APPIANT TECHNOLOGIES INC
Form 10QSB/A
August 15, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB/A

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2000

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________to ___________

COMMISSION FILE NUMBER 0-21999

NHANCEMENT TECHNOLOGIES INC.
(NAME OF SMALL BUSINESS ISSUER AS SPECIFIED IN ITS CHARTER)

DELAWARE	84-1360852
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6663 OWENS DRIVE
PLEASANTON, CALIFORNIA 94588
(Address of principal executive offices)

(925) 251-3200
(Issuer's telephone number)

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

Yes X No

As of August 14, 2000, there were 11,067,700 shares of Common Stock outstanding.

Transitional Small Business Disclosure Format (check one) Yes No X

During the course of the year-end financial audit process for the fiscal year ended September 30, 2000, Nhancement Technologies Inc. ("Nhancement" or the "Company") recorded certain adjustments to its previously reported interim results. The most significant of the adjustments affecting the quarterly period ended June 30, 2000 is the recalculated deemed interest charge related to a beneficial conversion feature of a prior convertible notes offering; the correction increases deemed interest charges from $1.1 million to $1.6 million.

The Company has recalculated stock-based compensation related to net exercise warrants issued to the Company's directors and warrants granted to certain non-employees. Consistent with variable accounting requirements the Company has "marked-to-market" the net change in the value of the warrants for the third quarter ended June 30, 2000. The restatement has resulted in a decrease in stock-based compensation charges of $624,000 in the third quarter ended June 30, 2000. Additionally, the Company has adopted SOP 98-1 and has capitalized $10.7 million of software assets, including warrants issued in connection with the acquisition of the software. The Company has also capitalized approximately $2.1 million associated with warrants issued in connection with a $50 million equity line of financing.

As a result of the adjustments recorded by the Company, we have revised our reported results of operations for the quarter ended June 30, 2000. This Form 10-QSB reflects the effects of these adjustments.

The following items are amended hereby:

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

This report continues to speak as of the date of the original filing of the Form 10-QSB for the quarter ended June 30, 2000, and we have not updated the disclosure in this report to speak to any later date.

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the "Commission"), although the Company believes the disclosures made are adequate to make the information presented not misleading, and, in the opinion of management, all adjustments have been reflected which are necessary for a fair presentation of the information shown and the accompanying notes. These condensed unaudited financial statements should be read in conjunction with the audited financial statements for the year ended September 30, 1999. The results for the nine months ended June 30, 2000 are not necessarily indicative of the results of operations for a full year or of future periods.

NHANCEMENT TECHNOLOGIES INC.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)

	June 30, 2000
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents.	$ 4,232,000
Restricted cash.	116,400

Accounts receivable, net of allowance for doubtful accounts of $229,200.	3,514,000
Inventory.	2,239,100
Prepaid expenses and other	332,400
TOTAL CURRENT ASSETS.	10,433,900
Property and equipment, net.	3,001,100
Capitalized software	17,987,900
Goodwill and other intangible assets, net.	2,709,300
Other assets	2,335,300
TOTAL ASSETS.	$ 36,467,500
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	11,022,100
Accrued liabilities.	3,202,500
Deferred revenue	2,369,800
Income tax payable	264,700
Note payable	212,900
Convertible debentures	5,443,600
Capital lease obligations, current portion	155,900
TOTAL CURRENT LIABILITIES	22,671,500
Capital lease obligations, net of current portion	220,300
TOTAL LIABILITIES	22,891,800
STOCKHOLDERS' EQUITY	
Common stock	110,400
Additional paid-in capital	36,981,400
Accumulated deficit.	(23,279,200)
Accumulated other comprehensive loss	(236,900)
TOTAL STOCKHOLDERS' EQUITY.	13,575,700
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.	$ 36,467,500

See notes to condensed consolidated financial statements.

NHANCEMENT TECHNOLOGIES INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	1999	2000	1999	2000
Net Revenues.	$6,652,800	$ 4,273,000	$15,629,300	$21,615,800

Cost of sales	4,309,200	3,094,600	10,220,200	14,658,100
GROSS PROFIT	2,343,600	1,178,400	5,409,100	6,957,700
OPERATING EXPENSES				
Selling, general and administrative	1,901,900	2,532,900	5,894,800	9,400,900
Restructuring charges	--	--	189,000	--
Goodwill amortization	110,700	159,300	331,900	478,000
TOTAL OPERATING EXPENSES	2,012,600	2,692,200	6,415,700	9,878,900
INCOME (LOSS) FROM OPERATIONS	331,000	(1,513,800)	(1,006,600)	(2,921,200)
OTHER INCOME (EXPENSE)				
Interest income	37,100	44,700	56,800	157,700
Interest expense.	(131,000)	(1,836,700)	(228,600)	(2,122,800)
Other	15,800	(166,900)	37,100	(154,900)
Total other expense	(78,100)	(1,958,900)	(134,700)	(2,120,000)
Income (loss) before income tax	252,900	(3,472,700)	(1,141,300)	(5,041,200)
Provision for income tax.	1,100	146,500	1,100	270,300
NET INCOME (LOSS)	251,800	(3,619,200)	(1,142,400)	(5,311,500)
Preferred dividends	(717,200)	--	(724,000)	(2,400)
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	$ (465,400)	$(3,619,200)	$(1,866,400)	$(5,313,900)
BASIC AND DILUTIVE NET INCOME (LOSS) PER COMMON SHARE	$ (0.08)	$ (0.33)	$ (0.32)	$ (0.54)
SHARES USED IN PER SHARE CALCUATIONS - BASIC AND DILUTIVE	6,201,000	10,833,900	5,912,400	9,899,700
COMPREHENSIVE INCOME (LOSS):				
Net income (loss)	$ 251,800	$(3,619,200)	$(1,142,400)	$(5,311,500)
Other comprehensive income (loss)				
Translation gain (loss)	48,000	(29,800)	(28,500)	(28,300)
COMPREHENSIVE INCOME (LOSS)	$ 299,800	$(3,649,000)	$(1,170,900)	$(5,339,800)

See notes to condensed consolidated financial statements.

NHANCEMENT TECHNOLOGIES INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE LOSS
(UNAUDITED)

	Preferred Stock	Common Stock	Additional	
	Par Value	Par Value	Paid In	Accum

	Shares	Amount	Shares	Amount	Capital	Def
Balance, September 30, 1999.	11,300	$ 854,800	8,219,700	$ 82,200	$24,472,800	($17,9
Preferred Shares converted into common stock	(11,300)	($854,800)	1,056,500	10,300	844,500	
Dividends on preferred stock Converted to common shares			23,700	200	24,000	
Common Stock and warrants issued for Trimark, Inc. acquisition			750,000	7,500	3,452,500	
Common Stock issued for SVG Software acquisition			250,000	2,500	2,175,000	
Exercise of warrants for Common Stock			737,200	7,400	241,000	
Exercise of options for Common Stock			247,100	2,500	322,900	
Stock based compensation for the issuance of warrants to:						
Employees					1,482,700	
Other third parties					2,244,900	
Cost of warrants issued in connection with purchased software					683,800	
Stock-based compensation Related to benefit associated with accelerated vesting of options					230,700	
Deemed interest expense related to convertible debentures issued at a discount					1,595,500	
Repurchase of common stock			(216,500)	(2,200)	(788,900)	
Net loss						(5,3
Translation loss						
Balance, June 30, 2000	--	$ --	11,067,700	$110,400	$36,981,400	($23,2

NHANCEMENT TECHNOLOGIES INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW
(UNAUDITED)

	Nine Months Ended June 30,	
	1999	2000
CASH FLOWS FROM OPERATING ACTIVITES		
Net loss	$(1,142,400)	$ (5,311,500)

Adjustments to reconcile net loss to net cash provided by (used in)operating activities:		
Depreciation and amortization	300,300	379,800
Amortization of goodwill	331,900	478,000
(Loss) gain on sale of fixed assets	(11,600)	1,000
Stock-based compensation	71,700	1,813,900
Deemed interest expense related to beneficial conversion feature on debentures	--	1,595,500
Amortization of deferred financing charges on convertible debentures		46,600
Allowance for doubtful accounts	--	(166,900)
Other	18,100	--
Changes in operating assets and liabilities:		
Accounts receivable	(1,402,300)	2,350,800
Inventory	(166,500)	(880,100)
Prepaid expenses and other	(100,300)	(91,200)
Other assets	221,500	(135,200)
Income tax payable	(174,700)	214,000
Accounts payable and other current liabilities	2,001,800	(4,700)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(52,500)	290,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Restricted cash	93,100	70,000
Note receivable from related party	12,100	296,800
Proceeds on sale of property and equipment	145,800	17,000
Cash acquired in connection with purchase of Trimark, Inc.	--	44,700
Acquired software assets	--	(2,000,000)
Capitalization of software development costs	--	(353,900)
Purchase of property and equipment	(192,200)	(727,400)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	58,800	(2,652,800)
CASH FLOWS FROM FINANCING ACTIVITIES		
Share repurchase	--	(791,100)
Borrowing under line of credit	9,088,700	13,708,400
Repayment under line of credit	(8,232,300)	(14,248,000)
Repayment of note payable to related party	--	(150,000)
Proceeds from sale of preferred stock	1,485,000	--
Proceeds from warrants and options exercised for common stock	--	573,800
Proceeds from issuance of convertible debentures, net of issuance costs of $403,000	--	5,397,000
Principal payments on capital leases	(50,200)	(119,500)
Principal payment on notes payable	(741,600)	(119,300)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,549,600	4,251,300
Effect of exchange rate changes on cash	(22,000)	14,400
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,533,900	1,902,900
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$ 1,677,200	$ 2,329,100
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 3,211,100	$ 4,232,000
Supplemental Data:		
Interest paid	$ 317,000	$ 134,500
Income taxes paid	$ --	$ 5,800

See notes to condensed consolidated financial statements.

DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

In December 1999, the Company accepted cabling and wiring improvements of $53,200 made to its leased office by a related party in lieu of payment on a note due from this related party.

In the nine months ended June 30, 2000, property and equipment additions of $350,800 were financed by capital lease obligations. Further, the Company plans to finance purchases of $1,019,000 made during the nine months ended June 30, 2000 through capital lease arrangements that will be consummated during the fourth quarter. As of June 30, 2000, the Company's obligations for these purchases are included in the accounts payables and accrued liabilities.

During the nine months ended June 30, 1999, property and equipment additions of $150,400 were financed by capital lease obligations.

On June 7, 1999, the Company issued 116,600 shares of its Common Stock for conversion of $116,600 of debt from a stockholder.

On June 15, 1999, the Company recorded the final additional purchase consideration of $494,600 based on Infotel's profits in fiscal year 1999. The Company issued 559,100 shares of its Common Stock for conversion of $634,600 of the additional consideration due to the former stockholders of Infotel.

During the nine months ended June 30, 2000, the Company completed its acquisition of Trimark Inc. in exchange for 750,000 shares of its Common Stock and warrants to purchase 250,000 shares of the Company's Common Stock at an exercise price of $1.53 per share. The common stock issued was valued at $3,000,000 based on a guaranteed price of $4.00 per share. The warrants issued to purchase the Company's common stock were estimated at $460,000 using the Black-Scholes option pricing model using the following assumptions: expected volatility of 90%, weighted-average risk free interest rate of 6%, term of 3 years and no expected dividends.

During the nine months ended June 30, 2000, the Company completed its acquisition of certain assets of SVG Software Services, Inc. in exchange for 250,000 shares of the Company's Common Stock, valued at $2,178,000 based on the average of a share price two days before and after the announcement date of February 4, 2000.

During the nine months ended June 30, 2000, the Company purchased a non-exclusive license for certain software for internal use for the Company's inUnison-TM- portal service application. The Company paid the software vendor $2,000,000 and recorded accounts payable of $8,010,000. In connection with the software purchase, the Company issued a warrant to purchase 45,600 shares of its common stock with a value of $683,800.

During the nine months ended June 30, 2000, 11,300 shares of preferred stock were converted into 1,056,500 shares of common stock with a total value of $854,800 and an equity dividend of $21,800 was converted into 23,700 shares of common stock.

NHANCEMENT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1999 AND 2000
(UNAUDITED)

1. ORGANIZATION

NHancement Technologies Inc., a Delaware corporation ("NHancement" or the "Company"), was incorporated in October 1996 as a holding company. The business of NHancement is conducted by its operating company subsidiaries: NHancement Technologies North America, Inc. ("NHAN NA", formerly Voice Plus, Inc.), Infotel Technologies Pte Ltd ("INFOTEL"), NHancement Technologies Software Group, Inc. ("NHAN SWG"), commencing in January 2000, NHancement Acquisition Corp., formerly Trimark Incorporated ("Trimark") and commencing in February 2000, the assets of SVG Software Services, Inc ("SVG") and Enhancement Technologies (India) Pte Ltd, ("NHAN India"). NHAN NA, a California corporation headquartered in Fremont, California, is a systems integrator and national distributor of voice processing and multimedia messaging equipment. INFOTEL, a Singapore corporation acquired on June 22, 1998 is (i) a systems integrator of infrastructure data communications equipment, turnkey project management services, and radar systems; and (ii) a provider of test measuring systems. NHAN SWG, a California corporation, was recently created upon the acquisition of certain software assets from Eastern Systems Technology, Inc., and is engaged in software product development. TRIMARK, a California corporation headquartered in San Diego that designs, manufactures and markets profile selling software products to corporate clients, was acquired by the Company following the end of the first fiscal quarter. NHAN India, a company incorporated in Chennai, India conducts software development activities for the inUnison-TM- portal and also focuses on call center solutions and outsourcing for companies seeking to establish call centers in India. Accordingly, the consolidated financial statements include the results of operations from NHancement and its NHAN NA and Infotel subsidiaries for both periods presented and those of NHAN SWG for the three and nine months ended June 30, 2000.

2. FINANCIAL STATEMENT PRESENTATION AND RESTATEMENT OF FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements as of June 30, 2000, and for the three and nine months ended June 30, 2000 and 1999 are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the "Commission"), although the Company believes the disclosures made are adequate to make the information presented not misleading.

In the opinion of the management of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly its financial position as of June 30, 2000 and the results of its operations and changes in its cash flows for all periods presented. These adjustments represent normal recurring items.

These consolidated financial statements should be read in conjunction with the audited financial statements and accompanying notes for the year ended September 30, 1999 presented in the Company's latest annual report on Form 10-KSB. The results for the nine months ended June 30, 2000 are not necessarily indicative of the results of operations for a full year or of future periods.

The preparation of condensed consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts or revenues and expenses during the reported period. Actual results could differ from these estimates.

During the course of the year-end financial audit process for the fiscal year ended September 30, 2000, the Company recorded certain adjustments to its previously reported interim results. The most significant of the adjustments affecting the quarterly period ended June 30, 2000 is the recalculated deemed interest charge related to a beneficial conversion feature of a prior convertible notes offering; the correction increases deemed interest charges from $1.1 million to $1.6 million.

The Company has recalculated stock-based compensation related to net exercise warrants issued to the Company's directors and warrants granted to certain non-employees. Consistent with variable accounting requirements the Company has "marked-to-market" the net change in the value of the warrants for the third quarter ended June 30, 2000. The restatement has resulted in a decrease in stock-based compensation charges of $624,000 in the third quarter ended June 30, 2000. Additionally, the Company has adopted SOP 98-1 and has capitalized $10.7 million of software assets, including warrants issued in connection with the acquisition of the software. The Company has also capitalized approximately $2.1 million associated with warrants issued in connection with a $50 million equity line of financing.

As a result of the adjustments recorded by the Company, we have revised our reported results of operations for the quarter ended June 30, 2000 as follows:

	Three Months Ended June 30, 2000	
	As Reported	As Restated
Total Assets	$ 25,660,600	$ 36,467,500
Total Liabilities	14,481,500	22,891,800
Net Revenue	4,273,000	4,273,000
Gross Profit	1,178,400	1,178,400
Net loss	(3,868,100)	(3,619,200)
Basic and diluted net loss per share	$ (0.36)	$ (0.33)

3. RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standard Board issued Statement of Financial Standard No. 133 "Accounting for Derivative Instruments and Hedging Activities"("FAS 133") which requires companies to recognize all derivatives as either assets or liabilities in the balance sheet, and to measure them at fair market value. If certain conditions are met, a derivative may be specially designated as a hedge, the objective of which is to match the timing of gain or loss recognition of the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the risk, or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change. FAS 133 is effective for all fiscal years beginning after June 15, 2000, and the Company will not be adopting FAS 133 until fiscal year 2001. Historically, the Company has not entered into derivative contracts for speculative purpose. In the quarter ended June 30, 2000, the Company's subsidiary, INFOTEL Technologies Pte Ltd ("INFOTEL"), entered into a derivative contract for trade hedging purpose. Management may enter into derivative contracts to hedge foreign currency risks in the future. The Company is assessing the possible impact of the new accounting pronouncement.

In December 1998, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 98-9 "Modification of SOP 97-2, "Software Revenue Recognition" and the Company has adopted the statement for all applicable transactions. The adoption of this statement did not have a material impact on the Company's operating results, financial position or cash flows.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101") and amended it in March 2000. The Company has considered the guidance under the provisions of SAB 101 for its fiscal year 2000, and also believes that its current policies are in compliance.

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation an Interpretation of APB 25." FIN 44 becomes effective July 1, 2000, but certain conclusions cover specific events that occur after either December 15, 1998 or January 12, 2000. The adoption of FIN 44 did not have a material effect on the Company's financial position or results of operations.

4. WARRANTS

In December 1999, the Company issued warrants to purchase 50,000 shares of its Common Stock to an independent consultant and warrants to purchase 150,000 shares and 175,000 shares of its Common Stock to its outside advisors, all for services rendered, with an exercise price of $3.43 per share. The Company valued these warrants using the Black Scholes option pricing model and the following assumptions: contractual term of one to two years, a risk free interest rate of 5.15%, a dividend yield of 0% and volatility of 142%. The fair value of $100,800 was expensed during nine months ended June 30, 2000.

During the nine months ended June 30, 2000, the Company issued warrants to the President and Chief Executive Officer to purchase 100,000 shares of its Common Stock and warrants to the Company s Board members to purchase 100,000 shares of Common Stock at $3.43 per share, all of which were fully exercisable. Under the terms of the warrant agreements, upon exercise of the warrant, the warrant holders can pay the exercise price by having the Company issue the number of shares under the warrant less the number of shares having a fair value on the date exercised equal to the exercise price. As a result, the Company has used variable accounting to account for these awards and has recorded a decrease of $600,000 in stock based compensation related to the warrants during the three months ended June 30, 2000. The stock based compensation will continue to be remeasured each reporting period until the awards are exercised or cancelled.

During the three months ended June 30, 2000, the Company cancelled 50,000 warrants previously issued to a director who had resigned. The exercise price of these warrants was $11.50 per share.

In connection with a software purchase agreement, on May 1, 2000, the Company issued to the supplier 45,613 warrants to purchase shares of Common Stock of the Company at an exercise price of $15.50 per share. The warrants are immediately exercisable and expire five years from the date of issuance. The Company valued these warrants using the Black-Scholes's model and the following assumptions: contractual term of five years, a risk free interest rate of 5.8%, a dividend yield of 0% and volatility of 135%. The fair value of $683,800 has been accounted for as purchased capitalized software.

In connection with the stock purchase agreement (See "Stock Purchase Agreement"), the Company issued warrants to purchase 120,000 shares of Common Stock at an exercise price of $20.82 per share. The warrant exercise price was subsequently adjusted to $13.50 per share on November 15, 2000 in exchange for securing a waiver from the investment corporation allowing us to issue Series B preferred stock to other investors. The Black-Scholes option pricing model, was used to value the warrants and the following assumptions: contractual term of 3 years, a risk free interest rate of 5,8%, a dividend yield of 0% and a volatility of 135%. The fair value of $2,144,000 was accounted for as a non-current asset. As and when stock is purchased under the terms of reclassification agreement, the costs will be reclassified from "Other assets" to "Additional paid in capital", on a dollar for dollar basis with the amount of proceeds received from the sale of common stock. As of September 30, 2000 there is a total of $2,144,000 costs included in "Other assets". If at termination of the agreement the proceeds received from the sale of common stock are less than the costs associated with this agreement, then the residual costs remaining in "Other assets" will be charged to expenses.

At June 30, 2000, the following warrants to purchase the Company s common stock were outstanding, all of which were exercisable:

EXPIRATION DATE	SHARES UNDER WARRANTS	EXERCISE PRICE
December 10, 2000	566,700	$ 3.43
January 30, 2001	193,700	4.80
February 3, 2001	130,600	4.80
December 10, 2001	50,000	3.43
February 3, 2002	50,000	4.80
December 10, 2001	3,600	1.53
December 1, 2002	250,000	1.53
August 4, 2004	170,000	2.37
May 1, 2005	45,600	15.50
Total	1,460,200	

5. FINANCING ACTIVITIES

The Company's INFOTEL subsidiary completed a line of credit agreement providing for banking facilities up to SGD 3.5 million (approximately US$ 2.0 million) bearing interest at the Singapore prime rate plus 1.25%, collateralized by the assets of the subsidiary and the Company's guarantee.

On May 19, 2000, the Company entered into a convertible debentures purchase agreement with certain investors in the aggregate principal amount of $5,850,000. The convertible debentures accrued interest at 8% per annum from the date such convertible debentures were issued until the earlier of conversion into shares of our common stock or May 30, 2001, and was payable quarterly in arrears. The convertible debentures were convertible by the holder into shares of our common stock at any time prior to the close of business on May 30, 2001. The conversion price, as amended, is equal to the lesser of $13.00 per share or 91% of the average of the three lowest bid prices during the ten trading days immediately preceding the date on which the holder of the debenture gives us notice of the intent to convert the debenture, provided that the conversion price shall not be less than $8.00 per share. The convertible debentures are convertible by the holder into shares of our common stock at any time prior to the close of business on May 30, 2001. The Company has the right to redeem the convertible debentures for the sum of 105% of the unpaid principal and any accrued or unpaid interest. The Company is obligated to reserve for issuance upon conversion a sufficient number of shares of common stock and to register such reserved shares of common stock and maintain an effective registration statement for such shares of common stock. The beneficial conversion feature associated with the issuance of the convertible debenture and subsequent amendment of the conversion terms resulted in a non-cash deemed interest charge of $1,595,500 during the three months ended June 30, 2000.

On June 6, 2000, the Company exercised its right under the terms of the Infotel Purchase and Sale Agreement to repurchase 216,500 shares of our common stock at a price of approximately $3.65 per share from the former Infotel stockholders for $791,100. The reacquired shares were originally issued to the Infotel stockholders in connection with the Company's acquisition of Infotel in June 1998.

The Company entered into a common stock purchase agreement, dated May 24, 2000 and amended as of June 30, 2000 with an investment corporation under which the Company may require the investment corporation to purchase up to $50 million of its common stock. Under the terms of the agreement, the Company is under no obligation to sell its common stock to the investment corporation. However, the Company may make up to a maximum of twelve requests for the purchase of its common stock with no single purchase exceeding $4 million unless otherwise agreed to by the investment corporation. In addition, the common stock purchase agreement does not require the investment corporation to purchase the Company's common stock if it would result in the investment corporation owning more than 9.9% of the Company's outstanding common stock. The purchase price of the common stock is 92% of the volume weighted average price per share of the Company's

common stock over the eighteen-day period prior to the date the Company requests the investment corporation to purchase its common stock. In addition, the investment corporation will receive a 2% placement fee and an escrow agent fee from the proceeds due to the Company. In conjunction with the stock purchase agreement, the Company issued a warrant to purchase 120,000 shares of its common stock at an exercise price of $20.82. (See "Warrants").

In lieu of providing the investment corporation with a minimum aggregate drawdown commitment, we have issued to the investment corporation stock purchase warrants to purchase 120,000 shares of our common stock with an exercise price of $20.82 (see note 4). The warrants expire May 24, 2003.

6. ACQUISITION TRANSACTION AND UNAUDITED PRO FORMA FINANCIAL DATA

On January 21, 2000, the Company completed its acquisition of all of the outstanding shares of common stock of Nhancement Enterprise Software Solutions, Inc., dba Triad Marketing, formerly Nhancement Acquisition Corporation, being the surviving corporation that was merged with Trimark Incorporated ("TRIMARK"), in exchange for approximately 750,000 shares of Common Stock of the Company, and warrants to purchase 250,000 shares of the Company's Common Stock at an exercise price of $1.53 per share. The transaction was structured as a tax free reorganization. The purchase agreement provides that in the event that the average closing price of NHancement Common Stock for the five consecutive trading days ending on the trading day immediately prior to the first anniversary and second anniversary of the transaction s closing (the "Valuation Formula") falls below $4.00, the Triad shareholders are entitled to additional consideration either in cash or Nhancement Common Stock, at the Company's option. On the first anniversary date, Triad shareholders are entitled to additional consideration equal to one half of the unregistered shares of the Company's Common Stock that they still own plus all of the registered shares of the Company's Common Stock that they still own, multiplied by the lesser of (i) $4.00 minus the Valuation Formula, or (ii) $2.50. At the second anniversary date, the Triad shareholders are entitled to additional consideration of equal to 250,000 unregistered shares owned by the Triad shareholders multiplied by the lesser of (i) $4.00 minus the Valuation Formula, or (ii) $2.50. As the guaranteed price of $4.00 per share was in excess of the fair value of the Company's common stock two days before and after the announcement of the acquisition on December 10, 1999, the common stock issued was valued at $4.00 per share or $3,000.000. The warrants issued to purchase the Company's common stock were estimated at $460,000 using the Black-Scholes option pricing model using the following assumptions: expected volatility of 90%, weighted average risk free interest rate of 6%, term of 3 years and no expected dividends. The acquisition has been accounted for as a purchase, which means the purchase price was allocated to the assets acquired and liabilities assumed based on estimated fair values at the date of the acquisition. The results of operations of Triad have been included with the Company's results of operations since January 21, 2000, the date of acquisition. The total purchase price of $3,460,000 was allocated based on establish valuation techniques used in the software industry as follows:

As of June 30, 2000, the purchase price of TRIMARK and the net assets acquired recorded in connection with the TRIMARK acquisition are summarized as follows:

Common Stock	750,000 shares subject to share price guarantee and 250,000 warrants not subject to share price guarantee	$3,460,000
Net assets acquired consists principally of the following:		
	Tangible assets, primarily Cash, accounts receivable and property and equipment	$ 11,000
	Software asset	3,325,000
	Assembled workforce	206,000
	Goodwill	250,000
	Liabilities assumed	(332,000)
		$3,460,000

On February 4, 2000, the Company completed its acquisition of certain assets of SVG Software Services, Inc. ("SVG") pursuant to the Plan and Agreement of Reorganization between NHancement and SVG. The transaction was structured as a tax free reorganization. Under terms of the Agreement, the Company acquired all rights to SVG's intellectual property, primarily software, and the right to use its corporate name in exchange for 250,000 shares of the Company's Common Stock valued at $2,178,000, calculated based on the average of the share price two days before and after the announcement date on February 4, 2000. The purchase allocation price was allocated to software and goodwill of $2,129,000 and $49,000, respectively. The software was acquired for internal use for the Company's hosted internet inUnison TM portal service applications and was capitalized. Amortization of the software will commence when the hosted internet portal is substantially complete and ready for its intended use.

On February 4, 2000, the Company acquired all the shares of Enhancement Technologies (India) Pte. Ltd. ("NHAN INDIA") a company incorporated in Chennai, India that engages in the business of web design and software products development for a cash payment of $50,000. The results of NHAN INDIA have been excluded from the pro forma financial data presented below as the acquisition closed on April 4, 2000.

The condensed unaudited pro forma statements of operations combine the results of operations of the Company and TRIMARK for the nine months ended June 30, 2000 and June 30, 1999, as if the acquisition had occurred at the beginning of the period, after giving effect to certain adjustments including amortization of goodwill and interest expense on notes payable to related parties. The following unaudited pro forma summary does not necessarily reflect the results of operations as they would have been had the TRIMARK acquisition occurred at the beginning of the period presented, nor is it necessarily indicative of the results of operations for any future period. The pro forma results do not include the acquisition of NHAN India as they were not significant on an individual or an aggregate basis.

	UNAUDITED PRO FORMA NINE MONTHS ENDED June 30, 1999	UNAUDITED PRO FORMA NINE MONTHS ENDED June 30, 2000
Net revenues	$ 17,042,800	$ 22,304,300
Net loss	($1,154,800)	($5,846,600)
Preferred stock dividends	($724,000)	($2,400)
Net loss available common stockholders	($1,878,800)	($5,849,000)
Net loss per common share -Basic and diluted	($0.27)	($0.57)
Shares used in per share calculations -Basic and diluted	6,951,000	9,460,500

7. NET INCOME (LOSS) PER SHARE

Net income (loss) per share were computed under the provisions of SFAS 128, Earnings Per Share. The following is a reconciliation of the numerators and denominators of the basic and diluted net income (loss) per share computations:

	THREE MONTHS ENDED		NINE MONTHS
	JUNE 30,		JUNE 30
NET LOSS - NUMERATOR	1999	2000	1999
Net income (loss)	$251,800	($3,619,200)	($1,142,400)
Preferred stock dividends	(717,200)	--	(724,000)
Net income (loss) available to common stockholders	($465,400)	$3,619,200)	($1,866,400)
Weighted average common shares used in net income (loss) per share basic and diluted	6,201,000	10,883,900	5,912,400

Options and warrants to purchase 3,056,700 shares of Common Stock were outstanding as of June 30, 2000, and options and warrants to purchase 2,568,900 shares and Preferred Stock convertible into approximately 1,750,000 shares of Common Stock were outstanding at June 30, 1999 but were not included in the computation of diluted loss per common share because the effect would be anti-dilutive.

8. SEGMENT REPORTING

NHancement's reportable operating segments include NHancement

Technologies North America, Inc. ("NHAN NA"), INFOTEL and Nhancement Technologies Software Group, Inc. ("NHAN SWG"). NHAN NA is a systems integrator and distributor of voice processing equipment, which includes equipment installation, technical support and ongoing maintenance. NHAN NA derives substantially all of its revenues from sales in the United States. INFOTEL is a provider and integrator of infrastructure communications equipment products operating in Singapore, providing radar system integration, turnkey project management services and test instrumentation. INFOTEL derives substantially all of its revenue from sales in Asia. NHAN SWG was formed late in fiscal year 1999 to develop and sell integration and application software products. TRIMARK, headquartered in San Diego and acquired on January 21, 2000, designs, manufactures and markets profile selling software products to corporate clients. Corporate expenses have been charged to the Company under the heading "OTHER."

Financial information for these segments includes the following:

THREE MONTHS ENDED JUNE 30, 2000

	NHAN NA	INFOTEL	NHAN SWG	TRIMARK
Net revenue from external customers	$1,555,300	$2,448,000	--	$269,700
Net income (loss)	($1,761,500)	346,300	(23,500)	(451,000)
Total assets (includes goodwill)	3,835,400	8,777,700	2,122,400	3,687,200

THREE MONTHS ENDED JUNE 30, 1999

	NHAN NA	INFOTEL	NHAN SWG	TRIMARK
Net revenue from external customers	$4,062,000	$2,590,800	--	--
Net income (loss)	615,300	240,300	--	--
Total assets (includes goodwill)	5,306,400	8,027,000	--	--

NINE MONTHS ENDED JUNE 30, 2000

	NHAN NA	INFOTEL	NHAN SWG	TRIMARK
Net revenue from external customers	$11,890,400	$9,010,200	--	$715,200
Net income (loss)	(824,600)	918,900	(171,700)	(443,800)
Total assets (includes goodwill)	3,835,400	8,777,700	2,122,400	3,687,200

NINE MONTHS ENDED JUNE 30, 1999

	NHAN NA	INFOTEL	NHAN SWG	TRIMARK
Net revenue from external customers	$9,096,000	$6,533,300	--	--
Net income (loss)	649,000	480,000	--	--
Total assets (includes goodwill)	5,306,400	8,027,000	--	--

9. COMMITMENTS

The Company entered into an agreement whereby the Company purchased a non-exclusive license for certain software for cash of $10,010,000 and warrants to purchase 45,600 shares of the Company's Common Stock with an estimated fair value of $684,000. Concurrently, the Company paid the software vendor $2,000,000 and recorded accounts payable of $8,010,000. The software was acquired for internal use for the Company's inUnison-TM-portal service application. Amortization of the software will commence when the hosted internet portal is substantially complete and ready for its intended use.

On June 9, 2000, the Company entered into a Project Development Agreement ("PDA") with a hardware manufacturer to help design and build its Personalized Communication Hub network architecture and infrastructure. Ninety-percent of the total project costs related to consulting services and 100% of the hardware and other product costs will be financed by a capital lease to be structured by the hardware manufacturer. The Company anticipates that as it implements its new business plan it will require additional material capital to fund needed capital equipment, and that such funding needs may be financed through similar capital equipment leases which will not require significant direct outlays of cash.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NHancement Technologies Inc. ("NHancement" or the "Company") is a software applications and services company that specializes in unified communications and information, collaborative commerce and multimedia solutions to help companies improve internal and external communications. These solutions include the facilitation of an enterprise's electronic business transactions and customer service interactions. The Company's telephony solutions and services work in both Internet-enabled environments and over standard telephone lines. Our products facilitate client use of telephone, e-mail, faxing, paging and Internet based communications to keep in touch with customers and with one another. We have developed an end-to-end solutions suite to enable companies to do business in the office and on the road. By simplifying business communications and improving access to distributed corporate information (data) resources, our products are designed to help clients build solid customer relationships and maximize revenue opportunities.

Our primary objective is to become a leading provider of communications and data software products, systems and services for enterprise customers. Our management believes that increased competition, and the reduced importance of geographical borders make it imperative that corporations achieve and maintain state-of-the-art communication and information systems that provide a unified view of an enterprise's business functions on a worldwide basis. We provide corporations and other businesses with communication systems, data products and technological innovations designed to enhance efficiency.

In addition, we design, develop, market and service profile selling software products and services to corporate enterprises. This software is designed to ascertain one-to-one customer-selling opportunities based on marketing characteristics that are unique to the individual customer.

On May 23, 2000, we announced our plan to introduce "Personal Communications Hub", a new product offering suite that is intended to provide our customers with unifying communications and unifying information solutions. Personal Communications Hub will utilize the unified communications platform, Unified Open Network Exchange. Our management believes that the Personal Communications Hub suite of products and applications on the Unified Open Network Exchange platform will provide our customers with scaled, carrier grade IP-based solutions seamlessly across multiple channels. We expect to incur substantial expenditures for equipment, systems, research and development, consultants and personnel to implement this new service. As a result, our short-term operating results and cash flows and overall financial condition may be adversely affected for several quarters.

The Company's condensed consolidated financial statements include the results of the Company and four of its operating subsidiaries: NHancement Technologies North America, Inc. ("NHAN NA"), INFOTEL Technologies (Pte) Ltd ("INFOTEL"), NHancement Technologies Software Group, Inc. ("NHAN SWG") and Nhancement Acquisition Corp. (formerly, Trimark Incorporated, "TRIMARK"). The condensed consolidated financial statements contain results of operations from NHancement and its NHAN NA, INFOTEL subsidiaries for all periods presented, and those of NHAN SWG for the three and nine months ended June 30, 2000, and those of TRIMARK for the period from January 21, 2000 to June 30, 2000.

The statements contained in this Report on Form 10-QSB that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding the Company's expectation, hopes, intentions or strategies regarding the future. Forward-looking statements include: statements regarding future product or product development; statement regarding future research and development spending and the Company's product development strategies; statements regarding the levels of international sales; statements regarding future expansion or utilization of manufacturing capacity; statements regarding future expenditures; and statements regarding current or future acquisitions. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements (or industry results, performance or achievements) expressed or implied by these forward-looking statements to be substantially different from those predicted. The factors that could affect our actual results include the following:

- general economic and business conditions, both nationally and in the regions in which we operate
- adoption of our new recurring revenue service model
- competition
- changes in business strategy or development plans
- delays in the development or testing of our products
- technological, manufacturing, quality control or other problems that could delay the sale of our products
- our inability to obtain appropriate licenses from third parties, protect our trade secrets, operate without infringing upon the proprietary rights of others, or prevent others from infringing on our proprietary rights
- our inability to obtain sufficient financing to continue to expand operations

- changes in demand for products by our customers

Certain of these factors are discussed in more detail elsewhere in this Report, including under the caption "Risks Factors; Factors That May Affect Operating Results".

We do not undertake any obligation to publicly update or revise any forward-looking statements contained in this Report or incorporated by reference, whether as a result of new information, future events or otherwise. Because of these risks and uncertainties, the forward-looking events and circumstances discussed in this Report might not transpire.

GENERAL

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the consolidated financial statements included herein. Further, this third quarter report on Form 10-QSB should be read in conjunction with the Company's Consolidated Financial Statements and Notes to Consolidated Financial Statements included in its 1999 Annual Report on Form 10-KSB. In addition, you are urged to read this report in conjunction with the risk factors described herein.

In this MD&A, the Company explains its results of operations for the three and nine month period ended June 30, 2000, as compared to the corresponding periods in 1999 and discusses its financial condition at June 30, 2000. The discussion of financial condition includes changes taking place or believed to be taking place in the software, voice processing, data processing and communications industry, and how the Company expects these changes to influence future results of operations; and liquidity and capital resources, including discussions of capital financing activities and uncertainties that could affect future results.

RESULTS OF OPERATIONS

In this section, the Company provides the components of its earnings for the three and nine month periods ended June 30, 2000 and June 30, 1999. The Company then explains variances within revenues and expenses for these same periods.

The following table shows results of operations, as a percentage of net sales, for the three and nine-month periods ended June 30, 2000 and June 30, 1999:

NHANCEMENT TECHNOLOGIES INC. AND SUBSIDIARIES

	THREE MONTHS ENDED JUNE 30,		
	1999	2000	1
Net sales	100.0%	100.0%	
Cost of sales	64.8%	72.4%	
Gross profit	35.2%	27.6%	
Restructuring, selling, general and administrative expenses	28.6%	59.3%	
Amortization of goodwill	1.7%	3.7%	
Income (loss) from operation	5.0%	(35.4)%	
Other income (expense)	(1.2)%	(45.8)%	
Income (loss) before taxes	3.8%	(81.3)%	

Income tax	0.0%	3.4%
Net income (loss)	3.8%	(84.7)%

Revenues

Company revenues for the quarter ended June 30, 2000 decreased $2.3 million or 34.8% to $4.3 million for the three months ended June 30, 2000 as compared to $6.6 million for the same period in 1999. On a year-to-date basis, the Company's revenues increased by $6.0 million to $21.6 million or 38.5% during the nine months ended June 30, 2000, from $15.6 million during the nine months ended June 30, 1999. The substantial decrease in revenue for the three months period ended June 30, 2000 from the same period in 1999 was due primarily to (i) the transition of our company to a service-based, unified communications and information provider operating a recurring revenue model from our historic systems integrator model; and (ii) the decline in legacy system revenue which made up approximately 64.1% of our total revenue and 80.7% of our North America revenue for the quarter ended March 31, 2000 as many of our customers have postponed purchase decisions until we release our new Personal Communications Hub suite of unified communication and unified information solutions. The increases in revenues for the nine months ended June 30, 2000, were due primarily to: (i) increased INFOTEL revenues associated with test and measurement for the nine months ended June 30, 2000, and (ii) strong NHAN NA legacy systems sales for quarter ended March 31, 2000.

NHAN NA's net revenue on a stand-alone basis decreased $2.5 million or 61.7% to $1.6 million for the three months ended June 30, 2000, from $4.1 million for the three months ended June 30, 1999. The decrease in NHAN revenue was due to a decrease in legacy sales in voicemail system revenue as many customers have delayed purchasing decisions pending the Company's new hosted services. On a year-to-date basis, NHAN NA's net revenue increased by $2.8 million or 30.8% to $11.9 million for the nine months ended June 30, 2000, from $9.1 million for the nine months ended June 30, 1999. The year-to-date increase in NHAN NA revenues came from increased enterprise information center product sales as well as legacy system sales within its existing customer base and from new customers in the past two quarters of fiscal year 2000.

Revenues for the Company's INFOTEL subsidiary on a stand-alone basis decreased slightly by 7.7% or $0.2 million from $2.6 million for the quarter ended June 30, 1999 to $2.4 million for the same period in 2000 due to lower demand for test instrument products in that quarter. On a year-to-date basis, revenues grew by $2.3 million or 34.3% or from $ 6.7 million for the nine months ended June 30, 1999 to $9.0 million for the nine months ended June 30, 2000. The increase in revenues occurred within the test instrument products and networking business segments due to high demand from key customers.

The Company's TRIMARK subsidiary, acquired on January 21, 2000, added revenues of $0.3 million for the quarter ended June 30, 2000 from profile sales of software products to corporate clients. On a stand-alone pro forma basis, TRIMARK's net sales for the third quarter decreased by 50% or $0.3 million from $0.6 million in June 30, 1999 to $0.3 million for the same period in 2000. On a year-to-date pro forma basis, revenues decreased by $0.3 million or 21.4% from $1.4 million to $1.1 million. The decreases were due to declining sales of marketing communication information files ("MCIF") sales for both periods.

The Company's backlog increased to $7.2 million at June 30, 2000 as compared to $4.0 million as of March 31, 2000. NHAN NA's order backlog increased slightly to $2.7 from $2.4 million and INFOTEL's backlog increased substantially to $4.4 million at June 30, 2000 from $1.3 million at March 31, 2000. Backlog for NHAN SWG as of June 30, 2000 was about $0.1 million and TRIMARK's backlog was insignificant at June 30, 2000.

Gross Margin

Company gross margin for the three months ended June 30, 2000, decreased to 27.6% as compared to the 35.2% for same the period in 1999. The decrease was mainly due to substantial reduction in revenues coupled with the fixed nature of operating costs in our NHAN NA operation. For the nine months ended June 30, 1999 and 2000, gross margin remained constant and was 32.2% to 34.6% for these periods respectively. NHAN NA's gross margin percentage on a stand-alone basis decreased substantially from 38.8% to 6.8% for the quarter ended June 30, 2000, as compared to the same period of 1999 due to substantial reduction in revenues coupled with the fixed nature of operating costs, and the migration to our unified communications and unified information solutions business. NHAN NA's gross margin percentage decreased slightly from 36.4% for the period ended June 30, 1999 to 31.7% for the nine months ended June 30, 2000. INFOTEL's gross margin percentage on a stand-alone basis improved from 23.3% to 36.4% for the quarter ended June 30, 2000. For the nine months ended June 30, 1999 and 2000, INFOTEL's gross margin also improved from 25.0% to 29.0%. This increase in gross margin was due to (i) improved selling prices for test equipment product and project management services which represents 56.7% and 68.8% of total revenue for the three and nine months period ended June 30, 2000 respectively, and (ii) lower operating expenses. On a pro forma stand-alone basis TRIMARK had a gross margin decrease from 75.0% for the quarter ended June 30, 1999 to 67.3% for the quarter ended June 30, 2000, and increase from 77.5% for the nine months ended June 30, 1999 to 80.3% for the nine month ended June 30, 2000. The decrease in gross margin for the three months were due to lower billing levels for the MCIF sales. The direct costs associated with MCIF sales is minimal.

Selling, General and Administrative Expenses

The Company's selling, general and administrative expenses ("SG&A") including goodwill and amortization, as a percentage of net sales increased to 63% for the three months ended June 30, 2000 compared to 30.3% for the same period in 1999. For the nine months ended June 30, 2000, the Company's SG&A increased to 45.7% from 41% for the nine months ended June 30, 1999. SG&A for NHAN NA on a stand-alone basis increased to 105.6% for the third fiscal quarter of 2000 as compared to 21.2% for the same period in 1999. For the nine months ended June 30, 2000, NHAN NA's SG&A expenses as a percentage of revenue also increased to 33.1% from 27.1% for the nine months ended June 30, 1999. The increases were due primarily increase in salary expenses for significant additional hires of sales, marketing, and administrative personnel; and sales and marketing related expenses and other expenses in relation to the introduction of our new hosted unified communication and information business model.

On a stand-alone basis, INFOTEL's SG&A as a percentage of revenues increased to 19.7% for the three months ended June 30, 2000, compared to 16.9% for the three months ended June 30, 1999. For the nine months ended June 30, 2000, INFOTEL's SG&A expenses as a percentage of revenue declined to 18% from 20.6% for the nine months ended June 30, 1999. INFOTEL's SG&A expenses as a percentage of revenues decreased mainly because of the significant increase in INFOTEL's revenues during the second quarter of 2000 and for the nine months ended June 30, 2000.

On a stand-alone pro forma basis, TRIMARK's SG&A as a percentage of revenues increased to 226.1% for the three months ended June 30, 2000 compared to 70.7% for the three months ended June 30, 1999. On a pro forma basis, for the nine months ended June 30, 2000, TRIMARK's SG&A expenses as a percentage of revenue increased to 126.6% from 76.9%. TRIMARK's SG&A expenses as a percentage of revenues increased mainly because of a significant decline in revenue for the subject periods and because of the re-focus of TRIMARK personnel to the Company's new hosted unified communications and unified information business. In addition, there was significant increase in marketing team to support a large project during the three and for the nine months ended June 30, 2000.

NHancement's corporate overhead costs increased by $1.1 million or 183% for the three months ended June 30, 2000, compared to $0.6 million for the same period in the prior year due primarily to an interest expense related to a beneficial conversion feature associated with debentures issued offset by the third quarter mark-to-market net change in warrants and options issued to the company's Directors and certain employees consistent with variable accounting . NHancement's corporate overhead costs increased by 113% or $2.6 million from $2.3 million for the nine months ended June 30, 1999 to $4.9 million for the nine months ended June 30, 2000 due primarily to the mark-to market net change in warrants and options consistent with variable accounting.

Income taxes

The Company currently has approximately $7 million in US federal net operating loss carry-forwards. The majority of these net operating losses are subject to an annual limitation of $250,000. At June 30, 2000, the Company provided a 100% reserve against its deferred tax assets. The Company believes that since sufficient uncertainty exists regarding the realizability of the deferred tax assets, a full valuation allowance is required. Income taxes of $270,000 shown in the condensed consolidated statement of operations relates to accrued income tax liabilities for Infotel, our subsidiary in Singapore.

LIQUIDITY AND CAPITAL RESOURCES

During the nine months ended June 30, 2000, net cash provided by operating activities was $290,000. Although we incurred a loss of $5.3 million during this period, $4.1 million of this loss was attributed to various non-cash charges. Further, this loss was offset by a substantial decrease in accounts receivables. Net cash provided by investing and financing activities totaled $1.6 million consisting of the proceeds from issuance of convertible debentures offset by the purchase of software assets, the down payment of $2.0 million towards the purchase of the unified communications software, the repayments of the Company's line of credit, repurchase of Company's Common Stock from former owners of Infotel and purchases of software, property and equipment. At June 30, 2000, the Company had negative working capital of $12.2 million, a decrease of $14.3 million from the quarter ended March 31, 2000 due to the acquisition of $8.0 million of capitalized software included in accounts payable at June 30, 2000. The Company had a cash balance of $4.3 million (including restricted cash of $116,000) at June 30, 2000.

During the quarter ended June 30, 2000, the Company paid off approximately $1.7 million on a credit line collateralized by its receivables.

The Company, through its INFOTEL subsidiary, has completed a credit line with a major Singapore bank for S$3.5 million (approximately US$2.0 million) with interest at 1.25% above the bank prime rate to be used for INFOTEL's overdraft protection, letters of credit, letters of guarantee, foreign exchange and revolving credit. This credit line is guaranteed by the Company.

The Company entered into an agreement whereby the Company purchased a non-exclusive license for certain software for cash of $10,010,000 and warrants to purchase 45,600 shares of the Company's Common Stock with an estimated fair value of $684,000. Concurrently, the Company paid the software vendor $2,000,000 and recorded accounts payable of $8,010,000. The software was acquired for internal use for the Company's inUnison-TM- portal service application. Amortization of the software will commence when the hosted internet portal is substantially complete and ready for its intended use.

The Company has entered into a common stock purchase agreement, dated May 24, 2000 and amended as of June 30, 2000 with an investment corporation under which the Company may require the investment corporation to purchase up to $50 million of its common stock. Under the terms of the agreement, the Company is under no obligation to sell its common stock to the investment corporation. However, the Company may make up to a maximum of twelve requests for the purchase of its common stock with no single purchase exceeding $4 million unless otherwise agreed to by the investment corporation. In addition, the common stock purchase agreement does not require the investment corporation to purchase the Company's common stock if it would result in the investment corporation owning more than 9.9% of the Company's outstanding common stock. The purchase price of the common stock is 92% of the volume weighted average price per share of the Company's common stock over the eighteen-day period prior to the date the Company requests the investment corporation to purchase its common stock. In addition, the investment corporation will receive a 2% placement fee and an escrow agent fee from the proceeds due to the Company. In conjunction with the stock purchase agreement, the Company issued a warrant to purchase 120,000 shares of its common stock at an exercise price of $20.82.

On June 9, 2000, the Company entered into a Project Development Agreement ("PDA") with a hardware manufacturer to help design and build its Personalized Communication Hub network architecture and infrastructure. Ninety-percent of the total project costs related to consulting services and 100% of the hardware and other product costs will be financed by a capital lease structured by the hardware manufacturer. The Company anticipates that as it implements its new business plans it will require significant additional capital to fund needed capital equipment, and that such funding needs may be financed through similar capital equipment leases which may require significant direct outlays of cash.

Despite its negative working capital at June 30, 2000, management believes that the available cash and financing available through its equity line of $50.0 million, and potential other credit facilities are adequate to meet the working capital needs of the Company and its subsidiaries during the next 12 months. There can be no assurance that the Company will be able to obtain either debt or equity financing, if and when it is needed, for working capital and other needs.

RISK FACTORS; FACTORS THAT MAY AFFECT OPERATING RESULTS

The following risk factors, as well as the risks described under "Management's Discussion and Analysis of Financial Condition and Results of Operations," may cause actual results to differ materially from those in any forward-looking statements contained in the MD&A or elsewhere in this report or made in the future by the Company or its representatives. Such forward-looking statements involve known risks, unknown risks and uncertainties and other factors, which may cause the actual results, performance or achievements expressed or implied by such forward-looking statements to differ significantly from such forward-looking statements.

WE HAVE CURRENTLY RECORDED A NET LOSS, WE HAVE A HISTORY OF NET LOSSES AND WE CANNOT BE CERTAIN OF FUTURE PROFITABILITY.

We recorded net loss of approximately $3.6 million on net revenues of $4.3 million for our third quarter ended June 30, 2000, and net loss of $5.3 million on $21.6 million in revenue for the nine months ended June 30, 2000 and we also sustained significant losses for the fiscal year ended September 30, 1999 and for the nine-month period ended September 30, 1998. We also anticipate incurring a net operating loss for our fiscal year ended September 30, 2000.

Our financial condition and results of operations will be adversely affected if we fail to continue to produce positive operating results. This could also:

- Adversely affect the future value of our common stock
- Adversely affect our ability to obtain debt or equity financing on acceptable terms
- Prevent us from engaging in acquisition activity

OUR EQUITY AND DEBT FUNDING SOURCES MAY BE INADEQUATE TO FINANCE FUTURE ACQUISITIONS.

The acquisition of complementary businesses and products has been and may continue to be a key to our business strategy. Our ability to engage in acquisition activities depends on us obtaining debt or equity financing, neither of which may be available or, if available, may not be on terms acceptable to us. Our inability to obtain such financing would have a material adverse effect on our acquisition strategy.

Both debt and equity financing involve certain risks. Debt financing may require us to pay significant amounts of interest and principal payments, reducing the cash resources we needed to expand or transform our existing businesses. Certain types of equity financing may be dilutive to our stockholders' interest in our assets and earnings.

OUR SALE OF SHARES UPON CONVERSION OF DEBENTURES AT A PRICE BELOW THE MARKET PRICE OF OUR COMMON STOCK WILL HAVE A DILUTIVE IMPACT ON OUR STOCKHOLDERS.

We have issued debentures to certain investors that may be converted into common stock at a discount to the then-prevailing market price of our common stock. The issuance of shares upon conversion of the principal and interest under the debentures may have a dilutive impact on our stockholders. The conversion of the debentures could have an immediate adverse effect on the market price of our common stock. To the extent that debenture and warrant holders convert their securities and sell the underlying shares into the market, the price of our shares may decrease due to the additional shares in the market.

OUR NEW PRODUCTS AND STRATEGIC PARTNERING RELATIONSHIPS MAY NOT BE SUCCESSFUL.

We have announced a new product offering referred to as "personal communications hub" that is intended to provide our customers with hosted and non-hosted unifying communications and unifying information solutions. Personal communications hub will utilize the unified communications platform, Unified Open Network Exchange. While we believe that the personal communications hub suite of products and applications on the Unified Open Network Exchange platform will provide our customers with scaled, carrier grade IP-based solutions seamlessly across multiple channels, there can be no assurance of our customers' acceptance or adoption of personal communications hub products. Moreover, we will need to conform our existing products and applications onto the Unified Open Network Exchange platform. Such efforts could prove unsuccessful, and could result in delays and cost overruns.

Further, we expect to incur substantial expenditures for equipment, systems, research and development, consultants and personnel to implement this new business model. As a result, our operating results and cash flows may be adversely affected, and we anticipate incurring a net operating loss for our fiscal year ended September 30, 2000. Although we believe that this new product offering will ultimately result in profitable operations, there can be no assurance that the implementation of our new business model will be successful.

WE PRESENTLY RELY UPON LEGACY VOICEMAIL SYSTEMS REVENUES.

For the quarter ended June 30, 2000, legacy voicemail systems revenues (which includes customer premises equipment revenues) accounted for approximately 48.5% of Company's total revenues and 81.3% of our North American revenues. Management believes that future revenues from legacy voicemail systems will steadily decline over the next two years, due to the introduction of new unified messaging communication and information systems. Our ability to transition our product sales to the new unified communication and information platforms will be critical to our future growth. Revenue from the sales of enterprise information center products accounted for approximately 10% of our North America subsidiaries revenue for the two quarters ended September 30, 1999, approximately 8.3% and 51.5% of our North America subsidiaries revenues for the two quarters ended March 31, 2000 and June 30, 2000, respectively.

WE RELY UPON OUR DISTRIBUTOR AND SUPPLIER RELATIONSHIPS.

Our current North American operations are based upon the integration of hardware, software, and communications and data processing equipment manufactured by others into systems designed to meet the needs of our customers. Although we have agreements with a number of equipment manufacturers, a major portion of our revenues is generated from the sale of products manufactured by three companies. In this regard, we rely to a significant extent on products manufactured (and services provided) by Centigram Communications Corporation, Baypoint Innovations, a division of Mitel, Inc., and Interactive Intelligence, Inc. Any disruption in our relationships with Centigram Communications Corporation, Baypoint Innovations, or Interactive Intelligence, Inc. would have a significant adverse effect on our business for an indeterminate period of time until new supplier relationships could be established. On June 9, 2000, Centigram Communications Corporation announced that it was being acquired by ADC Telecommunications, Inc. We have not had a prior contractual relationship with ADC Telecommunications, Inc. and, therefore, our relationship with Centigram Communications Corporation may be adversely affected. Any interruption in the delivery of products by key suppliers would materially adversely affect our results of operations and financial conditions.

WE ARE DEPENDENT UPON SIGNIFICANT CUSTOMERS.

We currently service approximately 1,000 customers worldwide. However, the revenues from our four largest customers accounted for approximately 11.1%, 8.2%, 5.4% and 5.2%, respectively, of total revenues during the quarter ended June 30, 2000. No other customer accounted for over 5% of total revenues during this period. This concentration of revenue results in additional risk to our operations, and any disruption of orders from our largest customers would adversely affect on our results of operations and financial condition.

Our Singapore subsidiary, Infotel, offers a wide range of infrastructure communications equipment products. It has an established business providing test measuring instrumentation and testing environments, and is the regional distributor and test and repair center for Rohde & Schwarz test instruments. This subsidiary's profitability depends in part on a steady stream of revenues relating to the services performed for Rohde & Schwarz test instruments. Since the subsidiary's revenues constituted approximately 41% of our total revenues for the fiscal year ended September 30, 1999, approximately 30.7% of our total revenues for the quarter ended March 31, 2000, and approximately 57.3% of our total revenues for the quarter ended June 30, 2000, any material change in our relationship with our manufacturers, including Rohde & Schwarz, would materially adversely affect our results of operations and financial condition.

OUR MARKET IS HIGHLY COMPETITIVE, AND IF WE DO NOT COMPETE EFFECTIVELY, WE MAY SUFFER PRICE REDUCTIONS, REDUCED GROSS MARGINS AND LOSS OF MARKET SHARE.

The voice processing and customer premises equipment and related software markets are highly competitive, and competition in this industry is expected to further intensify with the introduction of new product enhancements and new competitors. We currently compete with a number of larger integrated companies that provide competitive voice-processing products and services as subsets of larger product offerings. Our existing and potential competitors include many large domestic and international companies that have better name and product recognition in the market for our products and services and related software, a larger installed base of customers, and substantially greater financial, marketing and technical resources than ourselves.

Our Singapore subsidiary, Infotel Technologies (Pte) Ltd., competes against several large companies in Singapore that are better capitalized. Although Infotel Technologies (Pte) Ltd. has in the past managed to compete successfully against these larger companies on the basis of its engineerings, systems and product management expertise, no assurances can be given that this expertise will allow Infotel Technologies (Pte) Ltd. to compete effectively with these larger companies in the future. Further, various large manufacturers headquartered outside of Singapore have established their own branch offices in Singapore and also compete with Infotel Technologies (Pte) Ltd.

OUR REVENUES WILL LIKELY DECLINE IF WE DO NOT DEVELOP AND INTEGRATE THE COMPANIES WE ACQUIRE.

We have in the past pursued, and may continue to pursue, acquisition opportunities. Acquisitions involve a number of special risks, including, but not limited to:

- Adverse short-term effects on our operating results
- The disruption of our ongoing business
- The risk of reduced management attention to existing operations
- Our dependence on the retention, hiring and training of key personnel and the potential risk of loss of such personnel
- Our potential inability to successfully integrate the personnel, operations, technology and products of acquired companies
- Unanticipated problems or unknown legal liabilities
- Adverse tax or financial consequences

Two of our prior acquisitions, namely the acquisition of Voice Plus (now known as NHancement Technologies North America, Inc.) and Advantis Network & Systems Sdn Bhd, a Malaysian company ("Advantis"), in the past yielded operating results that were significantly lower than expected. In fact, the poor performance of Advantis led to its divestiture less than one year after we acquired the company. Accordingly, no assurances can be given that the future performance of our subsidiaries will be commensurate with the consideration paid to acquire these companies. If we fail to establish the needed controls to manage growth effectively, our operating results, cash flows and overall financial condition will be adversely affected.

OUR INTERNATIONAL OPERATIONS INVOLVE RISKS THAT MAY ADVERSELY AFFECT OUR OPERATING RESULTS.

Infotel Technologies (Pte) Ltd., our Singapore subsidiary, accounted for approximately 41% of our revenues for the fiscal year ended September 30, 1999, approximately 30.7% of our revenues for the quarter ended March 31, 2000, and approximately 57.3% of our revenues for the quarter ended June 30, 2000. There are risks associated with our international operations, including, but not limited to:

- Our dependence on members of management of Infotel Technologies (Pte) Ltd. and the risk of loss of customers in the event of the departure of key personnel

- Unexpected changes in or impositions of legislative or regulatory requirements

- Potentially adverse taxes and adverse tax consequences

- The burdens of complying with a variety of foreign laws

- Political, social and economic instability

- Changes in diplomatic and trade relationships

- Foreign exchange risks

Any one or more of these factors could negatively affect the performance of Infotel Technologies (Pte) Ltd. and result in a material adverse change in our business, results of operations and financial condition.

OUR STOCK PRICE COULD EXPERIENCE PRICE AND VOLUME FLUCTUATIONS.

The markets for securities such as our common stock historically have experienced extreme price and volume fluctuations during certain periods. Other factors that also may adversely affect the market price of our common stock include the following:

- New product developments

- Technological and other changes in the voice-messaging and communications industries

- Fluctuations in the financial markets

- General economic conditions

- Quarterly variations in our results of operations

IT WOULD REQUIRE SIGNIFICANT TIME AND EFFORT TO REPLACE OUR KEY PERSONNEL.

Our business depends upon the services of its executives and certain key personnel, including Douglas S. Zorn, our President and Chief Executive Officer, John R. Zavoli, our Vice President of Finance and Chief Financial Officer, and Ken Murray, our Executive Vice President, Global Sales. Management changes often have a disruptive effect on businesses and can lead to the loss of employees because of the uncertainty inherent in change. In 1999 and early 2000, we had significant changes in our key personnel. We cannot be certain that we will be able to successfully attract and retain key personnel since the job market in the greater San Francisco Bay Area is intensely competitive. The loss of the services of any one or more of such key personnel, if not replaced, or the inability to attract such key personnel, could harm our business.

While hiring efforts are underway to fill the vacancies created by the departure of other key employees, there is no assurance that these posts will be filled in the near future since the job market in the greater San Francisco Bay and Silicon Valley areas is intensely competitive. The loss of these or other key employees could have a material adverse effect on our operations. Furthermore, the recent changes in management may not be adequate to sustain our profitability or to meet our future growth targets.

FAILURE TO ADEQUATELY PROTECT OUR INTELLECTUAL PROPERTY RIGHTS WILL HARM OUR ABILITY TO COMPETE.

We do not have any patents or copyrights, and while we intend to file for copyright and patent protection, we currently rely on general common law and confidentiality and non-disclosure agreements with our key employees to protect our trade secrets. Our success depends on our ability adequately to protect our intellectual property rights. Our efforts to protect our intellectual property may not be sufficient against unauthorized third-party copying or use or the application of reverse engineering, and existing laws afford only limited protection. In addition, existing laws may change in a manner that adversely affects our proprietary rights. Furthermore, policing the unauthorized use of our product is difficult, and expensive litigation may be necessary in the future to enforce our intellectual property rights.

OUR PRODUCTS COULD INFRINGE THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS, RESULTING IN COSTLY LITIGATION AND THE LOSS OF SIGNIFICANT RIGHTS.

We may be subject to legal proceedings and claims for alleged infringement of proprietary rights of others, particularly as the number of products and competitors in our industry grow and functionalities of products overlap. This risk is higher in a new market in which a large number of patent applications have been filed but are not yet publicly disclosed. We have limited ability to determine which patents our products may infringe and take measures to avoid infringement. Any litigation could result in substantial costs and diversion of management's attention and resources. Further, parties making infringement claims against us may be able to obtain injunctive or other equitable relief, which could prevent us from selling our products or require us to enter into royalty or license agreements which are not advantageous to us.

IF WE FAIL TO ADEQUATELY RESPOND TO RAPID TECHNOLOGICAL CHANGES, OUR EXISTING PRODUCTS WILL BECOME OBSOLETE OR UNMARKETABLE.

Advances in technology could render our current products obsolete and unmarketable. We believe that to succeed we must enhance our software products and underlying technology, develop new products and technologies on a timely basis, and satisfy the increasingly sophisticated requirements of our customers. We may not successfully respond to technological change, evolving industry standards or customer requirements. If we are unable to respond adequately to these changes, our revenues could decline. In connection with the introduction of new products and enhancements, we have experienced development delays and related cost overruns, which are not unusual in the software industry. To date, these delays have not had a material impact on our revenues. If new releases or products are delayed or do not achieve broad market acceptance, we could experience a delay or loss of revenues and customer dissatisfaction.

IF OUR SOFTWARE CONTAINS DEFECTS, WE COULD LOSE CUSTOMERS AND REVENUES.

Software as complex as ours often contains unknown and undetected errors or performance problems. Many defects are frequently found during the period immediately following the introduction of new software or enhancements to existing software. Although we attempt to resolve all errors that we believe would be considered serious by our customers, our software may not be error-free. Undetected errors or performance problems may be discovered in the future and errors considered minor by us may be considered serious by our customers. This could result in lost revenues or delays in customer acceptance and would be detrimental to our reputation, which could harm our business.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not subject to any material litigation nor, to the Company's knowledge, is any material litigation currently threatened against the company.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(c) RECENT SALES OF UNREGISTERED SECURITIES

WARRANTS ISSUED DURING THE QUARTER ENDED JUNE 30, 2000

On May 1, 2000, the Company issued 45,613 warrants to purchase shares of common stock to a software vendor in lieu of cash payment for the purchase of certain software products. The warrants are immediately exercisable and expire five years from the date of issuance. The exercise price on the date of issuance was $15.50 per share.

On May 24, 2000, the Company issued 120,000 warrants to purchase shares of common stock to an investment corporation in lieu of providing them with a minimum aggregate drawdown commitment pursuant to that certain Common Stock Purchase Agreement entered into on May 24, 2000. The warrants are immediately exercisable and expire three years from the date of issuance. The exercise price on the date of issuance was $20.82 per share.

ITEM 5. OTHER INFORMATION

On June 23, 2000, William M. Stephens resigned as Director of the company. On June 23, 2000, the Company cancelled 50,000 warrants issued to Mr. Stephens on March 1, 2000. These warrants had an issue price of $11.50 per share equal to the closing price of February 29, 2000.

The Company entered into an agreement whereby the Company purchased a non-exclusive license for certain software for cash of $10,010,000 and warrants to purchase 45,600 shares of the Company's Common Stock with an estimated fair value of $684,000. Concurrently, the Company paid the software vendor $2,000,000 and recorded accounts payable of $8,010,000. The software was acquired for internal use for the Company's inUnison-TM-portal service application. Amortization of the software will commence when the hosted internet portal is substantially complete and ready for its intended use.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following Exhibits are filed as part of the Quarterly Report on Form 10-QSB

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
4.29*	Warrant dated May 1, 2000, issued to Cisco Systems Capital Corporation
4.30*	Warrant dated May 24, 2000, issued to Kedrick Investments Limited
10.59*	Master Agreement to lease equipment entered into as of April 21, 2000 with Cisco Systems Capital Corporation

*Incorporated by reference to original Report on Form 10-QSB filed with the Commission on August 14, 2000.

(b) Reports on Form 8-K:

None.

SIGNATURES

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

NHANCEMENT TECHNOLOGIES INC.

Date: August 14, 2000

By: /s/ Douglas S. Zorn

Douglas S. Zorn
President & Chief Executive Officer