SPESCOM SOFTWARE INC
Form 424B3
July 10, 2006

FILED PURSUANT TO RULE 424(B)(3)
REGISTRATION STATEMENT NO. 333-133105

PROSPECTUS

43,336,338 Common Shares
Spescom Software Inc.

The selling shareholders named in this prospectus are offering up to 43,336,338 of our common shares, including up to 33,793,103 common shares to be issued upon conversion of Series I Preferred Stock and 6,726,852 common shares issuable upon the exercise of certain warrants. We will not receive any of the proceeds from their sale of our shares, but if the selling shareholders pay the exercise price under any of the warrants in cash, we will use those proceeds for general corporate purposes, including working capital.

Our common shares are currently listed on the Over the Counter Bulletin Board (OTCBB). Our trading symbol is SPCO.OB.

Investing in our shares involves a high degree of risk. See Risk Factors beginning on page 5 of this prospectus to read about the risks you should consider before buying our shares.

The selling shareholders are offering these common shares. The selling shareholders may sell all or a portion of these shares from time to time in market transactions through any market on which our common shares are then traded, in negotiated transactions or otherwise, and at prices and on terms that will be determined by the then prevailing market price or at negotiated prices directly or through a broker or brokers, who may act as agent or as principal or by a combination of such methods of sale. The selling shareholders will receive all proceeds from the sale of the common shares. For additional information on the methods of sale, you should refer to the section entitled Plan of Distribution.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is July 10, 2006

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You may only rely on the information contained in this prospectus or that we have referred you to. We have not authorized anyone to provide you with different information. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the common shares offered by this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any common shares in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus nor any sale made in connection with this prospectus shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information contained by reference to this prospectus is correct as of any time after its date.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing in us. You should read the entire prospectus carefully before making an investment decision. The sections entitled Risk Factors, and Information Regarding Forward-Looking Statements should be read together with the more detailed information in the financial statements and the accompanying notes in the section entitled Financial Statements and Certain Other Financial Information. In this prospectus, references to the Company, we, us or our refer to Spescom Software Inc., except where the context otherwise requires.

Our Company

Overview

Spescom Software Inc. (the Company) was founded and incorporated as a California corporation in 1981 and is headquartered in San Diego, California with an international sales and support subsidiary in London, United Kingdom. The Company develops, markets and supports eB, its integrated suite of collaborative document, configuration and records management software solutions. The Company s eB suite is a set of software technologies that support, improve and enable collaboration among legacy enterprise solutions. The eB suite enables the efficient capture, management and distribution of all types of information across an enterprise. eB s integration of document, configuration and records management functionality onto a single platform is a major differentiator and significant competitive advantage that allows the Company to address the information management needs of an enterprise in a more holistic manner than solutions provided by other vendors.

In 2000, the Company acquired the rights to certain configuration management technology and skills from Spescom Ltd. (Spescom Ltd.), which at the same time acquired a controlling interest in the Company. From this combination of document and configuration management technologies and skills, the Company began doing business as Spescom Software Inc. on October 1, 2001. As of June 16, 2006, Spescom Ltd. owned approximately 56% of the outstanding common shares of the Company after giving effect to the conversion of the shares of the Company s Series F Preferred Stock held by Spescom Ltd.

The document/content management technology developed by the Company and integrated with the configuration management technology developed by Spescom Ltd. provides a powerful solution to the business and information management challenges faced by enterprises that design, build, manage and operate complex products and assets. The combined document and configuration management capabilities of the eB software suite enables it to provide full IDM functionality together with PDM functionality at price points that satisfy a broad range of user needs. The eB suite enables the management of all unstructured information (documents/content) as well as structured information (product/asset/process) on a single platform, thereby enabling change to be managed across both environments.

The Company s integrated document, configuration and records management (iDCR) solutions enable all requirements (design, safety, environmental, etc.), all documents, structured and unstructured, within an enterprise (including office documents, emails, CAD drawings, images, voice and computer print outs), and all data on products, assets, processes, projects and people to be captured, identified and inter-linked. This results in a unified and structured view of all enterprise information and promotes rapid access to relevant information by authorized users in context to their tasks and functions. eB s collaborative workspace environment provides an automated closed-loop change management process that ensures information integrity throughout the enterprise and compliance with legal, regulatory, corporate, audit and quality requirements.

The Company is building its business strategies around two core strengths. First, the Company s software and related services solve critical and recurring problems for companies operating in complex, asset-intensive industries. Second, the Company s software solutions have clear and significant architectural advantages that enable the Company to offer high value solutions to the Company s users as well as to distinguish itself from its competitors. To capitalize on these strengths, the Company has instituted the following strategic initiatives:

Continue to develop and position eB as a critical but complementary enterprise platform.

Continue direct sales in the Company's vertical markets.

Enter new markets through increased investment in and expansion of strategic partnerships.

Outsource non-core operations.

Opportunistic investing in technology.

Increase the Company s market presence.

The Company intends to continue to extend its position as a technology leader in developing and marketing integrated document, configuration and records management solutions. The Company intends to do this by continuing to enhance the features and functionality of its eB product suite using industry best practices, customer input and feedback and current technologies, including tools to allow users to tailor the look and feel of the product, administrative tools to enable systems operators to easily setup and make changes to the system and add tighter integration with other third party enterprise products. Through this enhanced functionality and integration the Company s products can provide even faster deployment and greater management control of enterprise information. The Company also plans to introduce new products and product extensions which are complementary to its existing suite of products and which address both existing and emerging market needs.

During 2005, the Company released a major update to eB 14 which is the Company s flagship platform based on the Microsoft .NET architecture. This platform has over two years of proven production use in high-volume / high-usage environments. Existing customers continue to migrate to eB Version 14, generating service revenue and new license opportunities. The Company expects that the migration of existing customers will take place over the next 12 months. In 2005, the eB product was certified by the Institute of Configuration Management, to be compliant with their CMII standard. The Company will continue to enhance its records management capabilities to fully comply with Department of Defense records management standard 5015.2. The Company is developing specific applications for the vertical markets on which the Company has focused, providing additional license and services revenue from existing customers, as well as new marketing and sales opportunities into the selected vertical markets. The Company obtained Gold Partner status from Microsoft during 2005 and is currently participating in Microsoft beta and new product launch programs, which allows the Company to properly plan for support of the latest and soon to be released computing environments.

The Company s principal executive offices are located at 10052 Mesa Ridge Court, Suite 100, San Diego, California 92121 and the Company s general telephone number is (858) 625-3000.

This Offering

Shares offered by the selling shareholders	43,336,338, including 33,793,103 shares of common stock issuable upon conversion of the Company s Series I Preferred Stock and 6,726,852 shares of common stock issuable upon exercise of warrants (collectively, the Warrants).
Use of proceeds	We will not receive any proceeds from the sale of common shares by the selling shareholders. The proceeds from this offering are solely for the account of the selling shareholders. We may receive proceeds from any exercise of the Warrants. Any net proceeds that we receive from any exercise of the Warrants will be used for general corporate purposes, including working capital for our business.
Risk factors	The purchase of our common stock involves a high degree of risk. You should carefully review and consider Risk Factors beginning on page 5.
OTC Bulletin Board Trading Symbol	SPCO.OB

RISK FACTORS

An investment in our shares involves a high degree of risk. Before making an investment decision, you should carefully consider all of the risks described in this prospectus. If any of the risks discussed in this prospectus actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the price of our shares could decline significantly and you may lose all or a part of your investment. The risk factors described below are not the only ones that may affect us. Additional risks and uncertainties that we do not currently know about or that we currently deem immaterial may also adversely affect our business, financial condition and results of operations. Our forward-looking statements in this prospectus are subject to the following risks and uncertainties. Our actual results could differ materially from those anticipated by our forward-looking statements as a result of the risk factors below. See Information Regarding Forward-Looking Statements.

The Company has a history of significant losses. If we do not sustain profitability, our financial condition and stock price could suffer.

The Company has a history of losses and may incur losses in the foreseeable future. We incurred net losses of $6,049,000, $223,000 and $3,004,000 for the fiscal years 2005, 2004 and 2003, respectively. For the six months ended March 31, 2006 we incurred a loss of $1,467,000. As of March 31, 2006, our accumulated deficit was $91,572,000. If revenues do not reach the levels the Company anticipates, or if operating expenses exceed the Company s expectations, the Company may not be able to achieve or sustain profitability in the near future or at all. If the Company is unable to achieve and sustain profitability at satisfactory levels, its financial condition and stock price could be materially adversely affected.

The Company will be controlled by Spescom Ltd. and its subsidiaries as long as they are entitled to a majority of the votes eligible to be cast in the election of directors.

As of June 16, 2006, Spescom Ltd. (together with its subsidiaries), by virtue of its ownership of common stock and Series F Preferred Stock, was entitled to 27,408,249, or 56%, of the total number of votes eligible to be cast in the election of directors. Spescom Ltd. therefore currently has the ability to elect a majority of the Company's board of directors and to remove the entire board of directors, with or without cause, without calling a special meeting. Moreover, even if the above-referenced percentage were to drop below 50%, it is likely that Spescom Ltd. would have sufficient votes to retain control of the Company. As a result, Spescom Ltd. will likely continue to control all matters affecting the Company, including but not limited to:

the composition of the Company s board of directors and, through it, any determination with respect to the Company s business direction and policies, including the appointment and removal of officers;

the allocation of business opportunities that may be suitable for the Company and Spescom Ltd.;

any determinations with respect to mergers or other business combinations or extraordinary transactions;

the Company s acquisition or disposition of assets; and

the Company s financing.

Spescom Ltd. is not prohibited from selling a controlling interest in us to a third party.

Notwithstanding the foregoing discussion, if certain affiliates of M.A.G. Capital, LLC become entitled to elect a majority of the authorized directors, as discussed below, Spescom Ltd. would cease to control the Company. Spescom Ltd., however, would continue to exert significant influence over matters other than the election of directors for which shareholder approval is required under applicable law, such as certain types of mergers and other business combinations.

Monarch Pointe Fund Ltd. and its affiliate Mercator Momentum Fund III, L.P., as holders of Series I Convertible Preferred Stock, may become entitled to elect a majority of the Board of Directors.

The Certificate of Determination for the Series I Convertible Preferred Stock provides that, if the Company has not entered into a binding agreement to consummate a consolidation, merger, or certain other corporate transactions meeting certain requirements on or before April 30, 2006, the holders of Series I Preferred Stock may, by a two-thirds vote not later than December 31, 2006, elect to have all of the outstanding Series I Preferred Stock redeemed by the Company at an amount equal to $1,000 per share plus all declared but unpaid dividends. If such election is made and the Company does not have sufficient funds to carry out the redemption, the holders of Series I Preferred Stock as a class will be entitled to elect a majority of the authorized directors of the Company.

There are currently 2,450 shares of Series I Preferred Stock outstanding, which are held by Monarch Pointe Fund, Ltd. (Monarch) and its affiliate Mercator Momentum Fund III, L.P. (MMF). A corporate transaction of the variety discussed in the preceding paragraph did not occur on or before April 30, 2006. Monarch and MMF are therefore entitled to elect to have all of the outstanding Series I Preferred Stock redeemed as discussed in the preceding paragraph. If such election is made, the redemption price is anticipated to be $2,450,000, plus all declared but unpaid dividends. In the event of such an election, unless the Company is able to raise additional debt or equity funds, the Company anticipates that it would not have sufficient funds to carry out the redemption. If the Company were able to raise additional funds, it is likely that existing shareholders would suffer additional substantial dilution. If the election to redeem the Series I Preferred Stock is made and the Company is unable to pay the redemption price, Monarch and MMF would become entitled to elect a majority of the authorized directors of the Company. In this event, those entities, through their majority control of the Board of Directors, would be able to control or (with respect to matters requiring shareholder approval) exert significant influence over all matters affecting the Company, including:

any determination with respect to the Company s business direction and policies, including the appointment and removal of officers;

the allocation of business opportunities that may be suitable for the Company and Spescom Ltd.;

any determinations with respect to mergers or other business combinations or extraordinary transactions;

the Company s acquisition or disposition of assets; and

the Company s financing.

Upon a liquidation of the Company, sale of all or substantially all of the Company s assets, or merger of the Company, the Company s preferred shareholders would be entitled to receive substantial payments prior to any distribution to the common shareholders.

Upon a liquidation of the Company, the holders of Series F Convertible Preferred Stock would be entitled to receive, prior to any distribution to the holders of common stock, an aggregate amount equal to $5,291,000 plus accrued but unpaid dividends per share and interest on all such dividends, which as of June 16, 2005 totaled $803,000. Upon a liquidation of the Company, sale of all or substantially all of the Company s assets, or merger of the Company, prior to any distribution or payment of merger consideration to the holders of common stock, the holders of Series I Convertible Preferred Stock would be entitled to receive an aggregate amount equal to the higher of (i) $2,450,000 plus declared but unpaid dividends per share, which as of June 16, 2005 totaled $41,000 and (ii) the amount such holders would be entitled to receive had such holders shares of Series I Preferred Stock been converted into shares of common stock immediately prior to the liquidation, sale of assets or merger in accordance with the terms of the Series I Preferred Stock.

The Company has borrowed funds from Spescom Ltd., which debts are secured by all of the Company s assets, and the Company may become insolvent if repayment of such debt is due prior to the Company s ability to obtain funds to repay such debt or if the Company fails to restructure such debt.

At March 31, 2006, the Company owed, including accrued but unpaid interest, an aggregate amount of $647,000 to Spescom Ltd. Interest accrues on such debt at an annual interest rate of 10%, and such debt is secured by a security interest in favor of Spescom Ltd. on all of the Company s assets. Spescom Ltd. has agreed to extend the maturity date on such debt until October 1, 2006. In addition the Company owes Spescom Ltd. $321,000 relating to certain marketing research and analysis that Spescom Ltd. performed on behalf of the Company. The obligation accrues interest at 11% per annum. Spescom Ltd. has agreed to forego payment on the $321,000 until October 1, 2006. If the Company is unable to generate sufficient cash flow from its operations, secure funds from the capital markets or lenders or restructure its debt to Spescom Ltd., the Company will become insolvent.

The Company will likely not be able to rely on Spescom Ltd. to fund its future capital requirements, and financing from other sources may not be available on favorable terms or at all.

The Company may need financing in the future and such financing may not be available on favorable terms or at all from any source. Although the Company in the past has received funding from Spescom Ltd. for working capital purposes, the Company believes that, due to Spescom Ltd. s current financial condition, it is unlikely that Spescom Ltd. would provide additional financing. In addition, if Spescom Ltd. were able to provide additional loans on terms acceptable to the Company, the funding of such loans could be delayed or prevented by currency exchange regulations of the Republic of South Africa, under which Spescom Ltd. is required to apply for and obtain the approval of the South African Reserve Bank before providing any funds to the Company.

The Company believes its capital requirements will vary greatly from quarter to quarter, depending on, among other things, capital expenditures, fluctuations in its operating results, financing activities, and investments and third party products and receivables management. The Company s future liquidity will depend on its ability to generate new system sales of its *e*B product suite in the near term, which cannot be assured. Failure to generate sufficient system sales to meet the Company s cash flow needs can be expected to have a material adverse effect on the Company s business, results of operations, and financial condition. Management believes that the Company s current cash and receivables, as well as additional cash that may be generated from operations, will be sufficient to meet its short-term needs for working capital. However, the Company may not be able to obtain sufficient orders to enable the Company to achieve a sustained break-even level of cash flow, which would be necessary to continue operations in the absence of further financing. Future equity financings would be dilutive to the existing holders of the Company s common stock. Future debt financings could involve restrictive covenants. Moreover, the Company may not be able to attract equity or debt financing at all.

The Company is dependent on sales to a relatively small number of new customers each quarter, so any failure to close a sale to any customer could have a material adverse effect on its quarterly operating results.

A small number of customers has typically accounted, and will continue in the future to account, for a large percentage of the Company s annual revenues. Constellation Energy Group accounted for 15% of revenue for the six months ended March 31, 2006. Network Rail accounted 16% of the Company s revenues in fiscal 2005. Network Rail and Constellation Energy Group accounted for 23% and 15%, respectively, of revenues for fiscal 2004 while Network Rail accounted for 19% of revenue for fiscal 2003. Because of the Company s reliance on sales to relatively few customers, the loss of any sale could have a material adverse effect on the results of its operations on any given quarter. Additionally, a significant portion of the Company s revenues has historically been, and is expected in the future to be, derived from the sale of systems to new customers. The Company generally incurs significant marketing and sales expense prior to entering into a contract with a new customer that generates revenues. The length of time it takes to establish a new customer relationship typically ranges from 6 to 12 months. As such, the Company may incur significant expenses associated with its sales efforts directed to prospective customers in any particular period before any associated revenues stream begins. If the Company is not successful at obtaining significant new customers or if a small number of customers cancel or delay their orders for its products, then its business and its prospects could be harmed which may cause the price of the Company s common stock to decline.

The Company s operating results are difficult to predict and fluctuate substantially from quarter to quarter and year to year, which may increase the difficulty of financial planning and forecasting and may result in declines in the Company s stock price.

The Company s future operating results may vary from the Company s past operating results, are difficult to predict and may vary from year to year due to a number of factors. Many of these factors are beyond the Company s control. These factors include:

the potential delay in recognizing revenue from license transactions due to revenue recognition rules which the Company must follow;

the tendency to realize a substantial amount of revenue in the last weeks, or even days, of each quarter due to the tendency of some of the Company s customers to wait until quarter or year end in the hope of obtaining more favorable terms;

customer decisions to delay implementation of the Company s products;

the size and complexity of the Company s license transactions;

any seasonality of technology purchases;

demand for the Company s products, which can fluctuate significantly;

the timing of new product introductions and product enhancements by both the Company and its competitors;

changes in the Company s pricing policy;

the publication of opinions concerning us, the Company s products or technology by industry analysts;

changes in foreign currency exchange rates; and

domestic and international economic and political conditions.

One or more of these factors may cause the Company s operating expenses to be disproportionately high or the Company s gross revenues to be disproportionately low during any given period, which could cause the Company s net revenue and operating results to fluctuate significantly. The Company s operating results have fluctuated significantly in the past. You should not rely on the Company s annual operating results to predict its future results because of the significant fluctuations to which the Company s results are subject.

As a result of these and other factors, operating results for any fiscal year are subject to significant variation, and the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful in terms of their relation to future performance. You should not rely upon these comparisons as indications of future performance. It is likely that the Company s future quarterly and annual operating results from time to time will not meet the expectations of public market analysts or investors, which could cause a drop in the price of its common stock.

The Company s market is subject to rapid technological change and if the Company fails to continually enhance its products and services in a timely manner, its revenue and business would be harmed.

The Company must continue to enhance and improve the performance, functionality and reliability of its products and services in a timely manner. The software industry is characterized by rapid technological change, changes in user requirements and preferences, frequent new product and services introductions embodying new technologies, and the emergence of new industry standards and practices that could render the Company s products and services obsolete. The Company has experienced product development delays in the past, and may experience delays in the future. The Company s failure to continually enhance its products and services in a timely manner would adversely impact its business and prospects. In the past, the Company has also discovered that some of its customers desire additional performance and functionality not currently offered by its products. The Company s success will depend, in part, on its ability to internally develop and license leading technologies to enhance its existing products and services, to develop new products and services that address the increasingly sophisticated and varied needs of its customers, and to respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis. The Company s product development efforts with respect to its *e*B product suite are expected to continue to require substantial investments by the Company, and the Company may not have sufficient resources to make the necessary investments. If the Company is unable to adapt its products and services to changing market conditions, customer requirements or emerging industry standards, it may not be able to maintain or increase its revenue and expand its business.

The Company s lack of product diversification means that any decline in price or demand for its products and services would seriously harm its business.

The *e*B product suite and related services have accounted for substantially all of the Company s revenue and this situation is expected to continue for the foreseeable future. Consequently, a decline in the price of, or demand for, the *e*B product suite or related services, or their failure to achieve broad market acceptance, would seriously harm the Company s business.

Significant unauthorized use of the Company s products would result in material loss of potential revenues and the Company s pursuit of protection for its intellectual property rights could result in substantial costs to it.

The Company s software is licensed to customers under license agreements containing provisions prohibiting the unauthorized use, copying and transfer of the licensed program. Policing unauthorized use of the Company s products is difficult and, while the Company is unable to determine the extent to which piracy of its software products exists, any significant piracy of its products could materially and adversely affect the Company s business, results of operations and financial condition. In addition, the laws of some foreign countries do not protect the Company s proprietary rights to as great an extent as do the laws of the United States and the Company s means of protecting its proprietary rights may not be adequate.

The Company relies on third party software products incorporated in its products. Any loss of use to such third party software could result in delays in the Company s product shipments.

The Company relies on certain software that it licenses from third parties, including software that is integrated with internally developed software and used in the Company s products to perform key functions. There can be no assurances that the developers of such software will remain in business, that they will continue to support their products, that their products will otherwise continue to be available to the Company on commercially reasonable terms or that their products are free from bugs or defects. The loss of or inability to maintain any of these software licenses could result in delays or reductions in product shipments until equivalent software can be developed, identified, licensed and integrated, which could adversely affect the Company s business, operating results and financial condition.

If third parties claim that the Company infringes on their patents, trademarks, or other intellectual property rights, it may result in costly litigation or require the Company to make royalty payments.

The Company is not aware that any of its software products infringe the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim infringement by the Company with respect to its current or future products. The Company expects that software product developers will increasingly be subject to infringement claims. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays, consume significant management time or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company or at all, which could have a material adverse effect on the Company s business, results of operations and financial condition.

The Company may face product liability claims from its customers.

The Company s license agreements with its customers usually contain provisions designed to limit its exposure to potential product liability claims. It is possible, however, that the limitation of liability provisions contained in the Company s license agreements may not be effective under the laws of some jurisdictions. A successful product liability claim brought against the Company could result in payment by the Company of substantial damages, which would harm its business, operating results and financial condition and cause the price of its common stock to fall.

If the Company loses key personnel, or is unable to attract and retain additional key personnel, the Company may not be able to successfully grow and manage its business.

The Company believes that its future success will depend upon its ability to attract and retain its key technical and management personnel. These employees are not subject to employment contracts. The Company may not be successful in retaining its key employees in the future or in attracting and assimilating replacement or additional key personnel. Any failure in retaining and attracting management personnel may impair its ability to rapidly grow and manage its business.

The Company faces intense competition from several competitors and may be unable to compete successfully.

The market for the Company s products is intensely competitive, subject to rapid change and significantly affected by new product introductions and other market activities of industry participants. The Company currently encounters competition from a number of public and private companies, including Electronic Document Management System/Enterprise Content Management vendors such as EMC (formerly Documentum), FileNet, OpenText, Sword and Hummingbird; Enterprise Asset Management vendors such as Indus and MRO/Maximo; and to a lesser extent Product Data Management/Product Lifecycle Management vendors such as Matrix I, PTC and EDS. Many of these direct competitors have significantly greater financial, technical, marketing and other resources than the Company. The Company also expects that direct competition will increase as a result of recent consolidation in the software industry.

The Company also faces indirect competition from systems integrators and VARs. The Company relies on a number of systems consulting and systems integration firms for implementation and other customer support services, as well as for recommendation of its products to potential purchasers. Although the Company seeks to maintain close relationships with these service providers, many of these third parties have similar, and often more established, relationships with the Company s principal competitors. If the Company were unable to develop and retain effective, long-term relationships with these third parties, the Company s competitive position would be materially and adversely affected. Further, these third parties may market software products in competition with the Company in the future and may otherwise reduce or discontinue their relationship with, or support of, the Company and its products.

In addition, database vendors, such as Oracle, IBM and Microsoft are potential competitors in the future if they acquire competitive technology or otherwise expand their current product offerings. Like the Company s current competitors, these companies have longer operating histories, significantly greater financial, technical, marketing and other resources and name recognition and a larger installed base of customers than the Company. Several of these companies, including Oracle, Microsoft, IBM and others, have well-established relationships with the Company s current and potential customers and strategic partners, as well as extensive resources and knowledge of the enterprise software industry that may enable them to offer a single-vendor solution more easily than the Company can. In addition, the Company s competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the development, promotion and sale of their products than the Company can. If the Company cannot respond to its competitors adequately and in a timely manner, then it may be required to reduce prices for its products and could suffer reduced gross margins and loss of market share, any of which could harm its business, prospects, financial condition and operating results, causing the price of its common stock to decline. In addition, the Company s past financial losses and customer uncertainty regarding the Company s financial condition are likely to have a material adverse effect on the Company s ability to sell its products in the future against competitors.

The Company s common stock is deemed to be penny stock, which may make it more difficult for investors to sell their shares due to suitability requirements.

The Company s common stock is deemed to be penny stock as that term is defined in Rule 3a51-1 promulgated under the Securities Exchange Act of 1934. These requirements may reduce the potential market for the Company s common stock by reducing the number of potential investors. This may make it more difficult for investors in the Company s common stock to sell shares to third parties or to otherwise dispose of them. This could cause the Company s stock price to decline. Penny stock is stock:

With a price of less than $5.00 per share;

That is not traded on a recognized national exchange;

Whose prices are not quoted on the NASDAQ automated quotation system (NASDAQ listed stock must still have a price of not less than $5.00 per share); or

In issuers with net tangible assets less than or equal to $2.0 million (if the issuer has been in continuous operation for at least three years) or $5.0 million (if in continuous operation for less than three years), or with average revenues of less than $6.0 million for the last three years.

Broker/dealers dealing in penny stocks are required to provide potential investors with a document disclosing the risks of penny stock. Moreover, broker/dealers are required to determine whether an investment in a penny stock is a suitable investment for a prospective investor.

The Company s common stock trades sporadically; the market price of the Company s common stock may be volatile.

The Company s common stock currently trades sporadically on the OTC Bulletin Board. The market for the Company s common stock may continue to be an inactive market, and the market price of the Company s common stock may experience significant volatility. The Company s quarterly results, failure to meet analysts expectations, announcements by the Company or its competitors regarding acquisitions or dispositions, loss of existing customers, new industry standards or technology, changes in general conditions in the economy, and general market conditions could cause the market price of the common stock to fluctuate substantially. In addition, the stock market has experienced significant price and volume fluctuations that have particularly affected the trading prices of equity securities of many technology companies. These price and volume fluctuations often have been unrelated to the operating performance of the affected companies.

Conversion of the Company s preferred stock would result in significant dilution to existing shareholders.

In a private placement completed in March 2006, the Company issued, in addition to certain warrants, shares of new Series I Convertible Preferred Stock, which upon conversion into common stock would result in substantial dilution to common shareholders. The number of shares of the Company s common stock into which the shares of Series I Preferred Stock may be converted varies based on a volume-weighted measure of the market price of the common stock. The range is from 11,666,667 common shares, if the market price measure were to be at least $0.25 at the time of all conversions, up to 33,793,104 common shares, if the market price measure were to be no greater than $0.08 at the time of all conversions.

On September 30, 2003, the Company issued 5,291 shares of Series F Preferred Stock with a stated value of $1,000 per share in consideration of the cancellation of $5,291,000 of its debt owed to Spescom Ltd. and its subsidiary. The Series F Preferred Stock is convertible into the Company s common stock at a stated conversion price of $0.45 per share, subject to certain adjustments to prevent dilution, representing a total of 11,757,778 shares of the Company s common stock. Such conversion may occur at the option of the holder until September 30, 2008. On that date, any outstanding Series F Preferred Stock not previously converted will be converted automatically. Conversion of the Series F Preferred Stock will result in substantial dilution to common shareholders.

Future sales of common stock by the Company s shareholders, including investors in future offerings and Spescom Ltd., could adversely affect the Company s stock price.

As part of the Series I Convertible Preferred Stock private placement completed in March 2006, the Company agreed to file a registration statement for the common stock of the Company issuable upon conversion of such preferred stock. Any sales of these shares of common stock or shares of the Company s common stock issued in any future offering could cause a decline in the price of the Company s stock. In addition, Spescom Ltd. holds 27,408,249 shares of the Company s common stock on a fully diluted basis as of June 16, 2006, and if it sells its shares of the Company from time to time in the future, the Company s stock price may be adversely affected. Spescom Ltd. also has certain demand and piggyback registration rights relating to 11,757,778 of these shares.

The exercise of outstanding options and warrants would result in dilution of the Company s stock.

As of June 16, 2006, the Company had outstanding stock options to purchase approximately 5,571,000 shares of common stock and warrants to purchase approximately 10,144,354 shares of common stock. If all or a significant number of the options or warrants are exercised, shareholders could suffer significant dilution.

The Company is subject to significant foreign currency fluctuations which may have a material adverse effect on the Company s business and financial results.

Changes in foreign currency rates, the condition of local economies, and the general volatility of software markets may result in a higher or lower proportion of foreign revenues in the future. Although the Company s operating and pricing strategies take into account changes in exchange rates over time, future fluctuations in the value of foreign currencies may have a material adverse effect on the Company s business, operating results and financial condition.

Beginning in fiscal 2006 under SFAS 123R the Company has begun recording compensation expense in connection with the incentive stock options provided to its employees and directors which may have a significant negative impact on future operating results.

In December 2004, the FASB issued SFAS 123R which requires companies to measure all employee stock-based compensation awards using a fair value method and record such expense in the Company s consolidated financial statements. The weighted average estimated fair value of employee stock options expense during the six months ended March 31, 2006 using the Black-Scholes model was $92,000. The future impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on, among other things, levels of share-based payments granted in the future, the market value of the Company s common stock as well as assumptions regarding a number of complex variables. These variables include, but are not limited to, the Company s stock price, volatility, and employee stock option exercise behaviors and the related tax impact. However, the expense recorded in future periods may significantly impact future earnings of the Company.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in Prospectus Summary, Risk Factors, Use of Proceeds and elsewhere in this prospectus, including those using words such as believes, expects, intends, estimates, projects, predicts, assumes, anticipates, plans, and seeks and comparable terms, a statements. Forward-looking statements are not statements of historical fact and reflect our views and assumptions as of the date of this prospectus regarding future events and operating performance.

All forward-looking statements address matters that involve risks and uncertainties. There are important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include but are not limited to those described under Risk Factors, including the following:

The Company s control by and indebtedness to Spescom Ltd.

The uncertainty regarding the Company's ability to obtain additional debt and equity financing, when and if necessary

Our dependence on a small number of new customers

The fluctuation of our operating results

A developing market and rapid technological changes

Our lack of product diversification

Potential violation of our intellectual property rights

Our dependence on third-party software providers

Potential intellectual property infringement claims by third parties

Potential product liability claims by customers

Our potential inability to compete effectively

Potential difficulty for investors to sell their shares of common stock in the Company

Potential volatility of the market price of the Company s common stock

The exercise of outstanding options and warrants would dilute the Company s stock

Fluctuations in foreign currency exchange rates

This list of factors is not exhaustive and should be read with the other cautionary statements that are included in this prospectus.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from our projections. Any forward-looking statements you read in this prospectus reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to, among other things, our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. You should specifically consider the factors identified in this prospectus that could cause actual results to differ from those discussed in the forward-looking statements before making an investment decision. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future events or otherwise.

USE OF PROCEEDS

We will not receive any proceeds from the sale of common shares by the selling shareholders. The proceeds from this offering are solely for the account of the selling shareholders. We may receive proceeds if the Warrants are exercised. Any net proceeds that we receive from any exercise of the Warrants will be used for general corporate purposes, including working capital for our business.

DILUTION

The following table compares the $0.11 offering price (the average of the high and low price of the shares on June 16, 2006) of the shares to the cost to our existing shareholders of shares of common stock that they acquired from us within the past five years, that are issuable upon conversion of outstanding shares of preferred stock acquired from us within the past five years, or that they have the right to acquire from us under outstanding stock options or warrants.

	Shares Purchased		**Total Consideration**		**Average price per share**
	Number	**Percent**	**Amount**	**Percent (3)**	
Existing stockholders	67,569,164(1)	61%	$ 13,766,828(4)	74%	$ 0.20(6)
New investors	43,336,338(2)	39%	$ 4,766,997(5)	26%	$ 0.11(7)
Total	110,905,502	100%	$ 18,533,825	100%	

(1) The number of shares of our common stock currently outstanding that were purchased from us within the five years ended June 16, 2006 plus the number of shares of common stock that are issuable upon the conversion of outstanding shares of preferred stock that were purchased from us within the past five years, plus the number of shares issuable upon the exercise of currently outstanding stock options and warrants.

(2) The maximum number of shares being offered to investors in this offering.

(3) The percentage that each number represents of the sum of both numbers.

(4) The sum of the price paid to us for all shares of common stock purchased from us within the five years ended June 16, 2006 (including shares of preferred stock that are convertible into common stock) and the aggregate exercise price of all currently outstanding stock options and warrants.

(5) The product of an assumed offering price of $0.11 per share (the average of the high and low price of the shares on June 16, 2006) and the aggregate maximum number of shares being offered to investors in the offering.

(6) The weighted average price of all shares purchased from us within the five years ended June 16, 2006 (including shares of preferred stock that are convertible into common stock) and the exercise price of all currently outstanding stock options and warrants.

(7) For purposes of this table, we have assumed an offering price of $0.11 per share (the average of the high and low price of the shares on June 16, 2006).

Our net tangible book value as of March 31, 2006 was approximately ($4,889,000), or ($0.06) per share of our common stock. If you invest in our common stock, your interest will be diluted to the extent of the difference between the price you pay per share of our common stock and the net tangible book value per share of our common stock at the time of your purchase. Net tangible book value per share is calculated by subtracting our total liabilities from our total tangible assets, and dividing this amount by the number of shares of our common stock issued and outstanding after giving effect to the conversion of all shares of our outstanding preferred stock. The sale of shares of common stock in this offering by the selling shareholders will not affect our net tangible book value because we will not receive any proceeds from their sale of our common stock. Based on our net tangible book value as of March 31, 2006 and assuming an offering price of $0.11 per share, investors in this offering will experience immediate and substantial dilution of $0.17 per share.

The foregoing discussion is based upon the number of shares actually issued and outstanding as of June 16, 2006, which assumes the conversion of all of our outstanding shares of preferred stock into 45,550,881 shares of common stock. As of that date, there were 15,715,354 options and warrants outstanding at a weighted average exercise price of $0.30 per share. To the extent outstanding options or warrants are exercised, you may experience further dilution.

In addition, we may choose to raise additional capital due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of these securities could result in further dilution to our shareholders.

SELLING SHAREHOLDERS

The following table sets forth the number of common shares beneficially owned by each of the selling shareholders as of June 16, 2006. To our knowledge, except as provided below, none of the selling shareholders has had a material relationship with us within the past three years other than as a result of the ownership of the shares covered by this prospectus. Because the selling shareholders may offer all or some of the shares which they hold pursuant to the offering contemplated by this prospectus, and because there are currently no agreements, arrangements or understandings with respect to the sale of any of the shares, no definitive estimate can be given as to the amount of shares that will be held by the selling shareholders after completion of this offering and the following table has been prepared on the assumption that all options and warrants will be exercised and all common shares offered hereby will be sold. The selling shareholders named below are not obligated to sell any of the shares shown as offered by them below but may offer the shares offered by this prospectus from time to time.

	Shares beneficially owned before offering			**Shares beneficially owned after offering**	
Name of Shareholder	**Common Shares**	**Common Shares issuable on conversion of Preferred Stock and/or exercise of warrants**	**Shares being offered**	**Number of Shares**	**Percent of Class**
Monarch Pointe Fund, Ltd. (1)(3)	3,285,883	35,005,556	37,746,939	544,500	1%
Mercator Momentum Fund III, L.P. (1)	0	1,913,473	1,913,473	0	0%
M. A. G. Capital, LLC (2)(3)	0	1,475,926	1,475,926	0	0%
Liolios Group, Inc. (4)	0	300,000	300,000	0	0%
Trilogy Capital Partners, Inc. (5)	0	1,000,000	1,000,000	0	0%
Cappello Capital Corp.(6)	0	41,250	41,250	0	0%
Pompan Family Trust U/A/D 4/4/98 (8)	0	470,250(7)	470,250	0	0%
Alexander L. & Linda Cappello 2001 Family Trust (9)	0	143,365(7)	143,365	0	0%
Robert & Ellen Deutschman Family Trust(10)	0	127,135(7)	127,135	0	0%
Sean D.P. Kelly	0	12,000(7)	12,000	0	0%
David Barnes	0	18,000(7)	18,000	0	0%
Larry Kim	0	6,000(7)	6,000	0	0%
Peter Janda	0	3,000(7)	3,000	0	0%
Kyle Messman	0	3,000(7)	3,000	0	0%
Benjamin Fox	0	1,000(7)	1,000	0	0%
CEOcast, Inc.(11)	165,000	0	75,000	90,000	*
Total	3,450,883	40,519,955	43,336,338	634,500	1%

* Less than one percent.

This table is based upon information supplied by the selling shareholders.

(1) M. A. G. Capital, LLC (MAG) controls the investments of Monarch Pointe Fund, Ltd. (Monarch) and Mercator Momentum Fund III, L.P. (MMF). David F. Firestone is the Managing Member of MAG and, in such capacity, holds the right to vote and the right to dispose of the shares beneficially owned by Monarch and MMF.

(2) David Firestone is the Managing Member of MAG and, in such capacity, holds the right to vote and the right to dispose of the shares beneficially owned by MAG.

(3) On November 5, 2004, the Company issued 1) 2,200 shares of Series G Convertible Preferred Stock to Monarch and 2) warrants, which expire November 5, 2007, to purchase an aggregate of 2.75 million shares of common stock at $0.44 per share to Monarch and MAG, which was then named Mercator Advisory Group, LLC. The aggregate purchase price of the Series G Convertible Preferred Stock and warrants was $2.2 million. During fiscal 2005, 750 shares of this preferred stock was converted into 2,428,000 shares of common stock. On October 25, 2005, the Company issued 1) 1,950 shares of Series H Convertible Preferred Stock to Monarch and 2) warrants, which expire October 25, 2008, to purchase an aggregate of 925,926 shares of common stock at $0.27 per share to Monarch and MAG. The aggregate consideration received by the Company for the Series H Convertible Preferred Stock and warrants consisted of $500,000 and the remaining 1,450 shares of the Series G Convertible Preferred Stock, which were cancelled by the Company. The 1,950 shares of Series H Convertible Preferred Stock issued on October 25, 2005 were returned to the Company and cancelled in connection with the private placement on March 10, 2006 of Series I Convertible Preferred Stock.

(4) The right to vote and the right to dispose of the shares beneficially owned by Liolios Group, Inc. (Liolios Group) is held by Scott Liolios, the President of Liolios Group. Scott Liolios is an independent contractor of Bathgate Capital Partners LLC, a registered broker-dealer. Liolios Group acquired the securities to be resold as compensation for public relations services that have been provided to the Company, which services have been provided in the ordinary course of business of Liolios Group. At the time of the acquisition by Liolios Group of the securities to be resold, Liolios Group did not have any agreement, understanding or arrangement with any person, either directly or indirectly, to dispose of the securities.

(5) A.J. Cervantes has voting or dispositive power over the shares beneficially owned by Trilogy Capital Partners, Inc.

(6) Cappello Capital Corp. (Cappello) is a registered broker-dealer. It received its warrants as compensation in connection with the Company s $2.2 million private placement in November of 2004 in which Cappello served as placement agent. Gerard Cappello has voting or dispositive power over the shares beneficially owned by Cappello.

(7) These warrants were issued to Cappello, a registered broker-dealer, as compensation in connection with the Company s $2.2 million private placement in November of 2004 in which Cappello served as placement agent. Also in connection with that private placement, these warrants were transferred to the indicated selling shareholders. Each of the indicated selling shareholders, at the time the warrants were transferred, was an employee of Cappello or was the trust of a principal of Cappello. Presently, each of the indicated selling shareholders continues to be an employee of Cappello or the trust of a principal of Cappello, except that Larry Kim, Peter Janda, Kyle Messman and Benjamin Fox are no longer employees of Cappello. None of the indicated selling shareholders, at the time of the acquisition of the securities to be resold, had any agreement, understanding or arrangement with any person, either directly or indirectly, to dispose of the securities.

(8) Bruce L. Pompan has voting or dispositive power over the shares beneficially owned by the Pompan Family Trust U/A/D 4/4/98.

(9) Alex Cappello has voting or dispositive power over the shares beneficially owned by Alexander L. & Linda Cappello 2001 Family Trust.

(10) Robert Deutschman has voting or dispositive power over the shares beneficially owned by Robert & Ellen Deutschman Family Trust.

(11) Kenneth Sgro has voting and dispositive power over the shares beneficially owned held by CEOcast, Inc.

PLAN OF DISTRIBUTION

The selling shareholders, or their pledgees, donees, transferees, or any of their successors in interest selling shares received from a named selling shareholder as a gift, partnership distribution or other non-sale-related transfer after the date of this prospectus (all of whom may be selling shareholders) may sell the common shares offered by this prospectus from time to time on any stock exchange or automated interdealer quotation system on which the common shares are listed or quoted at the time of sale, in the over-the-counter market, in privately negotiated transactions or otherwise, at fixed prices that may be changed, at market prices prevailing at the time of sale, at prices related to prevailing market prices or at prices otherwise negotiated. The selling shareholders may sell the common shares by one or more of the following methods, without limitation:

Block trades in which the broker or dealer so engaged will attempt to sell the common shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

An exchange distribution in accordance with the rules of any stock exchange on which the common shares are listed;

Ordinary brokerage transactions and transactions in which the broker solicits purchases;

Privately negotiated transactions;

In connection with short sales of Company shares;

Through the distribution of common shares by any selling shareholder to its partners, members or stockholders;

By pledge to secure debts or other obligations;

In connection with the writing of non-traded and exchange-traded call options, in hedge transactions and in settlement of other transactions in standardized or over-the-counter options;

Purchases by a broker-dealer as principal and resale by the broker-dealer for its account; or

In a combination of any of the above.

These transactions may include crosses, which are transactions in which the same broker acts as an agent on both sides of the trade. The selling shareholders may also transfer the common shares by gift. We do not know of any arrangements by the selling shareholders for the sale of any of the common shares.

The selling shareholders may engage brokers and dealers, and any brokers or dealers may arrange for other brokers or dealers to participate in effecting sales of the common shares. These brokers or dealers may act as principals, or as an agent of a selling shareholder. Broker-dealers may agree with a selling shareholder to sell a specified number of the shares at a stipulated price per share. If the broker-dealer is unable to sell common shares acting as agent for a selling shareholder, it may purchase as principal any unsold shares at the stipulated price.

Broker-dealers who acquire common shares as principals may thereafter resell the shares from time to time in transactions in any stock exchange or automated interdealer quotation system on which the common shares are then listed, at prices and on terms then prevailing at the time of sale, at prices related to the then-current market price or in negotiated transactions. Broker-dealers may use block transactions and sales to and through broker-dealers, including transactions of the nature described above. The selling shareholders may also sell the common shares in accordance with Rule 144 or Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), rather than pursuant to this prospectus. In order to comply with the securities laws of some states, if applicable, the shares of common stock may be sold in these jurisdictions only through registered or licensed brokers or dealers.

From time to time, one or more of the selling shareholders may pledge, hypothecate or grant a security interest in some or all of the shares owned by them. The pledgees, secured parties or person to whom the shares have been hypothecated will, upon foreclosure in the event of default, be deemed to be selling shareholders. The number of a selling shareholder s shares offered under this prospectus will decrease as and when it takes such actions. The plan of distribution for that selling shareholder s shares will otherwise remain unchanged. In addition, a selling shareholder may, from time to time, sell the shares short, and, in those instances, this prospectus may be delivered in connection with the short sales and the shares offered under this prospectus may be used to cover short sales.

To the extent required under the Securities Act, the aggregate amount of selling shareholders shares being offered and the terms of the offering, the names of any agents, brokers, dealers or underwriters, any applicable commission and other material facts with respect to a particular offer will be set forth in an accompanying prospectus supplement or a post-effective amendment to the registration statement of which this prospectus is a part, as appropriate. Any underwriters, dealers, brokers or agents participating in the distribution of the common shares may receive compensation in the form of underwriting discounts, concessions, commissions or fees from a selling shareholder and/or purchasers of selling shareholders shares, for whom they may act (which compensation as to a particular broker-dealer might be less than or in excess of customary commissions). Neither we nor any selling shareholder can presently estimate the amount of any such compensation.

The selling shareholders and any underwriters, brokers, dealers or agents that participate in the distribution of the common shares may be deemed to be underwriters within the meaning of the Securities Act, and any discounts, concessions, commissions or fees received by them and any profit on the resale of the securities sold by them may be deemed to be underwriting discounts and commissions. If a selling shareholder is deemed to be an underwriter, the selling shareholder may be subject to certain statutory liabilities including, but not limited to Sections 11, 12 and 17 of the Securities Act and Rule 10b-5 under the Exchange Act. Selling shareholders who are deemed underwriters within the meaning of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act. The SEC staff is of a view that selling shareholders who are registered broker-dealers or affiliates of registered broker-dealers may be underwriters under the Securities Act. We will not pay any compensation or give any discounts or commissions to any underwriter in connection with the securities being offered by this prospectus.

A selling shareholder may enter into hedging transactions with broker-dealers and the broker-dealers may engage in short sales of the common shares in the course of hedging the positions they assume with that selling shareholder, including, without limitation, in connection with distributions of the common shares by those broker-dealers. A selling shareholder may enter into option or other transactions with broker-dealers, who may then resell or otherwise transfer those common shares. A selling shareholder may also loan or pledge the common shares offered hereby to a broker-dealer and the broker-dealer may sell the common shares offered by this prospectus so loaned or upon a default may sell or otherwise transfer the pledged common shares offered by this prospectus.

The selling shareholders and other persons participating in the sale or distribution of the common shares will be subject to applicable provisions of the Exchange Act, and the rules and regulations under the Exchange Act, including Regulation M. This regulation may limit the timing of purchases and sales of any of the common shares by the selling shareholders and any other person. The anti-manipulation rules under the Exchange Act may apply to sales of common shares in the market and to the activities of the selling shareholders and their affiliates. Regulation M may restrict the ability of any person engaged in the distribution of the common shares to engage in market-making activities with respect to the particular common shares being distributed for a period of up to five

business days before the distribution. These restrictions may affect the marketability of the common shares and the ability of any person or entity to engage in market-making activities with respect to the common shares.

We have agreed to indemnify M.A.G. Capital, LLC (MAG), Monarch Pointe Fund, Ltd. (Monarch), Mercator Momentum Fund III, L.P. (MMF), Trilogy Capital Partners, Inc., Liolios Group, Inc., Cappello Capital Corp., Pompan Family Trust U/A/D 4/4/98, Alexander L. & Linda Cappello 2001 Family Trust, Robert & Ellen Deutschman Family Trust, Sean D.P. Kelly, David Barnes, Larry Kim, Peter Janda, Kyle Messman and Benjamin Fox, and certain agents and control persons of those parties, against specified liabilities, including liabilities under the Securities Act. The Company has also agreed with MAG, Monarch and MMF to indemnify any brokers, dealers and agents who may be deemed to be underwriters, if any, of the common shares offered by this prospectus for resale by MAG, Monarch and MMF.

We will not receive any proceeds from sales of any common shares by the selling shareholders. We may receive proceeds upon the exercise of the Warrants. Any net proceeds that we receive from any exercise of the Warrants will be used for general corporate purposes, including working capital for our business.

We cannot assure you that the selling shareholders will sell all or any portion of the common shares offered by this prospectus. In addition, we cannot assure you that a selling shareholder will not transfer the shares of our common stock by other means not described in this prospectus.

DESCRIPTION OF CAPITAL STOCK

Authorized Stock

As of the date of this prospectus, our authorized capital stock consists of 100,000,000 shares of common stock, no par value, and 1,000,000 shares of preferred stock, no par value. As of June 16, 2006, our issued and outstanding shares of capital stock consists of 37,144,494 common shares, 5,291 shares of Series F Preferred stock, and 2,450 shares of Series I Preferred Stock. These numbers exclude the approximately 6,726,852 common shares issuable upon the exercise of the Warrants, 3,417,502 shares issuable under certain options and other warrants, and 5,571,000 common shares issuable pursuant to outstanding options under the Company s equity compensation plans.

Common Shares

The holders of common stock are entitled to one vote per share on all matters voted on by the shareholders, including elections of directors. Subject to preferences that may apply to any of our outstanding preferred stock, holders of our common stock will receive ratably any dividends our board of directors declares out of funds legally available therefore, and in the event of liquidation or dissolution of the Company, are entitled to share in all assets remaining after payment of liabilities and any liquidation preference of any of our outstanding preferred stock. Our common stock has no preemptive rights, conversion rights, or other subscription rights or redemption or sinking fund provisions. The shares of our common stock to be issued upon completion of this offering will be fully paid and non-assessable.

Series F Convertible 5% Preferred Stock

On September 30, 2003, the Company issued 5,291 shares of Series F Preferred Stock (the Series F Preferred Shares) with a stated value of $1,000 per share in consideration of the cancellation of $5,291,000 of its debt owed to Spescom Ltd. and its subsidiary. The Series F Preferred Shares are convertible into the Company s common stock, at a stated conversion price of $0.45 per share, representing a total of 11,757,778 shares of the Company s common stock, subject to certain adjustments to prevent dilution. Such conversion may occur at the option of the holder until September 30, 2008. On that date, any outstanding Series F Preferred Shares not previously converted are to be converted automatically.

The Series F Preferred Shares are entitled to a liquidation preference equal to $1,000 per share, plus accrued but unpaid dividends per share and interest on all accrued but unpaid dividends. The Series F Preferred Shares are also entitled to receive dividends of 5% of the stated value of $1,000 per share per annum, payable on a quarterly basis in cash or common stock (valued on the basis of the average per share market value on the 30 trading days immediately prior to the date on which such dividend is declared by the Board of Directors). Unpaid dividends, if any, accrue interest at the rate of 8% per annum. As part of the transaction, Spescom Ltd. and its U.K. subsidiary received certain demand and piggyback registration rights with respect to the common stock underlying the Series F Preferred Shares. Each holder of Series F Preferred Shares is entitled to the number of votes equal to the number of shares of common stock to which such holder would be entitled upon conversion of the Series F Preferred Shares held by such holder on all matters submitted to the vote of the holders of common stock, and votes as a class with the holders of common stock. In a change of control, merger or sale, the holders of Series F Preferred Shares would preserve their conversion rights and would be entitled to the same number of shares immediately prior to such transaction.

Series I Convertible Preferred Stock

On March 10, 2006, the Company completed a private placement with M.A.G. Capital, LLC ("MAG"), Monarch Pointe Fund, Ltd. ("Monarch") and Mercator Momentum Fund III, L.P. ("MMF"). Under the terms of the financing, the Company issued (i) to Monarch and MMF an aggregate of 2,450 shares of Series I Convertible Preferred Stock ("Series I Preferred Stock") and (ii) to MAG, Monarch and MMF warrants, expiring March 10, 2009, to purchase an aggregate of 925,926 shares of common stock at $0.27 per share. The Series I Preferred Stock is convertible into no fewer than 11,666,667 shares of common stock and into no more than 33,793,104 shares of common stock. The Company received aggregate consideration of $500,000 and 1,950 shares of the Company's Series H Convertible Preferred Stock, which have been cancelled, for the Series I Preferred Stock and warrants issued in the private placement.

The Certificate of Determination for the Series I Convertible Preferred Stock provides that, if the Company has not entered into a binding agreement to consummate a consolidation, merger, reclassification of the stock of the Company (subject to certain exceptions), or disposition of all or substantially all of the assets of the Company on or before April 30, 2006, the holders of Series I Preferred Stock may, by the vote not later than December 31, 2006 of at least two-thirds of the then-outstanding shares of Series I Preferred Stock, elect to have all of the outstanding Series I Preferred Stock redeemed by the Company. Upon such election, the Company would be obligated to redeem the Series I Preferred Stock at an amount equal to $1,000 per share plus all declared but unpaid dividends. If such election is made and the Company does not have sufficient funds available to redeem the Series I Preferred Stock in accordance with applicable law, the holders of Series I Preferred Stock as a class will be entitled to elect the smallest number of directors of the Company constituting a majority of the authorized number of directors.

A corporate transaction of the variety discussed in the preceding paragraph did not occur on or before April 30, 2006. Monarch and MMF, as the holders of the Series I Preferred Stock, are therefore entitled to elect to have all of the outstanding Series I Preferred Stock redeemed as discussed in the preceding paragraph. If such an election is made, the redemption price is anticipated to be $2,450,000, plus all declared but unpaid dividends. In the event of such an election, unless the Company is able to raise additional debt or equity funds, the Company anticipates that it would not have sufficient funds to carry out the redemption. If the Company were able to raise additional funds, it is likely that existing shareholders would suffer additional substantial dilution. If the election to redeem the Series I Preferred Stock is made and the Company is unable to pay the redemption price, Monarch and MMF would become entitled to elect a majority of the authorized directors of the Company. In this event, those entities, through their majority control of the Board of Directors, would be able to control or (with respect to matters requiring shareholder approval) exert significant influence over all matters affecting the Company. As of the date of this prospectus the holders of the Series I Preferred Stock have not elected to exercise this redemption option.

Each share of Series I Preferred Stock is convertible into a number of shares of common stock determined by dividing $1,000 by the conversion price per share in effect at the time of conversion. The conversion price per share is equal to 85% of the market price (the volume-weighted average price of the Company s common stock during the 5 immediately preceding trading days, subject to adjustment), provided that in no event shall the conversion price exceed a ceiling price of $0.21 per share, or be less than a floor price of $0.0725 per share. The conversion price is subject to adjustment in the case of any stock split, combination, capital reorganization, reclassification, consolidation or merger, and certain dividends. Subject to certain exceptions, the conversion price is also subject to weighted average anti-dilution adjustment in the case of an issuance of shares of common stock or securities exercisable for or convertible into common stock, at a per share price, exercise price or conversion price less than the conversion price then in effect.

Each holder of Series I Preferred Stock is entitled to a liquidation preference equal to the greater of (i) $1,000 per share plus declared but unpaid dividends per share and (ii) the amount such holder would be entitled to receive had such holder s shares been converted into shares of common stock immediately prior to the distribution in accordance with the terms of the Series I Preferred Stock. Commencing on the issuance date of the Series I Preferred Stock, the Series I Preferred Stock is entitled to receive dividends of 6.75% of the stated value of $1,000 per share per annum, only payable until the registration statement for the common stock underlying the Series I Preferred Stock is declared effective by the Securities and Exchange Commission.

The Warrants

The Warrants referred to in this prospectus consist of warrants for the purchase of an aggregate of 6,726,852 shares of our common stock, as described below.

An aggregate of 4,601,852 shares of our common stock are issuable under warrants held by M. A. G. Capital, LLC (MAG), which was formerly named Mercator Advisory Group, LLC, and its affiliates Monarch Pointe Fund, Ltd. (Monarch) and Mercator Momentum Fund III, L.P. (MMF), as follows:

2,750,000 shares are issuable under warrants (the Series G Financing Warrants) issued on November 5, 2004 together with shares of preferred stock in the private offering of Series G Preferred Stock to Monarch. Of such warrants, 2,200,000 were issued to Monarch and 550,000 were issued to MAG. Those warrants have an exercise price of $0.44 per share and expire on November 5, 2007.

925,926 shares are issuable under warrants (the Series H Financing Warrants) issued on October 25, 2005 together with shares of preferred stock in the private offering of Series H Preferred Stock to Monarch. Of such warrants, 462,963 were issued to Monarch and 462,963 were issued to MAG. Those warrants have an exercise price of $0.27 per share and expire on October 25, 2008.

925,926 shares are issuable under warrants (the Series I Financing Warrants) issued on March 10, 2006 together with shares of preferred stock in the private offering of Series I Preferred Stock to Monarch and MMF. Of such warrants, 342,593 were issued to Monarch, 120,370 were issued to MMF, and 462,963 were issued to MAG. Those warrants have an exercise price of $0.27 per share and expire on March 10, 2009.

The warrants held by MAG, Monarch and MMF prohibit any exercise thereof that would result in the holder owning beneficially more than 9.99% of the outstanding shares of Common Stock of the Company as determined under Section 13(d) of the Securities Exchange Act of 1934.

On November 15, 2005, the Company entered into an agreement with Liolios Group, Inc. (Liolios) for the provision of public relations services to the Company. As part of the compensation due Liolios, the Company agreed to issue to Liolios, every month the agreement is effective, a warrant to purchase up to 50,000 shares of the Company s common stock at an exercise price of $0.10 per share. Also as part of the compensation due Liolios, the Company agreed to issue to Liolios a one-time performance warrant to purchase up to 500,000 shares of the Company s common stock at an exercise price of $0.25 per share, which would vest if, during the term of the agreement, the volume-weighted average price of the Company s common stock were to exceed $0.50 for five consecutive trading days. Pursuant to notice provided by the Company to Liolios in accordance with the agreement, the agreement terminated six months from November 15, 2005. On March 31, 2006, the Company issued to Liolios a warrant (the Liolios Warrant), expiring on the third anniversary of its date of issuance, for the purchase of 300,000 shares of the Company s common stock at an exercise price of $0.10 per share. Liolios agreed to accept that warrant in lieu of all of the warrants issuable to Liolios as monthly compensation during the six-month term of the agreement and in lieu of the performance warrant.

On November 4, 2004, the Company issued to Trilogy Capital Partners, Inc. (Trilogy) warrants (the Trilogy Warrants) to purchase 1,000,000 shares of its common stock at $0.40 per share, expiring November 3, 2007. The warrants vest and become exercisable as follows: (i) 500,000 warrants vest on the date that the average of the last sale price of the Company s stock on the OTC Bulletin Board for the ten trading days immediately preceding such date (the Market Price) exceeds $0.60 per share, (ii) 250,000 warrants vest on the date that the Market Price exceeds $0.70 per share, and (iii) the remaining 250,000 warrants vest and become exercisable on the date that the Market Price exceeds $0.80 per share.

In connection with the Series G private placement in November 2004, the Company entered into an agreement with Cappello Capital Corp. (Cappello), an investment consulting firm, pursuant to which Cappello received warrants (the Cappello Warrants) to purchase (i) 550,000 shares of the Company s common stock at a purchase price of $0.40 per share, expiring November 5, 2009, and (ii) 275,000 shares of the Company s common stock at a purchase price of $0.44 per share, expiring November 5, 2007.

Other Options and Warrants

In addition to the Warrants and options issued pursuant to the Company s equity compensation plans, 3,417,502 common shares are issuable upon the exercise of other warrants and options, as described below:

Warrants to purchase 917,502 common shares have an exercise price of $0.30 per share and expire on August 31, 2006. Each such warrant contains provisions for the adjustment of the exercise price and the number of shares issuable upon the exercise of the warrant in the event of stock dividends, stock splits, reorganizations and reclassifications and consolidations. The warrants were originally issued in September 2003 to private investors in connection with a private placement of common shares completed in September 2003.

In August 2003 the Company entered into an agreement with PANCAR LLC (Pancar), a consulting firm, pursuant to which Pancar received a vested three-year option, expiring August 15, 2006, to purchase 1,000,000 shares of the Company s common stock at $0.22 per share, and the option to purchase an additional 1,500,000 shares of common stock at $0.22 per share if the Company consummates a transaction with investors introduced by or through Pancar that provides the Company with at least $2,400,000 in additional investment capital.

Shares Included in this Prospectus

The shares included in this prospectus include 36,291,755 shares that have not previously been registered. Those shares consist of (i) 33,793,103 common shares issuable upon conversion of the shares of Series I Preferred Stock issued to Monarch and MAG on March 10, 2006; (ii) 1,851,852 common shares issuable upon exercise of the Series H Financing Warrants and the Series I Financing Warrants; (iii) 300,000 common shares issuable upon exercise of the Liolios Warrant; (iv) 325,966 common shares issued to Monarch in payment of dividends on shares of Series H Preferred Stock; and (v) 20,834 common shares issued to Monarch in payment of dividends on shares of Series G Preferred Stock.

The shares included in this prospectus also include, pursuant to Rule 429 under the Securities Act, 7,044,583 shares previously registered under the Securities Act on the Company's registration statement on Form S-2, as amended, bearing File No. 333-121038 (the "S-2 Registration Statement"). Those shares consist of (i) 2,750,000 shares issuable upon exercise of the Series G Financing Warrants; (ii) 1,000,000 shares issuable upon exercise of the Trilogy Warrants; (iii) 825,000 common shares issuable upon exercise of the Cappello Warrants; (iv) 2,333,367 common shares issued to Monarch upon conversion of shares of Series G Preferred Stock; (v) 61,216 shares issued to Monarch in payment of dividends on shares of Series G Preferred Stock; and (vi) 75,000 shares issued to CEOCast, Inc. as compensation for public relations services rendered under a Consultant Agreement entered into between the Company and CEOCast, Inc. on March 5, 2004.

In addition to the 7,044,583 shares referenced in the preceding paragraph, the S-2 Registration Statement included 4,999,967 shares which are not included in this prospectus. Those shares consist primarily of 4,904,967 common shares that, as of the effective date of the S-2 Registration Statement, were issuable upon conversion of shares of Series G Preferred Stock. Those shares are no longer subject to issuance because all shares of Series G Preferred Stock have either been converted into common shares or cancelled in connection with the private placement of Series H Preferred Stock, as described in footnote 3 to the table under the heading "Selling Shareholders." The balance of the 4,999,967 shares consists of 95,000 shares issued to Monarch upon conversion of shares of Series G Preferred Stock and subsequently sold by Monarch under the S-2 Registration Statement.

Registration Rights

In connection with our March 10, 2006 private offering of Series I Preferred Stock, we entered into a registration rights agreement with Monarch, MMF and MAG for their benefit, and the benefit of the direct and indirect transferees of the shares sold in that offering. Under this registration rights agreement, we agreed to use commercially reasonably efforts to file with the SEC, no later than 30 days after March 10, 2006, a registration statement providing for the resale of the common shares into which the preferred shares sold in that private offering are convertible, as well as the common shares issuable upon the exercise of the Series I Financing Warrants and the Series H Financing Warrants. The registration statement of which this prospectus is part was filed to satisfy that obligation.

The Liolios Warrant is entitled to piggyback registration rights. The common shares issuable upon exercise of the Liolios Warrant are included in this prospectus pursuant to those registration rights.

Certain of the securities included in this prospectus pursuant to Rule 429 under the Securities Act, as discussed under "Shares Included in this Prospectus" above, were previously registered for resale on the S-2 Registration Statement pursuant to registration rights of the holders. The common shares issuable upon the exercise of the Series G Financing Warrants were registered for resale pursuant to a registration rights agreement entered into between the Company, Monarch and MAG in connection with the November 5, 2004 private offering of Series G Convertible Preferred Stock. The common shares issuable upon exercise of the Cappello Warrants and the Trilogy Warrants were registered for resale pursuant to the piggyback registration rights provided under those warrants. The common shares held by CEOcast, Inc. included in this prospectus were registered for resale pursuant to the piggyback registration rights granted in the Consultant Agreement entered into between the Company and CEOcast, Inc. on March 5, 2004. The Company intends to satisfy its continuing obligations under the registration rights referenced in this paragraph through the inclusion of the associated common shares in this prospectus.

Transfer Agent

Our registrar and transfer agent for the shares is Mellon Investor Services, 400 South Hope Street, 4th Floor, Los Angeles, California 90071.

LEGAL MATTERS

The validity of the shares under California law will be passed upon by Gibson, Dunn & Crutcher, LLP, Palo Alto, California.

EXPERTS

The consolidated financial statements and related financial statements schedule as of September 30, 2005 and for the two years then ended incorporated in this prospectus have been audited by Singer Lewak Greenbaum & Goldstein LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein, and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements and related financial statement schedule for the year ended September 30, 2003 incorporated in this prospectus, have been incorporated herein in reliance on the report of Grant Thornton LLP, an independent registered public accounting firm, given on their authority as experts in auditing and accounting.

BUSINESS

General

Spescom Software Inc, formerly Altris Software, Inc., (the Company) was founded and incorporated as a California corporation in 1981 and is headquartered in San Diego, California with an international sales and support subsidiary in London, United Kingdom. Our principal executive office is located at 10052 Mesa Ridge Court, Suite 100, San Diego, California, 92121. Our telephone number at that address is (858) 625-3000. Our website address is www.spescomsoftware.com. Our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 can be accessed, free of charge, at our website as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission.

The Company develops, markets and supports *e*B, its integrated suite of collaborative document, configuration and records management software solutions. The *e*B suite enables organizations in a broad range of industries to create, capture, store, manage, share and distribute critical business information regarding their customers, products, assets and processes in an efficient manner. The *e*B suite also enables them to maintain complete, up-to-date information about the configuration of their products, assets and infrastructures so that they can achieve operational excellence and compliance with regulatory requirements. *e*B provides the capabilities of an Enterprise Content Management (ECM)/Electronic Document Management (EDM) System, but extends these capabilities by also managing the things that the content/documents relate to such as products, assets, functions, processes, requirements, projects, organizations, locations, work orders, etc. As a result, eB can be used to manage the lifecycle of physical items (e.g., products, equipment or assets), and the requirements (e.g., functional, safety, performance, environmental, etc.) that govern them. It enables intelligent relationships to be defined between these items thereby creating an interdependency model. As a result, the effects of any change on requirements, documents and items can be determined and change can be managed to effectively ensure information integrity. In particular, *e*B enables organizations with extensive and complex physical infrastructures to efficiently identify, classify, structure, link, and manage documents, physical items, and requirements throughout their lifecycles and ensure that conformance between these is maintained by means of an automated change process.

*e*B s integration of document, configuration and records management functionality onto a single platform is a major differentiator and significant competitive advantage that allows the Company to address the information management needs of an enterprise in a more holistic manner than solutions provided by other vendors. In addition, *e*B provides interoperability and scalability across and beyond an enterprise, deployment over the web, and quick, cost-effective out-of-the-box implementation. Finally, the product s full functionality is available via a set of application programming interfaces (API s) that enable the rapid definition and deployment of customer specific solutions and integration with other business applications, including enterprise resource planning (ERP), maintenance management, and project management products.

History

In the 1980 s, the Company and a handful of other pioneering companies set out to provide a better alternative for managing documents electronically. In the mid 1990 s the Company acquired two of those other companies, Optigraphics Corp., and Trimco Ltd. that were recognized for their product excellence and vision. As a combined entity, the Company became a leading developer of enterprise document management solutions. In 2000, the Company acquired the rights to certain configuration management technology and skills from Spescom Ltd., which at the same time acquired a controlling interest in the Company. Due to this unique combination of document and configuration management technologies and skills, the Company began doing business as Spescom Software Inc. on October 1, 2001.

As of June 16, 2006 Spescom Ltd. owned 56% of the outstanding shares of the Company on a fully diluted basis including the shares issuable upon conversion of the shares of the Company s Series F Preferred Stock held by Spescom Ltd.

A timeline summary of equity transactions between the Company and Spescom Ltd. follows:

1999

The Company sold 3,428,571 shares of its common stock to Spescom Ltd. for $2,300,000 in cash. In addition, the Company sold a 60% interest in ASL, its United Kingdom subsidiary, for an additional $1,000,000. At the end of 1999 Spescom Ltd. purchased the Company s subordinated debt and Series E Preferred Stock held by a third party. Under the terms of the debt and preferred stock, Spescom Ltd. had the right to convert the debt and preferred stock into common stock at $1.90 per share which equated to 3,226,841 shares of common stock.

2000

In April 2000 the Company sold 5,284,714 shares of its common stock to Spescom Ltd. for $3,700,000. Also, the Company agreed to convert its subordinated debt and Series E Preferred Stock held by Spescom Ltd. into 9,528,096 shares of common stock an effective conversion rate of $.70 per share. The Company also transferred its remaining interest in ASL to Spescom Ltd. for no consideration. In September 2000 the Company changed its year end from December 31 to September 30 to coincide with Spescom Ltd. s year end.

2001

In October 2000 Spescom Ltd. contributed certain assets and liabilities of its United Kingdom subsidiary (formerly ASL) to the Company for 550,000 shares of common stock of the Company.

2002

In 2002 Spescom Ltd. loaned working capital to the Company under promissory notes secured by all of the assets of the Company.

2003

In September 2003 the Company agreed to convert $5,292,000 of the $5,791,000 owed to Spescom Ltd. into shares of the Company s Series F Preferred Stock. The Series F Preferred Stock is convertible into the Company s common stock based upon a conversion rate of $.45 per share (subject to certain adjustments set forth in the related Certificate of Determination for the Series F Preferred Stock), which equates to 11,757,778 shares of common stock.

2004

In November 2003 the Company issued a note payable to Spescom UK with a principal balance of $600,000 which was repaid in full during fiscal 2004.

2005   2006

In November 2004 the Company completed a financing arrangement whereby the Company issued 2,200 shares of Series G Convertible Preferred Stock along with 2,750,000 common stock warrants for gross proceeds of $2,200,000. During fiscal 2005, 750 shares of this preferred stock was converted into 2,428,000 shares of common stock. In an October 2005 private placement, the Company issued 1,950 shares of Series H Convertible Preferred Stock and 925,926 common stock warrants in exchange for $500,000 and the remaining 1,450 shares of Series G Convertible Preferred Stock, which were cancelled by the Company. In a March 2006 private placement, the Company issued 2,450 shares of Series I Convertible Preferred Stock and a further 925,926 common stock warrants in exchange for $500,000 and the 1,950 shares of Series H Convertible Preferred Stock issued in October 2005, which were cancelled by the Company. As a result of these financing activities, Spescom Ltd. s ownership of the Company on a fully diluted basis including the shares issuable upon conversion of the shares of the Company s Series F Convertible Preferred Stock held by Spescom Ltd is now less than 50%. Spescom Ltd., however, by virtue of its ownership of common stock and Series F Convertible Preferred Stock, is currently entitled to 56% of the total number of votes eligible to be cast in the election of directors.

Industry Background

In today s marketplace, organizations are increasingly looking for better ways to help manage their business information and processes. Most companies are overwhelmed by the amount and variety of information generated by their suppliers, customers, employees and partners and by the rate at which change occurs in their operations. As a result, organizations are seeking computer-based information management solutions that enable them to improve productivity, reduce costs, react quickly to changes in their marketplace, improve customer service or comply with stringent regulatory and quality certification requirements.

Enterprise information can be broadly divided into two categories:

i) **Structured information** stored in a database regarding, for example, customers, suppliers, products and transactions. This data is readily manipulated by a computer application to achieve a specified business objective, for example, general accounting, manufacturing planning, inventory control, purchasing, asset management, personnel management. Most enterprise software applications including for example, Enterprise Resource Planning (ERP), Customer Relationship Management (CRM), Supply Chain Management (SCM), and Product Lifecycle Management (PLM), solely use this category of information.

ii) **Unstructured information** generated by software for personal computers and workstations, such as word processing documents, spreadsheets and computer-aided design (CAD) drawings, as well as other types of information which may or may not be in electronic format, such as manufacturing procedures, maintenance records, training and technical manuals, facility layouts, blueprints, product and parts drawings, specifications, schematics, invoices, checks and other business records, presentation graphics, photos, audio and video clips and facsimile documents. The majority of corporate information is in an unstructured format and is growing at an exponential rate straining an enterprise s ability to efficiently, access, process and communicate that information.

Whatever the format and wherever the location, unstructured data represents information that is essential to a company s business and forms a key part of its intellectual capital. In today s competitive marketplace, companies need the ability to leverage their intellectual capital; however, limitations on a company s ability to access, process and communicate this information has restrained the productivity of businesses at both the individual and team levels. Without an effective means of obtaining business information, employees are often forced to re-create information from scratch, duplicating effort and increasing the potential for error. In addition, professionals often spend a significant amount of their time locating information rather than engaging in higher-value activities. Additional complexity results where information must be accessed and revised by collaborative teams dispersed throughout and beyond an enterprise that may operate different desktop software and computers. The lack of effective tools for communicating and sharing information and for automating the business logic makes this process even more time-consuming, inefficient and error-prone.

A further factor that is increasingly impacting business is that of information integrity. Due to the dynamic business environment, enterprises are being stretched to the limit to manage change effectively. The result of rapid change is a reduction in enterprise information integrity and an inevitable decrease in operational efficiency, safety, customer service, regulatory compliance and profitability. Independent research by the Institute of Configuration Management (ICM) based in Phoenix, Arizona has determined that a reduction of only 8% in information integrity results in a 50% reduction in operational effectiveness.

In recent years, enterprises have become keenly aware of the need to secure and protect their corporate information as its loss could threaten the ongoing operations of the business. The need to not only provide secured access to information but also implement effective disaster recovery plans is of utmost importance. Stringent regulatory requirements as a result of the Enron and other financial fiascos have also forced enterprise to re-examine and improve their information and records management policies and systems.

To address some of the above issues, Electronic Document Management Systems (EDMS) were developed in the late 1990 s to enable enterprises to effectively and efficiently manage, share and distribute critical business information contained in documents. An EDMS solution is often viewed by organizations as part of their information systems re-engineering, and as a result there are several significant issues they typically consider when evaluating an EDMS solution. Such issues include scalability of the system, the ability to integrate with existing structural databases and applications, deployment over the web, the price of the system, the ability to view multiple document formats, the level and cost of integration services required, the impact of the system on network bandwidth, integration with existing business processes, the ability to control document security, the ability to operate on existing computing infrastructure and with existing applications, the system architecture and the ability to handle large and complex data types and to customize the product to the client s particular needs. In addition, organizations also consider user related issues such as the ability to search, retrieve, view, and edit data in a controlled manner and associate unstructured and structured data to company assets.

More recently EDMSs have evolved to Enterprise Content Management (ECM) systems that not only capture, manage and deliver document content but manage all types of content within an enterprise including email, web content, digital assets (video, voice, pictures) and forms.

A further category of software used to manage information about an enterprise s products and/or assets includes Product Data Management (PDM), Product Lifecycle Management (PLM) and Enterprise Asset Management (EAM) applications. These applications typically enable all the component parts comprising a product or an asset/plant and all associated information to be identified, structured and managed throughout their lifecycles. PDM and PLM applications are mainly used to manage information regarding discrete products especially during the design and manufacturing phases. EAM applications typically are used to maintain a complex asset/plant throughout its operational life cycle.

The Company s Strategic Positioning

The document/content management technology developed by the Company and integrated with the configuration management technology developed by Spescom Ltd. provides an extremely powerful and unique solution to the business and information management challenges faced by enterprises that design, build, manage and operate complex products and assets.

Configuration management is the process of managing an organization s products, assets and processes by managing their requirements, including changes, and assuring that conformance is maintained between the requirements, the physical product/asset and all associated documents and data. It enables documents to be linked to physical or functional items and has the ability to manage change and assure information integrity.

The combined document and configuration management capabilities of the Company s *e*B software suite enables it to provide full IDM functionality together with PDM functionality at price points that satisfy a broad range of user needs. It enables the management of all unstructured information (documents/content) as well as structured information (product/asset/process) on a single platform, thereby enabling change to be managed across both environments.

Competition

The market for the Company s products is intensely competitive, subject to rapid change and significantly affected by new product introductions and other market activities of industry participants. The Company currently encounters competition from a number of public and private companies, including Electronic Document Management Systems/Enterprise Content vendors such as EMC (formerly Documentum), FileNet, OpenText, Sword and Hummingbird; Enterprise Asset Management vendors such as Indus and MRO/Maximo; and to a lesser extent Product Data Management/Product Lifecycle Management vendors such as Matrix I, PTC and EDS. Many of these direct competitors have significantly greater financial, technical, marketing and other resources than the Company. The Company also expects that direct competition will increase as a result of recent consolidation in the software industry.

The Company also faces indirect competition from systems integrators and value added resellers (VARs). The Company relies on a number of systems consulting and systems integration firms for implementation and other customer support services, as well as for recommendation of its products to potential purchasers.

The Company believes that the principal competitive factors affecting its market include system features such as scalability of the system, the ability to integrate and compliment existing applications such as other EDMS, EAM and PDM, the ability to provide integrated document, configuration and records management capability, the price of the system, the level and cost of integration required, the impact of the system on network bandwidth, integration with existing business processes, the ability to operate on existing computing infrastructure and with existing applications, the system architecture and the ability to handle large and complex data types and to customize products to the client s needs. In addition, organizations also consider features such as the ability to search, retrieve, view, annotate and edit data in a controlled manner.

The Company s Solution

Challenges of Document and Change Management

Organizations operating in complex, asset intensive industries utility, transportation, government and public sector, process manufacturing, pharmaceuticals and telecommunications are increasingly required to meet the conflicting challenges to:

- Deliver more complex, innovative and customized products and services at a faster rate.
- Reduce costs, improve quality, and shorten time to market, while achieving the targeted return on investment.
- Establish more comprehensive, collaborative, and improved relationships with their customers, suppliers, and business partners.
- Comply with strictly enforced, ever increasingly stringent regulatory and safety requirements.

In addition, these organizations are expected to manage these challenges in an environment of continuous change throughout their asset and process lifecycles.

Current Solutions

To effectively address these challenges, organizations must efficiently manage information and change within their organizations to remain competitive. Consequently, companies have invested in, and in fact, built their organizations and processes on and around enterprise software platforms . Solution providers use core functions to build functional applications to improve the process of a particular product phase or functional department. For example, PDM solutions focus on the creation of product definition information and include authoring and analysis tools for mechanical, electrical and software design (e.g., CAD/CAM, CAE, EDA, and CASE). ERP solutions traditionally deal with the product/asset production lifecycle. SCM, which is primarily focused on ordering and procurement logistics, begins at the front end of the product/asset lifecycle. Once products are deployed in the field, CRM solutions are used to help manage the customer relationship and EAM solutions are used to maintain the product/asset throughout its operational phase. In addition, EDMSs or ECM systems are deployed to support these applications and manage all documents and content created and used within the enterprise. These various enterprise solutions have become a strategic business initiative and competitive necessity of most businesses.

Limitations of Enterprise Solutions

In spite of these investments, organizations still experience major problems due to the unavailability of quality information. To achieve adequate information quality, organizations need a process that ensures that the correct information is documented and available when and where it is needed, and in the appropriate format and context for the user. The impact of poor information management on operational efficiency is clear.

This lack of quality information and its ensuing detrimental effects are caused primarily by the deployment of solutions that do not adequately relate documentation to the appropriate assets. For instance, organizations deploy document management solutions on the one hand, and product, plant, and process management solutions on the other. However, neither product effectively provides a change management system that links documents, assets, and requirements capabilities that would enable organizations to effectively manage configurations of equipment and assets in complex, regulated environments.

Existing enterprise systems fail to address the real needs of many organizations for a variety of reasons:

In general, enterprise applications are all separate, largely independent systems with their own data models and functions. With the cost of integrating and customizing these applications typically exceeding the software license costs by a factor ranging from 3 to 7 times, companies utilizing these systems often fail to achieve the full benefit of their investment.

A second major issue is that of managing change across the enterprise. Information about a product, asset or process typically resides in a number of applications and data stores. When a change is made to the product, asset or process, it is very difficult if not impossible to predict the impact of this change across all the applications and ensure that the effect of the change is implemented and reflected everywhere throughout the various systems. The result is a reduction in enterprise information integrity and a substantial reduction in resource effectiveness.

Traditional document (EDMS) and content management solutions (ECM) only address one element of this problem. They do a good job of capturing, managing, storing, distributing and presenting documents/content for enterprise use; however, they do so in isolation as they do not capture or manage requirements nor do they capture and manage data about the assets, products or processes. The context that gives meaning to information is lost as classification and indexing is usually limited to a fixed set of attributes. Also, although they securely store information and provide revision and version control, they do not effectively manage the full effects of change within an enterprise. This results in a significant reduction of information integrity as information no longer accurately reflects the status of the requirements or assets that it relates to.

Although traditional PDM solutions capture both product/asset data and associated information contained in documents, they tend to focus on the needs of users during the product design and manufacturing phases of a product/asset with limited or no support for the operation and maintenance of the product/asset. Also, incomplete interfaces between PDM environments and other document environments may not reliably reflect changes in the other, particularly if document or product data updates must be performed.

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Maintenance and EAM solutions capture and manage assets and associated information but again do so for the specific purposes of maintenance and inventory control. They do not capture requirements nor do they effectively manage change and ensure the integrity of information. They typically only provide limited document management capabilities.

Finally, while some ERP solutions offer maintenance management and/or PDM capabilities, these tend to be add-on modules to their core financial, manufacturing and HR functions. They do not manage requirements, do not have a strong document and change management capability, and the linkage between documents and assets/products is limited or non-existent.

Market Opportunity: Information Integration and Synchronization

As enterprise solutions are deployed within a company s process environment, information tends to become localized within the enterprise platform making it difficult for users to access, obtain and share relevant information across widely distributed functional and geographic boundaries. Ultimately, the enterprise solutions employed by a business fall short of addressing the enterprise s complete need for close coordination and communication that accurately relate the intellectual assets, physical assets, and resources.

Businesses today need to deploy rational strategies that best harness the capabilities and core functions of each enterprise platform to optimize product development, production and deployment activities. Although solution providers promote communication among the various operating enterprise solutions, their approach is neither comprehensive nor do they adequately address the critical business requirements of configuration management, change management and requirements management. This is the critical market niche that the Company fills with its *e*B software solution.

The eB Solution

The Company s *e*B suite is a set of software technologies that support, improve and enable collaboration among legacy enterprise solutions, and enables the efficient capture, management and distribution of all types of information across an enterprise. This integrated document, configuration and records management suite breaks down information barriers inherent to enterprise solutions and provides users with:

1 Rapid access to information

Provides availability of information from existing enterprise solutions

2. Accurate information

Ensures information integrity in a rapidly changing environment

3. Information that is in context to what the user is working on

Transforms information into knowledge

Differentiators Defining the Niche

Enterprises continue to struggle with the complex business problem of ensuring that conformance is maintained between:

Design requirements (what is **REQUIRED** to be there)

Actual asset configuration (what is **ACTUALLY** there), and

Asset configuration information found in documents, drawings, etc. (what the documentation **SAYS** is there).

To ensure that information integrity is maintained between the requirements for an item/asset, the information about the item/asset (usually contained in a document) and the item/asset itself, it is necessary to first identify the requirements, the information/documents and the item/asset. Then a process must be implemented to ensure that a change to the requirements, the information/document or the item/asset is reflected in all three. The inability to do this using document/content management and/or maintenance management tools is increasingly being realized by leading enterprises as a major cause of operational inefficiency and is creating the opportunity for the Company to penetrate these accounts.

<u>The Company s Unique Solution Addresses the Niche</u>

The Company s integrated document, configuration and records management (iDCR) solutions enable all requirements (design, safety, environmental, etc.), all documents, structured and unstructured, within an enterprise (including office documents, emails, CAD drawings, images, voice and computer print outs), and all data on products, assets, processes, projects and people to be captured, identified and inter-linked. This results in a unified and structured view of all enterprise information and promotes rapid access to relevant information by authorized users in context to their tasks and functions. *e*B s collaborative workspace environment provides an automated closed-loop change management process that ensures information integrity throughout the enterprise and compliance with legal, regulatory, corporate, audit and quality requirements.

The Company s Products

The Company s flagship product *e*B is the first fully integrated collaborative document, configuration and records management software suite that enables the efficient capture, management and distribution of all types of information across an enterprise.

The functionality of *e*B consists of a core platform that contains functionality usually provided by multiple applications in a single fully integrated environment. This includes:

- Document/content management
- Imaging
- Workflow
- Computer Output to Laser Disc (COLD/ERM)
- Item management
- Requirements management
- Change management
- Records management
- Collaborative workspace management

This core functionality is exposed via a comprehensive set of application program interfaces available as a toolkit to enable rapid application development and easy integration with other software products.

*e*B provides a collaborative environment for managing both unstructured and structured enterprise information. In addition, it not only provides a hub to connect other applications to each, but also identifies and controls key information with the goal of ensuring its integrity.

*e*B enables documents/content, as well as physical items (products, equipment or assets) and requirements (e.g., functional, safety, environmental) to be identified, classified, structured, linked and managed throughout their life-cycles. It is designed to ensure that conformance between these is maintained by means of an automated change process.

It provides the capabilities of a document management suite but goes beyond this by also providing the capability to manage items and link documents to items and requirements. It then applies industry standard configuration management rules to control the effects of change on both documents and items in order to achieve information integrity.

The records management functions of *e*B support the enterprise to achieve compliance with legal, regulatory, corporate, audit and quality requirements regarding declaration, archiving and disposition of enterprise records.

Multiple ways of accessing *e*B are provided from standard out-of-the-box interfaces as well as integrations with other business applications. Standard integrations with office, email, CAD and Geographic Information Systems (GIS) applications enable users to work from within these desktop environments, yet seamlessly access the full functionality of *e*B. Full access is also provided over the Internet using standard web browsers enabling global collaboration and access to information anytime, anywhere to authorized users. Any one or all of the components of *e*B can be deployed, depending on a customer s specific requirements.

This integrated solution provides enterprises with many benefits, including:

1. A single system for all document, data, records and process orientated functions across an enterprise that simplifies maintenance for administrators and IT staff.

2. A single point of entry for users, which reduces the cost of training and eliminates the need for users to know or care where documents and other information resides.

3. A broad range of functionality that addresses the needs of many different users throughout an organization, thereby maximizing the investment.

4. Rapid deployment using standard out-of-the-box interfaces and applications resulting in a fast return on investment.

5. A single point of contact and support for the technology, which results in potentially fewer problems with software upgrades, than might otherwise be encountered in systems that use products from multiple vendors.

6. Reduced integration effort compared to implementing best-of-breed systems using technologies from multiple vendors an approach that requires learning multiple programming interfaces in an attempt to integrate unrelated products.

7. Rapid application development and simplified integration with other critical systems such as ERP applications using the powerful *e*B Business Objects API toolkit.

Strategy

Business Model

The Company is building its business strategies around two core strengths:

First, the Company s software and related services solve critical and recurring problems for companies operating in complex, asset-intensive industries.

Second, the Company s software solutions have clear and significant architectural advantages that enable the Company to offer high value solutions to the Company s users as well as distinguish itself from its competitors.

To capitalize on these strengths, the Company has instituted the strategic initiatives listed below. We believe that these initiatives will enhance the Company s ability to achieve a defensible, leading market position within its growing market niche.

Strategic Initiatives

***Continue to Develop and Position e*B *as a Critical but Complementary Enterprise Platform*.** Rather than position and market *e*B as a stand-alone, mutually exclusive enterprise suite, the Company will continue to promote *e*B as an essential, high value, high functionality niche platform that complements, rather than supplants, existing/legacy solutions. By positioning *e*B in this less threatening manner, the Company not only minimizes repetitive and costly head-to-head evaluations with competitors having significantly greater resources, but also enables the conversion of its competitors into partners .

Continue Direct Sales in the Company s Targeted Vertical Markets. The Company currently employs a dual sales model comprised of both a direct sales force and select partners and re-sellers. Vertical markets targeted by the Company s direct sales force are those: 1) in which the Company has market domain expertise, and 2) that have a limited number of end-user customers that can be effectively penetrated and profitably served by its relatively small sales force. The direct sales force will focus on core market verticals where we can leverage our vertical expertise.

Form product strategic partnering agreements to be able to provide more enhanced solutions. Integration/interconnection with already established software market leaders.

***Enter New Markets Through Increased Investment in and Expansion of Strategic Partnerships*.** To expand into new markets, the Company seeks to increase its key strategic relationships with dominant players in market verticals,, system integrators and channel partners having significantly greater resources and immediate access to customers. Because of the Company s positioning of *e*B as a complementary rather than replacement or standalone solution, the Company is well positioned to create win-win relationships with its direct/indirect competitors. Ultimately, the end-users benefit with higher value solutions that truly address their critical information requirements. Properly implemented, we believe this strategy affords the Company new, relatively immediate, incremental, high margin revenues with substantially reduced investment. However, for this strategy to be successful, the Company must allocate resources for the additional demands placed on the Company. In particular, the Company must invest in: 1) product development to assure *e*B integrates easily with those of the expanding partner network, and 2) sales, marketing and customer support resources to train, coordinate, and support a growing partnership network and base of end-users.

***Outsource Non-Core Operations*.** The Company plans to continue its program of outsourcing non-core service functions. Services presently outsourced include on-site implementation and integration using partners in selected regions and markets. The Company plans to expand these functions to include other regions and markets.. Through careful partner and supplier selection and program coordination, monitoring and implementation, the Company is better positioned to:

i) Allocate its resources to its critical, core functions,

ii) Focus on the delivery of higher margin services and products such as system design services and solution products, and

iii) Leverage these partners market position, thus providing increase sales opportunity and customer penetration.

Opportunistic Investing in Technology**.** It is the Company s intention to continue to efficiently execute its plan for organic growth through fiscal 2006. However, the Company believes that it may benefit greatly from opportunistic investments that extend *e*B s integrated functionality. The Company believes that opportunities for technology acquisitions may speed its software development and improve its strategic market positioning.

Increase Company s Market Presence**.** The Company plans to increase the awareness and credibility of the Company and the *e*B suite within its vertical markets, with its partners, and within the investment and technology analyst communities. To heighten the profile of the Company in its customer markets, the Company has engaged its Strategic Customer Focus Program and has plans to engage technology analysts including Gartner and Doculabs to prepare industry reports which provide data on the Company s position in the market, establish validity of new markets and analyze the Company s solutions vis-à-vis its competitors. In addition, the Company plans to increase its attendance and participation in industry conferences, trade shows and seminars.

Grow revenues by:

i) Leveraging senior business development executives with extensive market contacts within each of the Company s targeted vertical markets in the US and UK/Europe. In addition, the Company plans to allocate additional resources to support these key persons with adequate staffs and budgets to leverage their effect in the market.

ii) Leveraging existing user groups to increase the number of licensed seats and/or number of software modules. This is intended to not only increase software sales but also enhance the recurring revenue stream the Company realizes from annual software maintenance contracts. In addition, the Company will target conversion of legacy Altris software seats into *e*B.

iii) Applying resources to expand horizontally or vertically to new user groups, departments or subsidiaries within existing markets

iv) Leverage partnerships into new markets

Customers

The Company is primarily active in markets characterized by customers that have extensive assets and infrastructures that need to be managed throughout their life cycles. The target markets specifically include:

- Utilities (power, water and gas)
- Transportation (air, rail and sea)
- Public Sector/Local Government

Enterprises within these markets are highly regulated and operate extensive and complex assets and infrastructures that form the foundation for the products and services they provide to their customers and for generating revenues. For example, rail transportation companies operate a complex rail network including tracks, signaling, electrification, etc. and utilities or public sector enterprises operate power, water or gas distribution networks.

The following are examples of customers who are using the Company s products:

Utilities. Within the utilities industry, countless documents relating to plant management, facility maintenance and support, transmittal processing and tracking and statutory compliance must be current and readily available at all times. Furthermore, with pending deregulation, utilities are under increasing pressure to minimize their costs. The Company has installed information management solutions at utilities around the world and today provides the core Configuration Management product of numerous utilities and has dominated certain applications functions.

Transportation. In the rail transportation segment, countless documents relating to scheduling, structures, track and signaling must be current and readily available at all times. For example, one of the world s oldest and largest public transportation systems had more than 3,000,000 maintenance and safety documents stored on aperture cards and microfiche, and manual handling processes were straining efficient operation. The Company s information management solution now enables users quick access to all documents on-line, including the documents described above as well as accounts payable and invoice records, internal letters and memoranda and other business records, with additional search, optical character recognition (OCR) and e-mail functionality. Today, the system can be accessed and operated by over 1,500 individual users who can retrieve critical business information whenever necessary on a near-instantaneous basis, thereby enabling this public transportation system to better ensure regulatory compliance.

Public Sector / Local Government. Local authorities constantly face the challenges of complying with safety, environmental and fiscal regulations. Many of these organizations have used *e*B to control their documents and data needed to support these business processes in a highly efficient manner. As an example, a major US metropolitan utilities district has adopted *e*B as its standard throughout the city and county, and has made extensive use of the interfaces with its Permit Tracking and Geographical Information Systems (GIS). Geo-spatial data is of utmost importance to the safety and security programs currently being developed by all metropolitan authorities. It allows them to accurately identify buildings, powerplants and other structures of high risk, and integrate all available data (e.g. building and evacuation plans, fire surveys, threat assessments) into police, fire and rapid response systems. *e*B s ability to store this information and make it available in context to geographical location, forms a critical components of a solution for safety and security in local government.

A small number of customers has typically accounted for a large percentage of the Company s annual revenues. Constellation Energy Group accounted for 15% of revenue for the six months ended March 31, 2006. In fiscal 2005 Network Rail accounted for 16% of revenues. In fiscal 2004 Network Rail and Constellation Energy Group accounted for 23% and 15%, respectively of revenues while Network Rail accounted for 19% of revenue for fiscal 2003. The Company s reliance on relatively few customers could have a material adverse effect on the results of its operations on a quarterly basis.

For this reason alternatives to market avenues are being pursued with strategic partners. It is a defined objective of the Company to substantially grow our partnering relationships in markets where we are not directly active.

Sales and Marketing

Direct sales

The Company focuses its direct sales force on select vertical markets with compelling business needs for the Company s information management solutions. The Company has established a strong market presence in those chosen verticals both domestically and internationally. The Company s strategy is to continue its direct sales and marketing to increase its market penetration in these verticals. As of June 16, 2006, the Company s sales and marketing organization consisted of 10 employees, 6 based in the U.S. and 4 based in the UK. The Company s field sales force regularly conducts presentations and demonstrations of the Company s suite of products to management and users at customer sites as part of the direct sales effort. Sales cycles for the Company s products generally last from six to twelve months.

Indirect distribution channels

Although the Company has historically generated the majority of its revenues from its direct sales force, the Company has also established a network of third-party VARs, system integrators and OEMs who build and sell systems (with components or complete systems provided by the Company) that address specific customer needs within various vertical markets, including those targeted directly by the Company. Sales through indirect channels amounted to $520,000 or 13% of total sales for the six months ended March 31, 2006. Sales through indirect channels amounted to $507,000 or 9%, $471,000 or 5% and $214,000 or 3% of total sales for fiscal years 2005, 2004 and 2003.

The Company s strategy is to further grow and develop its VAR, systems integrator and OEM channels which are primarily targeted at the industries and geographic regions not covered by its direct sales force in order to reach the broadest customer base. The VARs and systems integrators are an integral part of the Company s distribution strategy as they are responsible for identifying potential end-users, selling the Company s products to end-users as part of a complete hardware and software solution, customizing and integrating the Company s products at the end-user s site and supporting the end-user following the sale.

The Company is seeking to establish and/or expand its relationships with vendors that supply complimentary technologies, including EAM vendors such as Indus and MRO/Maximo, ECM vendors such as EMC (formerly Documentum), GIS vendors such as ESRI and CAD vendors such as AutoDesk and Bentley as well as large multinationals such as Siemens.

Customers, VARs, systems integrators and OEMs may not continue to purchase the Company s products. The failure by the Company to maintain its existing relationships, or to establish new relationships in the future, could have a material adverse effect on the Company s business, results of operations and financial condition.

Services and Support

The Company believes that a high level of services and support are critical to its performance. As a result, the Company maintains a telephone hotline service to provide technical assistance and software support directly to its end-users on an as-needed basis. The Company also provides technical support, maintenance, training and consulting to its VARs, systems integrators and OEMs, which in turn provide technical support services directly to end-users. These services are designed to increase end-user satisfaction, provide feedback to the Company as to end-users demands and requirements and generate recurring revenue. The Company provides much of its maintenance activities through its eSupport website which enables customers and partners to obtain support on a self-service basis. The Company plans to continue to expand its support programs as the depth and breadth of the products offered by the Company increase.

VARs, Systems Integrators and OEM support

The Company employs pre-sales, technical support personnel that work directly with VARs, systems integrators and OEMs to provide responses to technical sales inquiries. The Company also offers educational and training programs, as well as customized consulting services to its VARs, systems integrators and OEMs. Fees for training and consulting services are generally charged on a per diem basis. The Company also provides product information bulletins on an ongoing basis, including bulletins posted through its Internet web site and through periodic informational updates about the products installed. These bulletins generally answer commonly asked questions and provide information about new product features.

Technical Support and Software Maintenance

The Company, in conjunction with its VARs and systems integrators, offers end-users a software maintenance program that includes software updates provided by the Company to end-users and technical support provided by the VARs and systems integrators. Telephone consultation is provided by the Company to VARs and systems integrators in response to end-user questions that VARs and systems integrators are unable to answer. VARs and systems integrators typically charge end-users a fee for maintenance and support of the entire EDMS and imaging system, including software and hardware. In turn, the Company charges VARs and systems integrators an annual fee based upon a percentage of the original purchase price of the licensed software.

The Company generally includes a 90-day limited warranty with software licenses. During the warranty period, end-users are entitled to corrections for documented program errors. The services provided during the warranty period may be extended by the end-user entering into the Company s software maintenance program.

Product Development

The Company s product development efforts are focused on providing customers with the most technologically advanced solutions for their document, configuration and records management needs. The Company believes that the marketplace is rapidly moving towards demanding that all corporate information, structured and unstructured, simple and complex, be managed in a consistent and controlled manner. Customers are requiring integrated solutions that address critical information management issues in a holistic manner, that can be implemented quickly and provide a rapid ROI. This trend demands that greater functionality is provided out-of-the-box thereby reducing the need for multiple products from different vendors and the associated integration and support costs. It also demands that products work across technology platforms, across the web, business processes and geographic locations to provide real-time information management with integrated document/content, records and configuration management capabilities.

The Company intends to continue to extend its position as a technology leader in developing and marketing integrated document, configuration and records management solutions. The Company intends to do this by continuing to enhance the features and functionality of its eB product suite using industry best practices, customer input and feedback and current technologies, including tools to allow users to tailor the look and feel of the product, administrative tools to enable systems operators to easily setup and make changes to the system and add tighter integration with other third party enterprise products. Through this enhanced functionality and integration the Company s products can provide even faster deployment and greater management control of enterprise information. The Company also plans to introduce new products and product extensions which are complementary to its existing suite of products and which address both existing and emerging market needs.

During 2005, the Company released a major update to eB 14 which is the Company s flagship platform based on the Microsoft .NET architecture. This platform has over two years of proven production use in high-volume / high-usage environments. Existing customers continue to migrate to eB Version 14, generating service revenue and new license opportunities. The Company expects that the migration of existing customers will take place over the next 12 to 24 months. In 2005, the eB product was certified by the Institute of Configuration Management, to be compliant with their CMII standard. The Company will continue to enhance its records management capabilities to fully comply with Department of Defense records management standard 5015.2. The Company is developing specific applications for the vertical markets on which the Company has focused, providing additional license and services revenue from existing customers, as well as new marketing and sales opportunities into the selected vertical markets. The Company obtained Gold Partner status from Microsoft during 2005 and is currently participating in Microsoft beta and new product launch programs, which allows the Company to properly plan for support of the latest and soon to be released computing environments.

Backlog and Current Contracts

The Company s contract backlog consists of the aggregate anticipated revenues remaining to be earned at a given time from the uncompleted portions of its existing contracts. It does not include revenues that may be earned if customers exercise options to make additional purchases. At September 30, 2005, the Company s contract backlog was $4,355,000, as compared to $2,599,000 at September 30, 2004. At March 31, 2006, the Company s backlog was $4,155,000, of which the Company expects a majority to be substantially completed over the next twelve months. The amount of contract backlog is not necessarily indicative of future contract revenues because short-term contracts, modifications to or terminations of present contracts and production delays can provide additional revenues or reduce anticipated revenues. The Company s backlog is typically subject to large variations from time to time when new contracts are awarded. Consequently, it is difficult to make meaningful comparisons of backlog.

The Company s contracts with its customers generally contain provisions permitting termination at any time at the convenience of the customer (or the U.S. Government if the Company is awarded a subcontract under a prime contract with the U.S. Government), upon payment of costs incurred plus a reasonable profit on the goods and services provided prior to termination. To the extent the Company deals directly or through prime contractors with the U.S. Government or other governmental sources, it is subject to the business risk of changes in governmental appropriations. In order to reduce the risks inherent in competing for business with the U.S. Government, the Company has directed its government contracts marketing efforts toward teaming with large corporations, who typically have existing government contracts, can alleviate the cash flow burdens often imposed by government contracts and have more extensive experience in and resources for administering government contracts. The Company does not have any contractual arrangements regarding such joint marketing efforts. In the past, such efforts have been pursued when deemed appropriate by the Company and such corporations in response to opportunities for jointly providing systems or services to potential government agency customers.

Patents and Technology

The Company s success is dependent in part upon proprietary technology. The Company owns certain U.S. and foreign patents covering certain aspects of its document management systems technology, including two patents that enable large format drawings to be rapidly downloaded and viewed over low speed communication links. The Company also owns a patent on technology to allow edit users to make changes to documents without having to specify whether they are working on raster or vector data and a patent for a reviser capability that allows users to modify and store drawing changes in raster and vector format for subsequent review of the original document and each sequential revision.

Employees

As of June 16, 2006, the Company had 39 full-time employees, of whom 7 were engaged in product development, 15 in customer support, implementation and application engineering activities, 10 in sales and marketing and 7 in administration. The Company also utilizes consultants for specific projects. None of the Company s employees is represented by a labor union. The Company has not experienced work stoppages and believes its relationship with its employees is good. Competition for qualified personnel in the industry in which the Company competes is intense and the Company expects that such competition will continue for the foreseeable future. The Company has an incentive stock option plan for granting options to employees as a means of attracting and keeping key individuals. The Company believes that its future success will depend, in large measure, on its ability to continue to attract, hire and retain qualified employees and consultants.

PROPERTIES

The Company s headquarters are located in San Diego, California. The Company leases 12,192 square feet of a 40,000 square foot building in San Diego. The lease, which commenced September 1, 2003 and terminates on August 31, 2009, carries a monthly rent starting at $18,898 in year one, increasing 3% each year to $21,908 in year six.

The Company leases 3,024 square feet of a 6,137 square foot building located in Surrey, United Kingdom. The lease, which commenced on February 10, 2006 and terminates on February 10, 2011, includes an early termination option effective on February 10, 2009, provided six months notice is given. The monthly rent, which begins on August 10, 2006, is $6,663 over the lease term.

See Note 11 of the Notes to the Consolidated Financial Statements for further information regarding the Company s lease commitments.

LEGAL PROCEEDINGS

The Company is involved from time to time in litigation arising in the normal course of business. The Company believes that any liability with respect to such routine litigation, individually or in the aggregate, is not likely to be material to the Company s consolidated financial position or results of operations.

MARKET PRICE OF AND DIVIDENDS ON THE COMPANY S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company s common stock trades on the OTC Bulletin Board under the symbol SPCO.OB The following table shows, for the fiscal quarters indicated, the high and low bid prices of the Company s common stock. These high and low bid prices from over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	High	Low
Year Ending September 30, 2006		
First Quarter	$ 0.21	$ 0.09
Second Quarter	0.25	0.11
Year Ended September 30, 2005		
First Quarter	$ 0.55	$ 0.31
Second Quarter	0.68	0.30
Third Quarter	0.50	0.21
Fourth Quarter	0.36	0.16
Year Ended September 30, 2004		
First Quarter	$ 0.73	$ 0.40
Second Quarter	0.72	0.41
Third Quarter	0.56	0.42
Fourth Quarter	0.45	0.30

On June 16, 2006, there were approximately 800 holders of record of the Company s Common Stock and the last sale price of the Common Stock as reported on the OTC Bulletin Board on June 16, 2006 was $0.11 per share.

The Company has never paid a dividend on its Common Stock, and the current policy of its Board of Directors is to retain all earnings to provide funds for the operation and expansion of the Company s business. Consequently, the Company does not anticipate that it will pay cash dividends on its Common Stock in the foreseeable future.

Equity Compensation Plan Information

The following table gives information about the Company s common stock that may be issued upon the exercise of options under all of the Company s equity compensation plans as of September 30, 2005. The table includes the 1996 Stock Incentive Plan.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)		Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a) (c)
Equity compensation plans approved by security holders	4,856,000	$	0.30	2,219,962
Equity compensation plans not approved by security holders	4,325,000(1)(2)(3)	$	0.27	
Total	9,181,000	$	0.29	2,219,962

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(1) An option underlying 2,500,000 of these option shares was granted to an investment consulting firm who is assisting the Company in seeking financing. The option has an exercise price of $0.22 per share. One million of the shares are currently vested as a result of the closing of a private placement for $605,000 in September 2003. The remaining 1,500,000 shares of common stock will vest if the Company consummates a transaction with investors introduced by or through this investment firm that provides the Company with at least $2,400,000 in additional investment capital. This option will expire on August 15, 2006.

(2) A warrant underlying 1,000,000 of these option shares was granted in 2004 to a public relations firm. The exercise price under the warrant is $0.40 per share. The warrant expires on November 3, 2007. The warrant vests and become exercisable as follows: (i) 500,000 option shares vest on the date that the average of the last sale price of the Company s stock on the OTC Bulletin Board for the ten trading days immediately preceding such date (the Market Price) exceeds $0.60 per share, (ii) 250,000 option shares vest on the date that the Market Price exceeds $0.70 per share, and (iii) the remaining 250,000 option shares vest and become exercisable on the date that the Market Price exceeds $0.80 per share.

(3) Warrants underlying 825,000 of these option shares were granted to an investment consulting firm pursuant to an agreement executed in connection with the November 2004 private placement of Series G Convertible Preferred Stock. Specifically, that firm received warrants to purchase (i) 550,000 shares of the Company s common stock at a purchase price of $0.40 per share, expiring November 5, 2009, and (ii) 275,000 shares of the Company s common stock at a purchase price of $0.44 per share, expiring November 5, 2007.

SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial data of the Company. The financial data for each of the years ended September 30, 2005, 2004, 2003, 2002 and 2001 have been derived from the audited Consolidated Financial Statements.

The data set forth below should be read in conjunction with the Consolidated Financial Statements and Notes thereto, and Management s Discussion and Analysis of Financial Condition and Results of Operations .

	Six months ended March 31, 2006 (unaudited)	2005 (unaudited)	Years ended September 30, 2005	2004	2003	2002	2001
			(In thousands except per share data)				
Consolidated Statement of Operations Data							
Revenues							
Licenses	$ 1,216	$ 354	$ 737	$ 3,897	$ 2,053	$ 1,958	$ 4,806
Services and other	2,676	2,972	5,088	5,105	5,309	5,012	6,352
Total revenues	3,892	3,326	5,825	9,002	7,362	6,970	11,158
Cost of revenues							
Licenses	194	108	206	260	690	2,041	1,371
Services and other	1,261	1,234	2,232	2,249	2,334	3,218	3,914
Total cost of revenues	1,455	1,342	2,438	2,509	3,024	5,259	5,285
Gross profit	2,437	1,984	3,387	6,493	4,338	1,711	5,873
Operating expenses:							
Research and development	485	520	852	1,393	1,494	1,828	1,963
Marketing and sales	1,338	1,738	3,799	2,949	2,452	3,479	4,100
General and administrative	794	772	1,994	1,965	1,410	1,809	1,276
	2,617	3,030	6,645	6,307	5,356	7,116	7,339
Income (loss) from operations	(180)	(1,046)	(3,258)	186	(1,018)	(5,405)	(1,466)
Nonrecurring loss on conversion of debt to preferred stock					(1,499)		
Interest and other income	4	2	1	13	4	7	182
Interest and other expense	(105)	(68)	(291)	(151)	(491)	(371)	(28)
Net income (loss)	(281)		(3,548)	48	(3,004)	(5,769)	(1,312)
Deemed preferred dividend	(1,000)	(2,200)	(2,200)				
Cumulative preferred dividends	(186)	(169)	(301)	(271)			
Net loss available to common shareholders	$ (1,467)	$ (3,481)	$ (6,049)	$ (223)	$ (3,004)	$ (5,769)	$ (1,312)
Basic and diluted net loss per share	$ (0.04)	$ (0.10)	$ (0.17)	$ (0.01)	$ (0.10)	$ (0.19)	$ (0.04)
Shares used in computing basic and diluted net loss per common share	36,857	34,187	34,941	34,016	31,100	30,842	30,792

	March 31, 2006 (unaudited)	2005 (unaudited)	September 30, 2005	2004	2003	2002	2001
			(in thousands)				
Consolidated Balance Sheet Data							
Working deficit	$ (7,484)*	$ (2,952)	$ (4,659)	$ (2,693)	$ (3,880)	$ (2,972)	$ (2,468)
Total assets	2,217	2,500	1,645	1,430	1,230	2,508	4,256
Long-term obligations	35	35	976	601	566	4,891	1,377
Shareholders (deficit) equity	(6,843)	(2,603)	(4,960)	(3,136)	(4,141)	(7,145)	(1,295)

* Working deficit at March 31, 2006 is after effect of redemption of Series I redeemable preferred stock based on a redemption value of $2,450,000.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The Company develops, markets and supports *e*B, its integrated suite of collaborative document, configuration and records management software solutions. The *e*B suite enables organizations in a broad range of industries to create, capture, store, manage, share and distribute critical business information regarding their customers, products, assets and processes in an efficient manner. The *e*B suite also enables them to maintain complete, up-to-date information about the configuration of their products, assets and infrastructures so that they can achieve operational excellence and compliance with regulatory requirements. *e*B provides the capabilities of an Enterprise Content Management (ECM)/Electronic Document Management (EDM) System, but extends these capabilities by also managing the things that the content/documents relate to such as products, assets, functions, processes, requirements, projects, organizations, locations, work orders, etc. As a result, *e*B can be used to manage the lifecycle of physical items (e.g. products, equipment or assets), and the requirements (e.g. functional, safety, performance, environmental, etc.) that govern them. It enables intelligent relationships to be defined between these items thereby creating an interdependency model. As a result, the effects of any change on requirements, documents and items can be determined and change can be managed to effectively ensure information integrity. In particular, *e*B enables organizations with extensive and complex physical infrastructures to efficiently identify, classify, structure, link, and manage documents, physical items, and requirements throughout their lifecycles and ensure that conformance between these is maintained by means of an automated change process.

We develop, market and support *e*B, our integrated suite of collaborative document, configuration and records management software solutions. Our revenues in the six months ended March 31, 2006 increased by 17% from the same period in the prior fiscal year due to higher license sales as a result of large software license sales through DocQnet International and to Florida Power and Light, Constellation Energy Group and JEA. During the six months ended March 31, 2005 there were no large license sales. Our revenues in the fiscal year ended September 30, 2005 decreased by 35% from the prior fiscal year as we experience delays in customer license orders both from new customer and expansion of systems by existing customers.

Our revenues are derived from licenses of our software to our customers, services that we provide under maintenance support contracts and our non-maintenance services, consisting primarily of design studies, system implementation and training. Of our total revenues for the six months ended March 31, 2006, license revenues accounted for 31%, maintenance services revenues accounted for 38% and non-maintenance services represented 31%. Of our total revenues in fiscal 2005, license revenues accounted for 13%, maintenance services revenues accounted for 52% and non-maintenance services represented 35%.

Many of our customers are located outside the United States. Foreign-originated revenues accounted for 38% and 50% of revenues for the six months ended March 31, 2006 and 2005, respectively. That decrease in foreign revenues was magnified by a foreign currency loss of $108,000 due to the declining value of the British pound to the dollar in the six months ended March 31, 2006 versus the same period during fiscal 2005. Foreign-originated revenues accounted for 49% and 46% of fiscal 2005 and 2004 revenues, respectively. Revenue in fiscal 2005 reflected a foreign currency gain of $75,000 due to the declining value of the dollar during the year.

During the six months ended March 31, 2006, relative to the same period during the prior fiscal year, while revenues increased 17%, our cost of revenue increased 8%. Operating expenses decreased by 14% during the six months ended March 31, 2006 relative to the same period during the prior fiscal year, primarily as a result of a reduction in personnel implemented in the second half of fiscal 2005 and lower professional fees during the six months ended March 31, 2006.

During fiscal 2005, relative to fiscal 2004, while revenues decreased, our cost of revenues declined by only 3% because the cost of services revenue remained relatively unchanged. Our gross profit decreased from 72% to 58% of revenues in fiscal 2005 relative to fiscal 2004 due to the decrease in high margin software sales. Operating expenses increased by 5% primarily as a result of our decision to expand the Company s marketing and sales efforts.

Our principal sources of liquidity consisted of cash and cash equivalents in the amounts of $620,000 at March 31, 2006, as compared to $220,000 at March 31, 2005, and $285,000 at September 30, 2005, as compared to $109,000 at September 30, 2004. On October 25, 2005 and March 10, 2006, we completed private placements of preferred stock and common stock warrants which resulted in aggregate gross proceeds of $1,000,000.

This Management s Discussion and Analysis of Financial Condition and Results of Operation summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and cash flow during the six-month periods ended March 31, 2006 and 2005, as well as during the three-year period ended September 30, 2005, each year therein being referred to as fiscal 2005, fiscal 2004 and fiscal 2003. Unless otherwise indicated, references to any year in this discussion refer to the applicable fiscal year ended September 30. This discussion and analysis should be read with the consolidated financial statements and financial statement footnotes included in this Annual Report on Form 10-K.

This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements due to many factors, including but not limited to those set forth under the headings Risk Factors and Special Note Regarding Forward-Looking Statements.

Critical Accounting Policies

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. As such, management is required to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The significant accounting policies which are most critical to aid in fully understanding and evaluating reported financial results include the following:

Revenue Recognition

The Company enters into contractual arrangements with end-users that may include licensing of the Company s software products, product support and maintenance services, consulting services or various combinations thereof, including the sale of such products or services separately. The Company recognizes revenue in accordance with Statement of Position (SOP) 97-2 Software Revenue Recognition, SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions , Staff Accounting Bulletin (SAB) No. 101, updated by SAB s 103 and 104 Update of Codification of Staff Accounting Bulletins, and Emerging Issues Task Force No. 00-21 (EITF 00-21) Accounting for Revenue Arrangements with Multiple Deliverables. Revenue through the Company s Value Added Resellers (VARS) are net of any VAR discount in accordance with EITF 99-19 Reporting Revenue Gross as a Principal versus Net as an Agent.

Software license and third party product revenues are recognized upon shipment of the product if no significant vendor obligations remain and collection is probable. In cases where a significant vendor obligation exists, revenue recognition is delayed until such obligation has been satisfied. For new software products where a historical record has not yet been demonstrated that acceptance is perfunctory, the Company defers recognition of revenue until acceptance has occurred. If an undelivered element of the arrangement exists under the license arrangement, a portion of revenue is deferred based on vendor-specific objective evidence (VSOE) of the fair value of the undelivered element until delivery occurs. If VSOE does not exist for all undelivered elements, all revenue is deferred until sufficient evidence exists or all elements have been delivered. Annual maintenance revenues, which consist of ongoing support and product updates, are recognized on a straight-line basis over the term of the contract. Payments received in advance of performance of the related service for maintenance contracts are recorded as deferred revenue. Revenues from training and consulting services are recognized when the services are performed and adequate evidence of providing such services is available. Contract revenues for long-term contracts or programs requiring specialized systems are recognized using the percentage-of-completion method of accounting, primarily based on contract labor hours incurred to date compared with total estimated labor hours at completion. Provisions for anticipated contract losses are recognized at the time they become known.

Contracts are billed based on the terms of the contract. There are no retentions in billed contract receivables. Unbilled contract receivables relate to revenues earned but not billed at the end of the period.

The Company considers many factors when applying accounting principles generally accepted in the United States of America related to revenue recognition. These factors include, but are not limited to:

The actual contractual terms, such as payment terms, delivery dates, and pricing of the various product and service elements of a contract

Availability of products to be delivered

Time period over which services are to be performed

Creditworthiness of the customer

The complexity of customizations to the Company s software required by service contracts

The sales channel through which the sale is made (direct, VAR, distributor, etc.)

Discounts given for each element of a contract

Any commitments made as to installation or implementation of go live dates.

Each of the relevant factors is analyzed to determine its impact, individually and collectively with other factors, on the revenue to be recognized for any particular contract with a customer. Management is required to make judgments regarding the significance of each factor in applying the revenue recognition standards, as well as whether or not each factor complies with such standards. Any misjudgment or error by management in its evaluation of the factors and the application of the standards, especially with respect to complex or new types of transactions, could have a material adverse effect on the Company s future operating results.

<u>Software Development Costs</u>

Software development costs are capitalized when technological feasibility and marketability of the related product have been established. Software development costs incurred solely in connection with a specific contract are charged to cost of revenues. Capitalized software costs are amortized on a product-by-product basis, beginning when the product is available for general release to customers. Annual amortization expense is calculated using the greater of the ratio of each product s current gross revenues to the total of current and expected gross revenues or the straight-line method over the estimated useful life of three to five years.

<u>Allowance for Doubtful Accounts</u>

The Company sells its products directly to end-users, generally requiring a significant up-front payment and remaining terms appropriate for the creditworthiness of the customer. The Company also sells its products to VARs and other software distributors generally under terms appropriate for the creditworthiness of the VAR or distributor. The Company retains no continuing obligations on sales to VARs. Receivables from customers are generally unsecured. The Company continuously monitors its customer account balances and actively pursues collections on past due balances. The Company maintains an allowance for doubtful accounts which is comprised of a general reserve based on historical collections performance plus a specific reserve for certain known customer collections issues. If actual bad debts are greater than the reserves calculated based on historical trends and known customer issues, the Company may be required to book additional bad debt expense which could have a material adverse effect on our business, results of operations and financial condition for the periods in which such additional expense occurs.

Results of Operations

<u>Comparison of the six-month periods ended March 31, 2006 (unaudited) and March 31, 2005 (unaudited):</u>

The following table sets forth the condensed consolidated statement of operations expressed as a percentage of total revenue for the periods indicated:

	For the six months ended March 31, 2006	2005
	(unaudited)	
Revenues		
Licenses	31%	11%
Services and other	69%	89%
Total revenues	100%	100%
Cost of revenues		
Licenses	5%	3%
Services and other	32%	37%
Total cost of revenues	37%	40%
Gross profit	63%	60%
Operating expenses:		
Research and development	12%	16%
Marketing and sales	34%	52%
General and administrative	21%	23%
	67%	91%
Income (loss) from operations	(4)%	(31)%
Interest expense	(3)%	(2)%
Net loss	(7)%	(33)%
Deemed preferred dividend	(26)%	(66)%
Cumulative preferred dividends	(5)%	(5)%
Net loss available to common shareholders	(38)%	(104)%

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Revenues

License Revenues
(in thousands)

	For the six months ended March 31, 2006	2005	Change
License revenues	$ 1,216	$ 354	244%
Percentage of total revenues	31%	11%	

License revenues increased by $862,000, or 244%, to $1,216,000 from $354,000 for the six months ended March 31, 2006 compared to the six months ended March 31, 2005. The Company s license revenues can fluctuate significantly from quarter to quarter. During the six months ended March 31, 2006, large license sales through DocQnet International totaled $261,000 and large license sales to Florida Power and Light Constellation Energy Group, and JEA totaled $269,000, $206,000 and $200,000, respectively, while there was no similar size sales in the prior year.

We anticipate that the demand for our products will increase if overall economic conditions continue to strengthen leading to an increase in overall demand for enterprise document, configuration and records management software solutions. The Company s license revenues can fluctuate from quarter to quarter, based on the timing of customer orders due to the long sales cycle and changes in customers internal plans of the rollout of software licenses. The length of time it takes to establish new customer relationships typically ranges from 6 to 12 months and as such the timing of sales can fluctuate significantly.

Although the Company has historically generated the majority of its revenues from its direct sales force, the Company has also established a network of third-party VARs, system integrators and OEMs who build and sell systems (with components or complete systems provided by the Company) that address specific customer needs within various industries, including those targeted directly by the Company. Sales through indirect channels for the six months ended March 31, 2006 amounted to $520,000 or 13% compared to $232,000, or 7% for the same period in the prior year. The Company plans to grow its indirect channel business to be a greater percentage of overall revenue of the Company.

A small number of customers have typically accounted for a large percentage of the Company s annual revenues. Constellation Energy Group accounted for 15% of revenue for the six months ended March 31, 2006 while Network Rail and Computer Science Corporation accounted for 19% and 12%, respectively, of revenue for the six months ended March 31, 2005. The Company s reliance on relatively few customers could have a material adverse effect on the results of its operations on a quarterly basis. In an effort to decrease the Company s dependence on large license orders from individual customers, the Company is focusing on building its network of software resellers to increase its channels to market.

Services and Other Revenues
(in thousands)

	For the six months ended March 31, 2006	2005	Change
Services and other revenues	$ 2,676	$ 2,972	(10)%
Percentage of total revenues	69%	89%	

Services and other revenues are comprised of maintenance and non-maintenance services. Non-maintenance services typically relate to business process studies, implementation of systems and training which vary with the level of license revenues while maintenance revenue is primarily dependent on customers renewing their annual maintenance support contracts.

Services and other revenue decreased $296,000, or 10%, from $2,972,000 to $2,676,000 for the six months ended March 31, 2006 compared to the same period a year ago. The non-maintenance portion of service revenue decreased $165,000, or 12% from $1,386,000 to $1,221,000 primarily due to one customer delaying services until the beginning of their new fiscal year, April 1, 2006.   Also in the six months ended March 31, 2006, maintenance revenue decreased $131,000, or 8% from $1,586,000 to $1,455,000. The decrease in maintenance is primarily the result of a customer that did not renew their maintenance since they had been acquired by another entity.

We anticipate that service and other revenue will fluctuate primarily due to sales to new customers because they require more services that typically include a business process study, integration with other business systems and training. In addition, service and other revenues will continue to fluctuate from quarter to quarter based on the timing of customer orders.

Cost of Revenues

Cost of License Revenues
(in thousands)

	For the six months ended March 31, 2006	2005	Change
Cost of license revenues	$ 194	$ 108	80%
Percentage of total revenues	5%	3%	

Cost of licenses revenues consists of costs associated with reselling third-party products and amortization of capitalized software development costs.

Cost of license revenue increased by $86,000, or 80%, from $108,000 to $194,000 for the six months ended March 31, 2006 compared to the same period a year ago. The increase is primarily due to third-party costs associated with the sale in the quarter of a third-party product to one particular customer. In addition, amortization expense of capitalized software costs increased $35,000 with completion and general release of our eB Version 14 software product in November 2005. The gross profit percentage of license revenues increased to 84% for the six months ended March 31, 2006 as compared to 69% for the same period a year ago, primarily due to the increase in license revenue during the current fiscal period.

We expect the cost of license revenues to fluctuate based on fluctuations in license revenues and in customer requirements for third-party software products since the cost of meeting these customer requirements have the largest impact on cost of license revenues.

Cost of Services and Other Revenues
(in thousands)

	For the six months ended March 31, 2006	2005	Change
Cost of services and other revenues	$ 1,261	$ 1234	(2)%
Percentage of total revenues	32%	37%	

Cost of services and other revenues consists primarily of personnel-related costs in providing consulting services, training to customers and support. It also includes costs associated with reselling third-party hardware and maintenance, which includes telephone support costs.

Cost of services and other revenue increased $27,000, or 2%, from $1,234,000 to $1,261,000 for the six months ended March 31, 2006 compared to the same period a year ago. The increase was primarily due to third-party related services that amounted to $217,000 for two major projects during the current fiscal year, offset by a reduction of personnel in the fourth quarter of fiscal 2005 and lower travel related costs. The gross profit from services and other revenue as a percentage of services and other revenues decreased to 53% for the six months ended March 31, 2006 as compared to 58% for the same period a year ago.

We expect the cost of service and other revenues to fluctuate in absolute dollar amounts and as a percentage of total revenues as the related service revenue fluctuates.

Operating Expenses

Research and Development
(in thousands)

	For the six months ended March 31, 2006	2005	Change
Research and development expenses	$ 485	$ 520	(7)%
Percentage of total revenue	12%	16%	

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Research and development expenses consist of salaries and benefits for software developers as well as an allocation of corporate expenses, calculated on the basis of headcount, such as corporate insurance, facilities, telephone and other.

Research and development expenses decreased $35,000, or 7%, from $520,000 to $485,000 for the six months ended March 31, 2006 compared to the same period a year ago. The decrease was due primarily to lower personnel-related costs of $197,000 as a result of reductions in engineering personnel implemented in June 2005 and due to current development staff working on customer projects rather than research and development projects. This decrease was offset by $162,000 lower capitalized software development costs relating to the eB Version 14 upgrade development project during the six months ended March 31, 2006 as compared to the six months ended March 31, 2005.

We believe that continued investment in research and development is a critical factor in maintaining our competitive position and we expect research and development costs to remain at the current levels in absolute dollar amounts in the next several quarters. However, our ability to maintain research and development spending may be adversely impacted by our limited cash flow and liquidity.

Marketing and Sales

(in thousands)

	For the six months ended March 31, 2006		2005		Change
Marketing & sales expenses	$	1,338	$	1,738	(23)%
Percentage of total revenue		34%		52%	

Marketing and sales expenses consist of salaries, cost of benefits, sales commissions and other expenses related to the direct sales force, as well as allocation of overall corporate expenses, calculated on the basis of headcount, related to items such as corporate insurance, facilities, telephone and other.

Marketing and sales expenses decreased $400,000, or 23%, from $1,738,000 to $1,338,000 for the six months ended March 31, 2006 compared to the same period a year ago. The decrease in marketing and sales expenses is primarily due to lower personnel-related costs of $134,000 in connection with the staff reductions the Company implemented in September 2005. The Company also reduced marketing costs by $183,000 primarily related to professional services and $38,000 related to trade shows and travel.

We expect marketing and sales expense to decrease in absolute dollar amounts and as a percentage of total revenue in the current fiscal year.

General and Administrative
(in thousands)

	For the six months ended March 31, 2006	2005	Change
General and administrative expenses	$ 794	$ 772	3%
Percentage of total revenue	21%	23%	

General and administrative expenses consist primarily of personnel costs for finance, information technology, human resources and general management, as well as outside professional services and an allocation of overall corporate expenses, calculated on the basis of headcount, such as corporate insurance, facilities, telephone and other.

General and administrative expenses increased by $22,000, or 3%, from $772,000 to $794,000 for the six months ended March 31, 2006 compared to the same period a year ago. The increase resulted from the adoption of FAS 123R and the related stock compensation expense in the amount of $57,000 and an increase of $41,000 in personnel-related costs, and an increase of $78,000 due to a minimal reduction in the allowance for uncollectible accounts as compared to the six months ended March 31, 2005. These increases were offset by a decrease in legal and professional fees related to SEC filings of $107,000 and a decrease of $48,000 in costs related to Sarbanes-Oxley reporting requirements when compared to the six months ended March 31, 2005.

We expect that general and administrative expenses will increase in absolute dollars in comparison to the prior year due to the share based compensation expense under the newly implemented SFAS 123R.

Interest Expense

Interest expense consists primarily of fixed interest obligations on our outstanding debt to Spescom Ltd. as well as interest paid on capital lease obligations. Interest expense was $105,000 for the six months ended March 31, 2006 as compared to $68,000 for the same period a year ago. The increase is due primarily to increased debt balances owed to Spescom Ltd. on several outstanding notes payable as well as interest on accrued preferred dividends and certain accounts payable.

Deemed Preferred Dividends

In March 2006 the Company completed a financing arrangement whereby the Company issued 2,450 shares of Series I Preferred Stock along with 925,926 common stock warrants for gross proceeds of $500,000 and the exchange and cancellation of 1,950 shares of Series H Convertible Preferred Stock. In accordance with EITF 00-27 Application of issue No 98-5 to Certain Convertible Instruments, the Company calculated using the Black Scholes method the intrinsic value of the convertible instruments issued and determined that there was a deemed preferred dividend equal to the gross proceeds received of $500,000.

In addition in October 2005 the Company completed a similar financing arrangement whereby the Company issued 1,950 shares of our Series H Preferred Stock along with 925,926 common stock warrants for gross proceeds of $500,000 and the exchange and cancellation of 1,450 shares of Series G Convertible Preferred Stock. In accordance with EITF 00-27 Application of issue No 98-5 to Certain Convertible Instruments, the Company calculated using the Black Scholes method the intrinsic value of the convertible instruments issued and determined that there was a deemed preferred dividend equal to the gross proceeds received of $500,000.

In the prior year the Company also had a deemed dividend in connection with a financing arrangement whereby the Company issued 2,200 shares of Series G Preferred Stock along with 2,750,000 common stock warrants for gross proceeds of $2,200,000. The Company calculated using the Black Scholes method the intrinsic value of the convertible instruments issued and determined that there was a deemed preferred dividend equal to the gross proceeds received of $2,200,000.

Cumulative Preferred Dividends

The outstanding Series F Convertible Preferred Stock is entitled to receive dividends of 5% of the stated value of $1,000 per share per annum, payable on a quarterly basis in cash or common stock (valued on the basis of the average per share market value on the 30 trading days immediately prior to the date on which such dividend is declared by the Board of Directors). Series F cumulative preferred dividends earned for the six months ended March 31, 2006 and 2005 were $132,000 for each period. Unpaid dividends accrue interest at the rate of 8% per annum. As of March 31, 2006, unpaid dividends and accrued interest amounted to $725,000.

Prior to the issuance on March 10, 2006 of Series I Preferred Stock in exchange for all the outstanding Series H Preferred Stock, the Series H Preferred Stock was entitled to receive dividends of 6.75% of the stated value of $1,000 per share per annum, payable monthly in arrears on the last day of each month based on the number of shares of Series H Preferred Stock outstanding as of the first day of each such month. For the six months ended March 31, 2006 dividends on the Series H Preferred Stock totaled $44,000 and there was no Series H Preferred Stock outstanding for the same period in the prior year. A total of 325,966 shares of common stock were issued on March 31, 2006 based on a $0.13 per share fair market price in payment of Series H Preferred Stock dividends due as of March 10, 2006, when the Series H Preferred Stock was exchanged for Series I Preferred Stock.

The outstanding Series I Preferred Stock is entitled to receive dividends of 6.75% of the stated value of $1,000 per share per annum, payable monthly in arrears on the last day of each month based on the number of shares of Series I Preferred Stock outstanding as of the first day of each such month. As of March 31, 2006 accrued dividends on the Series I Preferred Stock totaled $10,000.

Comparison of the years ended September 30, 2005, 2004 and 2003

The following table sets forth the percentage relationship to total revenues of items included in the Company s Consolidated Statements of Operations for the years ended September 30, 2005, 2004 and 2003.

	2005	2004	2003
Revenues			
Licenses	13%	43%	28%
Services and other	87%	57%	72%
Total revenues	100%	100%	100%
Cost of revenues			
Licenses	4%	3%	9%
Services and other	38%	25%	32%
Total Cost of revenues	42%	28%	41%
Gross profit	58%	72%	59%
Operating expenses:			
Research and development	15%	15%	20%
Marketing and sales	65%	33%	33%
General and administrative	34%	22%	19%
	114%	70%	72%
Income (loss) from operations	(56)%	2%	(14)%
Nonrecurring loss on conversion of debt to preferred stock			(20)%
Interest and other income			
Interest expense	(5)%	(1)%	(7)%
Net income (loss)	(61)%	1%	(41)%
Deemed preferred dividend	(38)%		
Cumulative preferred dividends	(5)%	(3)%	
Net loss available to common shareholders	(104)%	(2)%	(41)%

Revenues

Licenses Revenues
(in thousands)

	2005	Change	2004	Change	2003
License revenues	$ 737	(81)%	$ 3,897	90%	$ 2,053
Percentage of total revenues	13%		43%		28%

License revenues decreased by $3.2 million, or 81%, to $737,000 in fiscal 2005 from $3.9 million in fiscal 2004. We believe that this decrease is due to delays in new customers ordering software and current customers expanding their existing systems. We believe these delays were the result of customer concerns regarding budgets and availability of internal resources. Fiscal 2004 benefited from three large license sales of which one was to an existing customer, Network Rail, for $1.5 million and two new customers, Constellation Energy Group for $750,000 and City of Las Vegas for $546,000. These large license orders in fiscal 2004 also resulted in an increase of $1,844,000 or 89% in license revenues from $2.1 million to $3.9 million in fiscal 2004 as compared to fiscal 2003.

A small number of customers has typically accounted for a large percentage of the Company s total annual revenues. Network Rail accounted for 16% of fiscal 2005 revenues while Network Rail and Constellation Energy Group accounted for 23% and 15%, respectively, of revenues for fiscal 2004. Network Rail accounted for 19% of revenue for fiscal 2003. The Company s reliance on relatively few customers could have a material adverse effect on the results of its operations on a quarterly basis. In an effort to decrease the Company s dependence on large license orders from individual customers, the Company is focusing on building its network of software resellers to increase its channels to market. In fiscal 2005 revenue through resellers totaled $507,000 or 9% of total revenues versus $471,000 or 5% in fiscal 2004 and $214,000 or 3% in fiscal 2003.

Service and Other Revenues

(in thousands)

	2005	Change	2004	Change	2003
Service and other revenues	$ 5,088	%	$ 5,105	(4)%	$ 5,309
Percentage of total revenues	87%		57%		72%

Services and other revenues are comprised of maintenance and non-maintenance services. Non-maintenance services typically relate to business process studies, implementation of systems and training which vary with the level of license revenues while maintenance revenue is primarily dependent on customers renewing their annual maintenance support contracts.

Service and other revenues were relatively unchanged from fiscal 2004 to fiscal 2005. Non-maintenance services increased $122,000 while maintenance revenue decreased $139,000. Non-maintenance services increased slightly as customers continued to utilize the Company s resources to assist in implementing their systems in new business areas within their company and upgrading from older legacy systems to the current versions of *e*B. The decrease in maintenance revenue is primarily the result of customers which had been acquired by another entity and therefore did not renew their maintenance.

For fiscal 2004 services and other revenues decreased $204,000 or 4% due a decrease in non-maintenance services of $375,000 which was partially offset by an increase in maintenance revenue of $179,000. The decrease in non-maintenance service revenue in fiscal 2004 resulted from the fact that the Company had one large implementation service contract in fiscal 2004 as compared to two large implementation service contracts during fiscal 2003. The increase in maintenance revenue is due to additional maintenance resulting from the increase in license sales in fiscal 2004 as compared with fiscal 2003.

Cost of Revenues

Cost of Licenses Revenues

(in thousands)