SPESCOM SOFTWARE INC Form 10-Q May 15, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One) ý	QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the Quarterly Period Ended March 31, 2006.	
	OR
О	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 0-15935

SPESCOM SOFTWARE INC.

(Exact name of registrant as specified in its charter)

CALIFORNIA (State or other jurisdiction of incorporation or organization)

95-3634089 (I.R.S. Employer Identification No.)

10052 MESA RIDGE COURT, SUITE 100, SAN DIEGO, CA 92121

(Address of principal executive offices and zip code)

(858) 625-3000

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(Registrants 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 preceding 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 ý NO o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12-b-2 of the Exchange Act).

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer ý

Indicate by check mark whether the registrant is a shell company (as defined in Rule 126-2 of the Exchange Act).

yes o NO ý

Number of shares of Common Stock outstanding at May 12, 2006: 37,144,494

ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SPESCOM SOFTWARE INC.

CONSOLIDATED BALANCE SHEETS

Other assets 30,000 30,000 Total assets \$ 2,217,000 \$ 1,645,000 LIABILITIES AND SHAREHOLDERS DEFICIT Current liabilities Accounts payable \$ 732,000 \$ 374,000 Payable to Spescom Ltd. 186,000 213,000 Perferred stock dividend payable to Spescom Ltd. 735,000 568,000 Accrued liabilities 1,167,000 1,407,000 Lease obligations current portion 44,000 41,000 Notes and accrued interest payable to Spescom Ltd. 968,000 Deferred revenue 2,743,000 3,026,000 Series I redeemable preferred stock, par value \$0.01 per share, 2,450 remaining shares 2,450,000 Total current liabilities 9,025,000 5,629,000 Notes and accrued interest payable to Spescom Ltd. 9,025,000 5,629,000 Notes and accrued interest payable to Spescom Ltd. 9,060,000 6,605,000 Lease obligations 35,000 59,000 Total liabilities 9,060,000 6,605,000 Shareholders deficit: Convertible pre	A CCIETE		March 31, 2006 (Unaudited)		September 30, 2005	
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Common stock warrants 1.784.000 1.506.000					, ,	
	Common stock warrants		1,784,000		1,506,000	
Accumulated other comprehensive loss (333,000) (353,000)	•		. , ,		(/ /	
Accumulated deficit (91,572,000) (90,291,000)			. , , ,		. , , ,	
Total shareholders deficit (6,843,000) (4,960,000)	Total shareholders deficit		(6,843,000)		(4,960,000)	
Total liabilities and shareholders deficit \$ 2,217,000 \$ 1,645,000	Total liabilities and shareholders deficit	\$	2,217,000	\$	1,645,000	

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

SPESCOM SOFTWARE INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

		For the three months ended March 31,			For the six months ended March 31,			
		2006	.11 31,	2005	2006	.11 51,	2005	
Revenues:								
Licenses	\$	652,000	\$	86,000 \$	1,216,000	\$	354,000	
Services and other		1,408,000		1,587,000	2,676,000		2,972,000	
Total revenues		2,060,000		1,673,000	3,892,000		3,326,000	
Cost of revenues:								
Licenses		72,000		64,000	194,000		108,000	
Services and other		721,000		620,000	1,261,000		1,234,000	
Total cost of revenues		793,000		684,000	1,455,000		1,342,000	
Gross profit		1,267,000		989,000	2,437,000		1,984,000	
Operating expenses:								
Research and development		282,000		174,000	485,000		520,000	
Marketing and sales		685,000		914,000	1,338,000		1,738,000	
General and administrative		353,000		373,000	794,000		772,000	
Total operating expenses		1,320,000		1,461,000	2,617,000		3,030,000	
Loss from operations		(53,000)		(472,000)	(180,000)		(1,046,000)	
Interest and other income		4,000		2,000	4,000		2,000	
Interest and other expense		(53,000)		(38,000)	(105,000)		(68,000)	
Net loss		(102,000)		(508,000)	(281,000)		(1,112,000)	
Deemed preferred dividend		(500,000)			(1,000,000)		(2,200,000)	
Net loss available after deemed preferred dividend		(602,000)		(508,000)	(1,281,000)		(3,312,000)	
Cumulative preferred dividends		(98,000)		(96,000)	(196,000)		(169,000)	
Net loss available to common shareholders	\$	(700,000)	\$	(86,000) (594,000) \$	(186,000) (1,467,000)	\$	(3,481,000)	
Net loss available to common shareholders	Ф	(700,000)	φ	(394,000) \$	(1,407,000)	φ	(3,481,000)	
Earnings (loss) per share:								
Basic and diluted	\$	(0.02)	\$	(0.02) \$	(0.04)	\$	(0.10)	
Weighted average shares outstanding:								
Basic and diluted		36,895,000		34,215,000	36,857,000		34,187,000	
Statement of Comprehensive Loss								
Net loss	\$	(102,000)	\$	(508,000) \$	(281,000)	\$	(1,112,000)	
Other Comprehensive income (loss):								
Foreign currency translation adjustment		(14,000)		5,000	20,000		(49,000)	
Comprehensive loss	\$	(116,000)	\$	(503,000) \$	(261,000)	\$	(1,161,000)	

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

SPESCOM SOFTWARE INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the six months ended March 31,			
	2006	· ·	2005	
Cash flows from operating activities:				
Net loss	\$ (281,000)	\$	(1,112,000)	
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	73,000		38,000	
Unpaid interest on notes payable	98,000		66,000	
Share-based compensation	92,000			
Compensation for warrants issued to consultants	40,000			
Changes in assets and liabilities:				
Receivables, net	(102,000)		58,000	
Other current assets	(136,000)		31,000	
Accounts payable	361,000		(1,000)	
Payable to Spescom Ltd.	(22,000)		(7,000)	
Accrued liabilities	(260,000)		52,000	
Deferred revenue	(268,000)		287,000	
Net cash used in operating activities	(405,000)		(588,000)	
Cash flows from investing activities:				
Purchases of property and equipment	(40,000)		(13,000)	
Capitalization of development costs	(35,000)		(209,000)	
Purchases of software			(37,000)	
Net cash used in investing activities	(75,000)		(259,000)	
Cash flows from financing activities				
Cash flows from financing activities:			2,000	
Proceeds from exercise of stock options			2,000	
Proceeds from exercise of warrants			17,000	