

Espre Solutions Inc
Form 10-Q/A
November 24, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q /A
(Amendment No. 2)

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

For the quarterly period ended December 31, 2007

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

Commission File Number: 000-51577

ESPRESOLUTIONS INC.
(Exact name of registrant as specified in its charter)

NEVADA
(State or other jurisdiction of incorporation or organization)

68-0576847
(I.R.S. Employer Identification No.)

5700 W. Plano Parkway, Suite 2600, Plano, Texas
(Address of principal executive offices)

75093
(Zip Code)

(214) 254-3708
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer
Small reporting company

Accelerated filer

Non-accelerated filer

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

Edgar Filing: Espre Solutions Inc - Form 10-Q/A

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 355,640,130 shares of Common Stock as of November 12, 2008.

Table of Contents

EXPLANATORY NOTE

This Amendment No. 2 to the Quarterly Report on Form 10-QSB/A (the “Report”) for the quarterly period ended December 31, 2007, includes a restatement of our consolidated financial statements for the quarterly period ended December 31, 2007 (and related disclosures), initially filed on February 19, 2008.

The Company has restated its Consolidated Balance Sheet as of December 31, 2007, and its Consolidated Statements of Operations and Cash Flows for the three months ended December 31, 2007 (as contained in this Report), to correct its accounting for its stock based compensation related to employee stock options, its accounting for certain performance based stock options and its accounting for minority interest. In addition, the Company has corrected certain errors in the classification of revenues and interest income as well as corrected its classification of certain operating expenses.

Finally, the Company has corrected its accounting for revenues reported in the prior year period ended December 31, 2006, in accordance with its revenue recognition policies. The errors were discovered and corrected in the quarter ended June 30, 2008, and for all prior quarters.

A further discussion of the restatement of the consolidated financial statements for this fiscal quarter is contained in Note 2 to the unaudited consolidated financial statements of this Report.

FO RM 10-Q/A

CONTENTS

PART I — FINANCIAL INFORMATION (Unaudited)			PAGE
Item 1	—	<u>Financial Statements</u>	
		<u>Consolidated Balance Sheets at December 31, 2007 and September 30, 2007</u>	2
		<u>Consolidated Statements of Operations for the three months ended December 31, 2007 and 2006</u>	3
		<u>Consolidated Statements of Cash Flows for the three months ended December 31, 2007 and 2006</u>	4
		<u>Selected Notes to Consolidated Financial Statements</u>	5
Item 2	—	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3	—	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	24
Item 4	—	<u>Controls and Procedures</u>	24
PART II — OTHER INFORMATION			
Item 1	—	<u>Legal Proceedings</u>	26
Item 1A	—	<u>Risk Factors</u>	26
Item 2	—	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	26
Item 3	—	<u>Defaults upon Senior Securities</u>	26
Item 4	—	<u>Submission of Matters to a Vote of Security Holders</u>	26
Item 5	—	<u>Other Information</u>	26
Item 6	—	<u>List of Exhibits</u>	26
<u>Signature</u>			
		EX-31.1 Section 302 Certification	
		EX-31.2 Section 302 Certification	
		EX-32.1 Section 906 Certification	
		EX-32.2 Section 906 Certification	

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1 — Financial Statements

ESPRESOLUTIONS INC. AND SUBSIDIARY
Consolidated Balance Sheets

	December 31, 2007 (Unaudited) (As Restated)	September 30, 2007
ASSETS		
Current assets:		
Cash	\$ 3,297,089	\$ 3,850,666
Accounts receivable, net	1,808	251,050
Prepaid expenses and advances	113,417	34,564
Total current assets	3,412,314	4,136,280
Equipment, net	329,153	296,758
Intangible assets, net	72,526	73,191
Loans to related parties	69,432	69,432
Other assets	114,848	97,292
Total assets	\$ 3,998,273	\$ 4,672,953
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable to related parties	\$ 25,000	\$ 395,000
Accounts payable and accrued expenses	1,085,386	1,449,399
Total current liabilities	1,110,386	1,844,399
Deferred revenue — related party	-	1,000,000
Minority interest	1,601,269	348,093
Stockholders' equity		
Common shares — \$0.001 par value; authorized 500,000,000 shares; and 329,217,550 and 318,522,499 shares issued and outstanding, respectively	329,217	318,522
Additional paid-in capital	74,644,952	72,383,030
Stock subscription receivable	(10,000)	(190,000)
Retained (deficit)	(73,677,551)	(71,031,091)
Total stockholders' equity	1,286,618	1,480,461
Total liabilities and stockholders' equity	\$ 3,998,273	\$ 4,672,953

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

Table of Contents

ESPRE SOLUTIONS INC. AND SUBSIDIARY
Consolidated Statements of Operations
Three Months Ended December 31,
(Unaudited)

	2007	2006
	(As Restated)	(As Restated)
Revenues:		
Software licensing fees	\$ 1,000,000	\$ 640,000
Custom engineering fees	57,342	233,250
Other	13,771	7,626
Total revenues	1,071,113	880,876
Expenses:		
General, administrative and selling expenses	2,066,686	1,093,428
General, administrative and selling expenses stock based compensation	1,083,409	1,084,074
Research and development	651,268	84,600
Amortization and depreciation	38,087	23,347
Total operating expenses	3,839,450	2,285,449
(Loss) from operations	(2,768,337)	(1,404,573)
Interest income	20,389	-
Interest expense	-	(7,848)
Net (loss) before minority interest	(2,747,948)	(1,412,421)
Minority interest	306,824	-
Net (loss)	\$ (2,441,124)	\$ (1,412,421)
Basic and diluted net (loss) per share	\$ (0.01)	\$ (0.01)
Weighted average shares outstanding, basic and diluted	324,093,718	205,085,889

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

Table of Contents

ESPRE SOLUTIONS INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
Three Months Ended December 31,
(Unaudited)

	2007 (As Restated)	2006 (As Restated)
Cash flows from operating activities:		
Net (loss) for period	\$ (2,441,124)	\$ (1,412,421)
Adjustments to reconcile net loss to cash used in operating activities:		
Stock and options issued for services	105,209	-
Stock based compensation	1,083,409	1,084,074
Amortization and depreciation	38,087	23,347
Minority interest	(306,824)	-
Changes in assets and liabilities:		
Deferred revenue	(1,000,000)	150,000
Accounts receivable	249,242	(448,220)
Prepaid expenses	(78,854)	928
Other assets	(17,555)	4,400
Accounts payable and accrued expenses	(356,357)	443,962
Total cash used in operating activities	(2,724,767)	(153,930)
Net cash used in investing activities:		
Purchase of equipment	(51,997)	1,411
Purchase of intangible assets	(17,821)	(35,991)
Net cash used in investing activities	(69,818)	(34,580)
Cash flows provided by financing activities:		
Payments on notes payable to related parties	(100,000)	(97,985)
Proceeds from sale of stock	714,000	-
Minority capital raised	1,447,008	-
Receipt of stock subscriptions receivable	180,000	-
Net cash provided (used in) by financing activities	2,241,008	(97,985)
Net (decrease) in cash	(553,577)	(286,495)
Cash, beginning of period	3,850,666	291,426
Cash, end of period	\$ 3,297,089	\$ 4,931
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ -	\$ 7,848
Non-cash transactions:		
Issuance of common stock to retire debt	\$ 270,000	\$ -

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

Table of Contents

ESPRE SOLUTIONS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND CONTROLLED SUBSIDIARY

The consolidated financial statements included herein have been prepared by the Company, without audit, in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes such disclosures are adequate to make the information presented not misleading. In the opinion of management, the amounts shown reflect all adjustments necessary to present fairly the financial position and results of operations for the periods presented. All such adjustments are of a normal recurring nature.

It is suggested that the consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto for the year ended September 30, 2007, included in the Company's Form 10 filed on March 31, 2008.

On April 27, 2007, the Company and Peter Leighton, who was then its President ("Leighton"), founded Blideo, Inc. ("Blideo") (dba Openacircle.com), each with a 40% interest. The Company and Leighton control Blideo and it has therefore been consolidated in these condensed consolidated financial statements.

2. RESTATEMENT OF PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS

The Company has restated its Consolidated Balance Sheet as of December 31, 2007, and its Consolidated Statements of Operations and Cash Flows for the three months ended December 31, 2007, to correct its accounting for its stock based compensation related to employee stock options, its expensing of performance based stock options, its accounting for minority interest, its classification of interest income and its classification of amortization expense of a minority owned subsidiary.

The Company's originally filed financial statements for the quarter ended December 31, 2007, reflected stock option expense for the entire year in that quarter, rather than being amortized on a straightline basis over the vesting period. The Company also improperly expensed certain performance based stock options, when the conditions for vesting had not been met. The Company also corrected its accounting for minority interest for the three months ended December 31, 2007, which was previously based on an incorrect number of common shares outstanding and an incorrect percentage ownership in its consolidated subsidiary, which previously included the effects of a stock split authorized subsequent to June 30, 2008. In addition, the Company also corrected certain errors in the classification of interest income, which was previously classified as revenues, as well as corrected its classification of amortization expense, which was previously improperly classified as a reduction of the underlying asset rather than an increase in accumulated amortization.

Finally, the Company corrected its accounting for revenues reported in the prior year period ended December 31, 2006, in accordance with its revenue recognition policies. The corrections made in the three months ended December 31, 2006, were to reduce revenues and increase operating loss by \$1,600,000. All errors were discovered and corrected in the quarter ended June 30, 2008, and for all prior quarters.

The impact of the restatement and other reclassifications on the Company's Consolidated Balance Sheet as of December 31, 2007, and its Consolidated Statements of Operations and Cash Flows for the three months ended December 31, 2007, is summarized in the tables below:

- 5 -

Table of Contents

CONSOLIDATED BALANCE SHEET

	Three months ended December 31, 2007		
	As previously reported	Reclassifications and adjustments	As restated
ASSETS			
Current assets:			
Cash	\$ 3,297,089	\$ -	\$ 3,297,089
Accounts receivable	1,808	-	1,808
Prepaid expenses and advances	113,417	-	113,417
Total current assets	3,412,314	-	3,412,314
Equipment, net	329,153	-	329,153
Intangible assets, net	72,526	-	72,526
Loans to related parties	69,432	-	69,432
Other assets	114,848	-	114,848
Total assets	\$ 3,998,273	\$ -	\$ 3,998,273
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Notes payable to related parties	\$ 25,000	\$ -	\$ 25,000
Accounts payable and accrued expenses	1,082,451	2,935	1,085,386
Total current liabilities	1,107,451	2,935	1,110,386
Minority interest	1,413,741	187,528	1,601,269
Stockholders' equity			
Common stock	329,217	-	329,217
Additional paid in capital	75,458,285	(813,333)	74,644,952
Stock subscription receivable	(10,000)	-	(10,000)
Retained (deficit)	(74,300,421)	622,870	(73,677,551)
Total stockholders' equity	1,477,081	(190,463)	1,286,618
Total liabilities and stockholders' equity	\$ 3,998,273	\$ -	\$ 3,998,273

Table of Contents

CONSOLIDATED STATEMENT OF OPERATIONS

	Three months ended December 31, 2007		
	As previously reported	Reclassifications and adjustments	As restated
Revenues:			
Software licensing fees	\$ 1,000,000	\$ -	\$ 1,000,000
Custom engineering fees	44,842	12,500	57,342
Other	41,116	(27,345)	13,771
Total revenues	1,085,958	(14,845)	1,071,113
Expenses:			
General, administrative and selling expenses	2,037,182	29,504	2,066,686
General, administrative and selling expenses stock based compensation	1,996,741	(913,332)	1,083,409
Research and development	670,963	(19,695)	651,268
Amortization and depreciation	31,762	6,325	38,087
Total operating expenses	4,736,648	(897,198)	3,839,450
Loss from operations	(3,650,690)	882,353	(2,768,337)
Interest income	-	20,389	20,389
Interest expense	-	-	-
Net loss before minority interest	(3,650,690)	902,742	(2,747,948)
Minority interest	381,359	(74,535)	306,824
Net (loss)	\$ (3,269,331)	\$ 828,207	\$ (2,441,124)
Basic and diluted net loss per share	\$ (0.01)	\$ -	\$ (0.01)
Weighted average shares outstanding, basic and diluted	324,093,718	-	324,093,718

Table of Contents

CONSOLIDATED STATEMENT OF CASH FLOWS

	Three months ended December 31, 2007		
	As previously reported	Reclassifications and adjustments	As restated
Cash flows from operating activities:			
Net (loss) for period	\$ (3,269,331)	\$ 828,207	\$ (2,441,124)
Adjustments to reconcile net loss to cash used in operating activities:			
Stock and options issued for services	105,209	-	105,209
Stock based compensation	1,996,741		