No. 162 is intended to improve financial reporting by identifying a consistent framework or hierarchy for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities. This Statement is effective 60 days following the SEC's approval of the Public Company Oversight Board Auditing amendments to SAS 69. The Company is currently evaluating the application of this Statement but does not anticipate that the Statement will have a material effect on the Company's results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133" ("SFAS 161"), to require enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. The Company is currently evaluating the effect that the adoption of SFAS 161 will have on its consolidated results of operations and financial condition, but does not expect it to have a material impact.

In February 2008, the FASB issued Staff Position No. 157-2, Effective Date of FASB Statement No. 157 ("FSP 157-2") that defers the effective date of applying the provisions of SFAS 157 to the fair value measurement of non-financial

assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (or at least annually), until fiscal years beginning after November 15, 2008. The Company is currently evaluating the effect that the adoption of FSP 157-2 will have on its consolidated results of operations and financial condition, but does not expect it to have a material impact.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159") including an amendment of FASB Statement No. 115. SFAS 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. The Company adopted SFAS 159 beginning in the first quarter of 2008, without material effect on the Company's consolidated financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (“SFAS 157”). SFAS 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors’ requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and has been adopted by the Company in 2008 without material effect on the Company’s consolidated financial position or results of operations.

*Off-Balance Sheet Arrangements*

As of November 13, 2008, we did not have any off-balance sheet debt nor did we have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that may have a material current or future effect on financial conditions, changes in financial conditions, result of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not Applicable.

### **ITEM 4T. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

Prior to the filing of this report, the Company's management carried out an evaluation, under the supervision 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 as of the end of the period covered by this report 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.

#### **Changes to Internal Control Over Financial Reporting**

There are no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. However, as the Company sold substantially all of its operating assets on December 31, 2007 it has continued to utilize the accounting system, which was sold in the transaction, as well as certain Cryptek employees through mutual agreement for a period of time. During fiscal year 2008, the Company will continue to evaluate this relationship.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

The Company is not currently involved in any legal proceedings other than routine litigation incidental to the business.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On August 11, 2008, the Company granted board members immediately exercisable options, under an option plan previously approved by stockholders, to purchase an aggregate of 4,500 shares of common stock with an exercise price of \$0.04 for a total value of \$178, based on the Black-Scholes model.

These grants were made without registration in reliance upon the exemption afforded by the provisions of Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), and Rule 506 promulgated thereunder, based on the fact that the options granted were not sold or offered pursuant to general solicitation, and in reliance upon the "accredited investor" status of board members of the Company.

### **ITEM 5. OTHER INFORMATION**

On August 15, 2008, Philip Levine, a director of Clacendix, Inc. (the "Company"), gave notice of his resignation from the Board of Directors of the Company, effective September 1, 2008. Until his resignation, Mr. Levine served as Chair of the Audit Committee of the Board of Directors. Since the date of Mr. Levine's resignation, Mr. Steven Deixler has served as the acting Audit Committee Chairman.



**ITEM 6. EXHIBITS**

- 31.1 \* Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)
- 31.2 \* Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)
- 32.1 \* Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, of Chief Executive Officer
- 32.2 \* Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, of Chief Financial Officer

\* Filed herewith

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**CLACENDIX, INC.**

Date: November 13, 2008

*/S/ Norman E. Corn*

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*Norman E. Corn, Chief Executive Officer*

*/S/ Patrick E. Delaney*

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*Patrick E. Delaney, Chief Financial Officer*

**Exhibit Index**

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