

ALTRIS SOFTWARE INC
Form 10-Q
August 14, 2003

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2003.

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

For the transition period from to .

Commission File Number 0-15935

ALTRIS SOFTWARE, INC.

(Exact name of registrant as specified in its charter)

CALIFORNIA
(State or other jurisdiction of
incorporation or organization)

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

10052 MESA RIDGE COURT, SAN DIEGO, CA 92121
(Address of principal executive offices and zip code)

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(858) 625-3000

(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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES ☐ NO ☒

Number of shares of Common Stock outstanding at August 12, 2003: 30,890,278

Number of Sequentially Numbered Pages: 25

ALTRIS SOFTWARE, INC.

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PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

ALTRIS SOFTWARE, INC.
CONSOLIDATED BALANCE SHEETS

| | June 30, 2003 (Unaudited) | September 30, 2002 |
|---|---------------------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 534,000 | \$ 87,000 |
| Receivables, net | 517,000 | 1,459,000 |
| Other current assets | 140,000 | 244,000 |
| Total current assets | 1,191,000 | 1,790,000 |
| Property and equipment, net | 230,000 | 215,000 |
| Computer software, net | 145,000 | 420,000 |
| Other assets | 30,000 | 83,000 |
| Total assets | \$ 1,596,000 | \$ 2,508,000 |
| LIABILITIES AND SHAREHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Accounts payable | \$ 514,000 | \$ 802,000 |
| Payable to shareholder - Spescom | 470,000 | 495,000 |
| Accrued liabilities | 1,017,000 | 1,288,000 |
| Current portion of capital lease obligation | 21,000 | 6,000 |
| Deferred revenue | 2,355,000 | 2,171,000 |
| Total current liabilities | 4,377,000 | 4,762,000 |
| Notes payable and accrued interest to shareholder - Spescom | 5,220,000 | 4,881,000 |
| Capital lease obligation | 68,000 | 10,000 |
| Total liabilities | 9,665,000 | 9,653,000 |
| Shareholders' deficit: | | |
| Common stock, no par value, 40,000,000 shares authorized; 30,890,278 and 30,841,590 issued and outstanding in 2003 and 2002 | 74,470,000 | 74,465,000 |
| Common stock warrants | 133,000 | 133,000 |
| Accumulated other comprehensive loss | (255,000) | (156,000) |
| Accumulated deficit | (82,417,000) | (81,587,000) |

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| | | | | |
|---|----|-------------|----|-------------|
| Total shareholders' deficit | | (8,069,000) | | (7,145,000) |
| Total liabilities and shareholders' deficit | \$ | 1,596,000 | \$ | 2,508,000 |

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

ALTRIS SOFTWARE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

| | For the three months ended June 30, | | For the nine months ended June 30, | |
|--|--|--------------|---------------------------------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| Revenues: | | | | |
| Licenses | \$ 485,000 | \$ 601,000 | \$ 1,773,000 | \$ 1,248,000 |
| Services and other | 1,417,000 | 1,230,000 | 4,233,000 | 3,868,000 |
| Total revenues | 1,902,000 | 1,831,000 | 6,006,000 | 5,116,000 |
| Cost of revenues: | | | | |
| Licenses | 189,000 | 290,000 | 589,000 | 899,000 |
| Services and other | 655,000 | 664,000 | 1,749,000 | 2,526,000 |
| Total cost of revenues | 844,000 | 954,000 | 2,338,000 | 3,425,000 |
| Gross profit | 1,058,000 | 877,000 | 3,668,000 | 1,691,000 |
| Operating expenses: | | | | |
| Research and development | 364,000 | 342,000 | 1,101,000 | 1,535,000 |
| Marketing and sales | 635,000 | 573,000 | 1,918,000 | 2,911,000 |
| General and administrative | 319,000 | 411,000 | 1,090,000 | 1,523,000 |
| | 1,318,000 | 1,326,000 | 4,109,000 | 5,969,000 |
| Loss from operations | (260,000) | (449,000) | (441,000) | (4,278,000) |
| Interest and other income | 4,000 | 1,000 | 4,000 | 6,000 |
| Interest and other expense | (134,000) | (106,000) | (393,000) | (246,000) |
| Net loss | \$ (390,000) | \$ (554,000) | \$ (830,000) | \$ (4,518,000) |
| Basic and diluted net loss per common share | \$ (0.01) | \$ (0.02) | \$ (0.03) | \$ (0.15) |
| Shares used in computing basic and diluted net loss per common share | 30,890,000 | 30,842,000 | 30,850,000 | 30,842,000 |

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

ALTRIS SOFTWARE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| | For the nine months ended June 30, | |
|---|---------------------------------------|----------------|
| | 2003 | 2002 |
| Cash flows from operating activities: | | |
| Net loss | \$ (830,000) | \$ (4,518,000) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 381,000 | 804,000 |
| Unpaid interest to Spescom | 277,000 | 254,000 |
| Stock options issued to consultant | | 42,000 |
| Changes in assets and liabilities, net: | | |
| Receivables, net | 1,018,000 | 287,000 |
| Other assets | 518,000 | 219,000 |
| Accounts payable | (301,000) | 280,000 |
| Accrued liabilities | (693,000) | (472,000) |
| Deferred revenue | 112,000 | 163,000 |
| Net cash provided by (used in) operating activities | 482,000 | (2,941,000) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (28,000) | (3,000) |
| Purchases of software | (6,000) | (56,000) |
| Net cash used in investing activities | (34,000) | (59,000) |
| Cash flows from financing activities: | | |
| Proceeds from shareholder loan | | 3,220,000 |
| Proceeds from exercise of stock options | 5,000 | |
| Net cash provided by financing activities | 5,000 | 3,220,000 |
| Effect of exchange rate changes on cash | (6,000) | |
| Net increase in cash and cash equivalents | 447,000 | 220,000 |
| Cash and cash equivalents at beginning of period | 87,000 | 144,000 |
| Cash and cash equivalents at end of period | \$ 534,000 | \$ 364,000 |
| Supplementary cash flow information: | \$ 1,000 | \$ 4,000 |
| Cash paid for interest | | |
| Non-cash operating and investing activity | | |

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| | | | | |
|--|----|--------|----|--------|
| Equipment acquired under capital lease | \$ | 84,000 | \$ | 20,000 |
|--|----|--------|----|--------|

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

ALTRIS SOFTWARE, INC.

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 - Basis of Presentation

The consolidated financial statements include the accounts of Altris Software, Inc. and its wholly-owned subsidiaries (collectively, the Company). All significant intercompany balances and transactions have been eliminated. In the first quarter of fiscal 2001, the Company acquired certain assets and liabilities of Spescom Ltd. U.K. (formerly Altris Software Limited). Spescom Ltd. U.K. is a wholly-owned subsidiary of Spescom Ltd. (Spescom), which became the majority shareholder in the Company in April 2000 (See Note 2).

The accompanying consolidated financial statements as of June 30, 2003 and for the three and nine months ended June 30, 2003 and 2002 are unaudited. The consolidated financial statements and related notes have been prepared in accordance with generally accepted accounting principles applicable to interim periods. In the opinion of management, the consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the consolidated financial position, results of operation and cash flows for the periods presented.

The information contained in the following Condensed Notes to the Consolidated Financial Statements is condensed from that which would appear in the annual consolidated financial statements; accordingly, the consolidated financial statements included herein should be reviewed in conjunction with the consolidated financial statements and related notes thereto contained in the Company's Annual Report on Form 10-K for the year ended September 30, 2002. It should be understood that the accounting measurements at an interim date inherently involve greater reliance on estimates than at year-end. The results of operations for the interim periods presented are not necessarily indicative of the results expected for the entire year.

Company Operations

In March 2002, the Company implemented a plan to focus on core activities and substantially reduce costs in an effort to achieve a break-even level of cash flow in fiscal 2003. Although the reductions in March 2002 reduced the Company's research and development, marketing and sales capabilities, management believes that the reduced levels of research and development, marketing and sales costs are consistent with the level of revenues currently being achieved. Moreover, the Company believes such reductions were implemented with a view to maximizing the Company's ability to continue to maintain and support its eB product suite, while at the same time pursue opportunities for sales of new eB core systems to new customers. The Company's future liquidity depends on its ability to generate new system sales of its eB product suite in the near term, which cannot be assured. Failure to generate sufficient system sales to meet the Company's cash flow needs can be expected to have a material adverse effect on the Company's business, results of operations, and financial condition. The Company's financial position can be a factor in attracting new customers. In an effort to strengthen the Company's financial condition and provide capital for expanding marketing and sales capabilities, the Company is seeking additional equity or debt financing from third parties. There can be no assurance that additional financing will be available or that the terms of such financing will be acceptable to the Company. The Company believes that its current cash and receivables, as well as additional cash that may be generated from operations, will be sufficient to meet its short-term needs for working capital. However, the Company may not be able to obtain sufficient orders to enable the Company to continue on a cash flow break-even level, which would be necessary to continue operations in the absence of further financing.

The Company in the past has received funding from Spescom for working capital purposes. However, Spescom is not obligated to provide additional loans. Spescom has stated that it intends to continue to support the Company's operations and depending on the merits of any situation that may arise in the future, Spescom will make its best efforts to provide further funding if necessary. The terms on which any additional funding

may be provided are not specified and may include interest rates, security arrangements or additional equity dilution that are not acceptable to the Company or that could be materially adverse to the Company.

Revenue Recognition

The Company enters into contractual arrangements with end-users that may include licensing of the Company's software products, product support and maintenance services, consulting services or various combinations thereof, including the sale of such products or services separately. The Company recognizes revenue in accordance with Statement of Position (SOP) 97-2 Software Revenue Recognition and SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions and Staff Accounting Bulletin (SAB) No. 101.

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

Contracts are billed based on the terms of the contract. There are no retentions in billed contract receivables. Unbilled contract receivables relate to revenues earned but not billed at the end of the period. Billings in excess of costs incurred and related earnings are included in deferred revenue.

Foreign Currency Translation

The financial statements of the U.K. foreign subsidiary are prepared in its local currency and translated into U.S. dollars based on the current exchange rate at the end of the period for the balance sheet and a weighted-average rate for the period on the statement of operations. The effect of exchange rates resulted in currency translation gains of \$255,000 and \$156,000 as of June 30, 2003 and September 30, 2002, respectively. Foreign currency transaction gains and losses are included in net loss.

Common Stock Options

In April 1996, the Company adopted its 1996 Stock Incentive Plan (the 1996 Plan). The 1996 Plan is administered by either the Board of Directors (the Board) or a committee designated by the Board to oversee the plan. Under the 1996 Plan, the maximum number of shares of Common Stock to be issued was 2,425,000. As of June 30, 2003, options to purchase 2,080,750 shares are outstanding and 135,087 options are

available for grant.

The option vesting period under the plan is determined by the Board or a Stock Option Committee and usually provides that 25% of the options granted can be exercised 90 days from the date of grant, and thereafter, those options become exercisable in additional cumulative annual installments of 25% commencing on the first anniversary of the date of grant. Options granted are generally due to expire upon the sooner of ten years from date of grant, thirty days after termination of services other than by reason of convenience of the Company, three months after disability, or one year after the date of the option holder's death. The option exercise price is generally equal to the fair market value of the common stock on the date of grant. Options granted to employees under the 1996 Plan may be either incentive stock options or nonqualified options. Only nonqualified options may be granted to nonemployee directors.

The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock-based compensation plan. Effective March 31, 2003, the Company has adopted Statement of Financial Accounting Standards (SFAS) 148 Accounting for Stock Based Compensation Transition and Disclosure that supercedes SFAS 123, Accounting for Stock Based Compensation. SFAS 148 requires proforma disclosure of net income and net income per share as if the fair value based method of accounting for stock-based awards has been applied to both employee and non-employee option grants. It also requires disclosure of options status quarterly. No compensation cost was recognized for employee stock option grants during 2003 and 2002 based upon the intrinsic value method, which were fixed in nature, as the options were granted at fair market value. Had compensation costs for the Company's stock-based compensation grants been determined based on the fair value at the grant dates for awards under the Company's stock-based compensation plans consistent with the fair value method of Financial Accounting Standards Board Statement No. 123, the Company's net loss and net loss per share would have been adjusted to the pro forma amounts indicated below:

| | For the three months ended June 30, | | For the nine months ended June 30, | |
|---|--|--------------|---------------------------------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| Net loss used in computing net loss per share | | | | |
| As reported | \$ (390,000) | \$ (554,000) | \$ (830,000) | \$ (4,518,000) |
| Pro forma | \$ (404,000) | \$ (566,000) | \$ (896,000) | \$ (4,674,000) |
| Basic and diluted net loss per share | | | | |
| As reported | \$ (0.01) | \$ (0.02) | \$ (0.03) | \$ (0.15) |
| Pro forma | \$ (0.01) | \$ (0.02) | \$ (0.03) | \$ (0.15) |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants:

| | For the three months ended June 30, | | For the nine months ended June 30, | |
|-------------------------|--|------|---------------------------------------|------|
| | 2003 | 2002 | 2003 | 2002 |
| Dividend Yield | 0% | 0% | 0% | 0% |
| Expected Volatility | 285% | 318% | 303% | 221% |
| Risk free interest rate | 3.33 | 5.66 | 3.33 | 5.66 |
| Expected lives (years) | 10 | 10 | 10 | 10 |

Note 2 Spescom Transaction and Related Parties

Under a royalty arrangement, Spescom resells certain of the Company's software. For the three and nine month periods ended June 30, 2003, the Company recognized royalty revenue of \$2,000 and \$11,000 compared to \$0 and \$9,000 for the three and nine month periods ended June 30, 2002, arising from this arrangement. Spescom, through its wholly-owned subsidiary, Spescom Ltd. U.K., provides certain administrative and accounting functions for the Company's United Kingdom operations. The Company is billed a monthly fee by Spescom for reimbursement of certain costs in the United Kingdom, including costs associated with the office facilities (including rental expense as described below); all accounting and human resources services; and certain corporate marketing activities. For the three and nine month periods ended June 30, 2003, the administrative fees totaled \$155,000 and \$460,000 compared to \$142,000 and \$561,000 for the three and nine month periods ended June 30, 2002. At June 30, 2003, the Company had a payable to Spescom of \$470,000 as compared to \$495,000, at September 30, 2002. In the United States, for the three and nine month periods ended June 30, 2003, the Company billed Spescom for certain marketing services totaling \$13,000 and \$40,000 compared to \$13,000 and \$39,000 for the three and nine months ended June 30, 2002.

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In 1999, as part of an agreement with Spescom, the lease for the United Kingdom office facility was to be assigned to Spescom; however, the landlord did not grant its consent to the assignment. Since 1999 Spescom has paid the rent under the lease for the entire office directly to the landlord and the Company reimburses Spescom for the entire payment. The lease expires in March 2006 and has an annual rent of \$530,000. A portion of the office has been subleased to a third party tenant for an annual rent of \$179,000. The sublease also expires March 2006; however, the tenant has an option to terminate the lease in February 2004. For the three and nine month periods ended June 30, 2003 the Company paid Spescom as part of the monthly administration fee, rent of \$69,000 and \$205,000 compared to \$69,000 and \$202,000 for the three and nine month periods ended June 30, 2002.

Related party liabilities consist of the following:

| | June 30, 2003 | September 30, 2002 |
|---|------------------|-----------------------|
| Long-term Note Including Accrued Interest Payable to Shareholder: | | |
| Notes payable on demand Spescom Ltd. U.K. | \$ 1,798,000 | \$ 1,669,000 |
| Note payable Spescom Ltd. U.K. | 2,132,000 | 1,980,000 |
| Note payable Spescom | 1,290,000 | 1,232,000 |
| | \$ 5,220,000 | \$ 4,881,000 |

At June 30, 2003, the Company had three demand notes payable to Spescom Ltd U.K. for \$400,000, \$500,000 and \$700,000, respectively, each bearing an annual interest rate of 10%. As of June 30, 2003, the balance owed on the demand notes was \$1,798,000 including accrued interest. Interest expense, accrued but unpaid on the notes for the three and nine month periods ended June 30, 2003 was \$44,000 and \$129,000 compared to \$26,000 and \$27,000 for the three and nine month periods ended June 30, 2002. Spescom has agreed that the demand notes will not be called prior to October 1, 2004.

At June 30, 2003, pursuant to a promissory note, the Company owed Spescom Ltd. U.K. \$2,132,000, including accrued interest. The note bears interest at an interest rate of 10% per annum, with principal and interest payable at maturity, on October 15, 2003. Spescom extended the maturity date on this note to October 1, 2004. Interest expense, accrued but unpaid on this note for the three and nine-month periods ended June 30, 2003 was \$52,000 and \$153,000 compared to \$47,000 and \$139,000 for the three and nine month periods ended June 30, 2002.

As of June 30, 2003, the Company had a note payable to Spescom for \$1,290,000, including accrued interest. Interest on the outstanding note accrues at the rate of 10% per annum. Principal and all unpaid accrued interest is payable at maturity on October 15, 2003. Spescom extended the maturity date on this note to October 1, 2004. Interest expense, accrued but unpaid on this note for the three and nine month periods ended June 30, 2003 totaled \$32,000 and \$92,000 compared to \$29,000 and \$67,000 for the three and nine-month periods ended June 30, 2002.

These notes payable are collateralized by a security interest in favor of both Spescom and Spescom Ltd. U.K. in respect of all of the Company's assets.

Note 3 Receivables

Receivables consist of the following:

| | June 30, 2003 (Unaudited) | September 30, 2002 |
|--------------------------------------|---------------------------------|-----------------------|
| Gross receivables | \$ 595,000 | \$ 1,615,000 |
| Less allowance for doubtful accounts | (78,000) | (156,000) |
| | \$ 517,000 | \$ 1,459,000 |

Note 4 Reconciliation of Net Loss and Shares Used in Per Share Computations

Basic net loss per common share is computed as net loss divided by the weighted average number of common shares outstanding during the period. Diluted net income per common share is computed as net income divided by the weighted average number of common shares and potential common shares, using the treasury stock method, outstanding during the periods and assumes conversion into common stock at the beginning of each period of potentially dilutive securities (including convertible preferred stock, options and warrants). Computations of basic and diluted earnings (loss) per share do not give effect to individual potential common stock instruments for any period in which their inclusion would be anti-dilutive.

| | For the three months ended June 30, | | For the nine months ended June 30, | |
|--|--|--------------|---------------------------------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| Net loss | \$ (390,000) | \$ (554,000) | \$ (830,000) | \$ (4,518,000) |
| Weighted average common shares outstanding used in computing basic and diluted net loss per common share | 30,890,000 | 30,842,000 | 30,850,000 | 30,842,000 |

Employee stock options to acquire 2,080,750 and 2,045,626 shares of common stock were outstanding at June 30, 2003 and 2002, respectively, and were not included in the computation of diluted earnings per share because their effect was anti-dilutive.

Note 5 Segment and Geographic Information

The Company has one business segment which consists of the development and sale of a suite of client/server document management software products.

Results from operations for the three and nine month periods ended June 30, 2003 and 2002 by customer location are as follows:

| | For the three months ended June 30, | | For the nine months ended June 30, | |
|----------------------------------|--|--------------|---------------------------------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| Revenues: | | | | |
| United States | \$ 1,083,000 | \$ 793,000 | \$ 3,423,000 | \$ 2,672,000 |
| Europe, primarily United Kingdom | 819,000 | 1,038,000 | 2,583,000 | 2,444,000 |
| | \$ 1,902,000 | \$ 1,831,000 | \$ 6,006,000 | \$ 5,116,000 |
| Operating Profit (loss): | | | | |
| United States | \$ (490,000) | \$ (777,000) | \$ (1,134,000) | \$ (3,968,000) |
| Europe, primarily United Kingdom | 230,000 | 328,000 | 693,000 | (310,000) |
| | \$ (260,000) | \$ (449,000) | \$ (441,000) | \$ (4,278,000) |

Note 6 - Recent Accounting Pronouncements

In January 2003, the FASB issued Interpretation 46, *Consolidation of Variable Interest Entities*. In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) do not have equity investors with voting rights or (b) have equity investors that do not provide sufficient financial resources for the entity to support its activities. Interpretation 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. We do not expect this interpretation to have a material effect on our consolidated financial position or consolidated results of operations as we currently do not have any variable interest entities falling within the scope of SFAS No. 146.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS 133. In particular, SFAS No. 149 clarifies under what circumstances a contract within an initial net investment meets the characteristic of a derivative and when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003. We do not expect this interpretation to have a material effect on our consolidated financial position or consolidated results of operations as we currently do not have any derivative instruments and hedging activities falling within the scope of SFAS No. 149.

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In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS No. 150 establishes standards for how an issuer

classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. We do not expect this interpretation to have a material effect on our consolidated financial position or consolidated results of operations as we currently do not have any financial instruments falling within the scope of SFAS No. 150.

Note 7 Comprehensive Income

| | For the three months ended | | For the nine months ended | |
|---|----------------------------|--------------|---------------------------|----------------|
| | June 30, | | June 30, | |
| | 2003 | 2002 | 2003 | 2002 |
| Net loss | \$ (390,000) | \$ (554,000) | \$ (830,000) | \$ (4,518,000) |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation gain adjustments | (81,000) | (124,000) | (99,000) | (91,000) |
| Comprehensive loss | \$ (471,000) | \$ (678,000) | \$ (929,000) | \$ (4,609,000) |

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

This report contains 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. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or anticipated results, including those set forth under "Certain Factors That May Affect Future Results" below and elsewhere in, or incorporated by reference into, this report.

When used in the following discussion, the words "believes," "anticipates" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The following discussion should be read in conjunction with the Consolidated Financial Statements and the related notes thereto that appear elsewhere in this document.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue Recognition

The Company enters into contractual arrangements with end-users that may include licensing of the Company's software products, product support and maintenance services, consulting services or various combinations thereof, including the sale of such products or services separately. The Company recognizes revenue in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition, and SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions, and Staff Accounting Bulletin (SAB) No. 101.

Software license and third party product revenues are recognized upon shipment of the product if no significant vendor obligations remain and collection is probable. In cases where a significant vendor obligation exists, revenue recognition is delayed until such obligation has been satisfied. For new software products where a historical record has not yet been demonstrated that acceptance is perfunctory, the Company defers recognition of revenue until acceptance has occurred. Annual maintenance revenues, which consist of ongoing support and product updates, are recognized on a straight-line basis over the term of the contract. Payments received in advance of performance of the related service for maintenance contracts are recorded as deferred revenue. Revenues from training and consulting services are recognized when the services are performed and adequate evidence of providing such services is available. Contract revenues for long-term contracts or programs requiring

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specialized systems are recognized using the percentage-of-completion method of accounting, primarily based on contract labor hours incurred to date compared with total estimated labor hours at completion. Provisions for anticipated contract losses are recognized at the time they become known.

Contracts are billed based on the terms of the contract. There are no retentions in billed contract receivables. Unbilled contract receivables relate to revenues earned but not billed at the end of the period. Billings in excess of costs incurred and related earnings are included in deferred revenue.

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

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

Availability of products to be delivered

Time period over which services are to be performed

Creditworthiness of the customer

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

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

Discounts given for each element of a contract

Any commitments made as to installation or implementation go live dates

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

Allowance for Doubtful Accounts

The Company sells its products directly to end-users, generally requiring a significant up-front payment and remaining terms appropriate for the creditworthiness of the customer. The Company also sells its products to VARs and other software distributors generally under terms appropriate for the creditworthiness of the VAR or distributor. Management believes that no significant concentrations of credit risk existed at June 30, 2003 and September 30, 2002. The Company continuously monitors its customer account balances and actively pursues collections on past due balances. The Company maintains an allowance for doubtful accounts which is comprised of a general reserve based on historical collections performance plus a specific reserve for certain known customers with collections issues. If actual bad debts are greater than the reserves calculated based on historical trends and known customer issues, the Company records additional bad debt expense which could have a material adverse effect on our business, results of operations and financial condition for the periods in which such additional expense occurs.

Capitalized Software Development Costs

Software development costs incurred subsequent to the determination of technological feasibility and marketability of a software product are capitalized. Amortization of capitalized software development costs commences when the products are available for general release. Amortization is determined on a product by product basis using the greater of a ratio of current product revenues to projected current and future product revenues or an amount calculated using the straight-line method over the estimated economic life of the product, which is generally three to five years. In addition to in-house software development costs, the Company purchases certain software from third-party software providers and capitalizes such costs in software development costs. The Company continually evaluates the recoverability based on the present value of future cash flows of its capitalized software development costs and considers any events or changes in circumstances that would indicate that the carrying amount of an asset may not be recoverable. Any material changes in circumstances, such as a large decrease in revenues or the discontinuation of a particular product line could

require future write-downs in the Company's capitalized software development costs and could have a material adverse impact on our operating results for the periods in which such write-downs occur.

RESULTS OF OPERATIONS

Comparison of Results for the Three Months Ended June 30, 2003 to the Three Months Ended June 30, 2002

Revenues

Revenues increased \$71,000 (4%) from \$1,831,000 for the three months ended June 30, 2002 to \$1,902,000 for the three months ended June 30, 2003.

For the three months ended June 30, 2003 revenues consisted of \$485,000 (25%) in software licenses and \$1,417,000 (75%) related to services and other revenue. This compares to software license revenues of \$601,000 (33%) and services and other revenue of \$1,230,000 (67%) for the three months ended June 30, 2002.

Software license revenues decreased \$116,000 for the three month period ended June 30, 2003 over the three months ended June 30, 2002. The decrease was due to higher software sales in the prior year of approximately \$250,000 from existing customers that purchased upgrades and expanded number of licenses. The purchase of upgrades and expansion of number of licenses can vary quarter to quarter causing fluctuations on quarter comparisons.

Revenues generated from services increased \$187,000 for the three month period ended June 30, 2003 over the three month period ended June 30, 2002. The increase is due to sales to several new customers which require additional services that typically include a design study, integration with other business systems, and training.

Cost of Revenues

Gross profit consists of gross profit from licenses and gross profit from services and other revenues. Gross profit as a percentage of revenue was 56% for the three month period ended June 30, 2003 compared to a gross profit percentage of 48% for the three month period ended June 30, 2002.

Cost of license revenues consists of costs associated with reselling third-party software products and amortization of internal software development costs. The total overall costs of license revenues decreased \$101,000 due to a decrease in amortization of \$145,000 as a result of

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the write-down in 2002 of capitalized costs associated with certain older software products. The decrease was offset by an increase of \$44,000 in third party software costs. The overall decrease in costs resulted in an improvement in gross profit percentage of license revenues to 61% for the three month period ended June 30, 2003 as compared to 52% for the same period ended June 30, 2002.

Cost of services and other revenues consists primarily of personnel-related costs in providing consulting services, training to customers and support. It also includes costs associated with reselling third-party hardware and maintenance. The total overall costs of services and other revenues decreased \$9,000. The decrease was due to a reduction in labor costs and associated overhead of \$61,000 which was offset by an increase of \$54,000 in third party service costs associated with a customer contract for conversion of data. Gross profit from services and other revenue as a percentage of services and other revenue improved to 54% for the three month period ended June 30, 2003 compared to 46% for the three month period ended June 30, 2002.

The Company's software and services are sold at a significantly higher margin than third party products which are resold at a lower gross profit percentage in order for the Company to remain competitive in the marketplace for such third party products. Gross profit percentages can fluctuate quarterly based on the revenue mix of Company software, services and third party software or hardware.

Operating Expenses

Research and development expense for the three month period ended June 30, 2003 was \$364,000 as compared to \$342,000 for the three month period ended June 30, 2002. The increase in research and development for the three month period ended June 30, 2003 was primarily due to an increase in research and development labor and associated costs related to launching two new releases of the eB product.

Marketing and sales expense for the three month period ended June 30, 2003 was \$635,000 as compared to \$573,000 for the three month period ended June 30, 2002. The increase was due to primarily to an increase in labor costs relating to marketing and sales of the eB product. The primary increase in marketing labor was due an effort to promote the new eB Maps product and participation in several trade shows promoting the eB product suite.

General and administrative expense was \$319,000 for the three month period ended June 30, 2003 as compared to \$411,000 for the three month period ended June 30, 2002. The decrease is primarily due to a reduction in the Company's allowance for bad debt. The reduction was based on the Company's historical experience of high collectibility of accounts receivable and the decrease in accounts receivable balance at June 30, 2003.

Interest and other expense was \$134,000 for the three month period ended June 30, 2003 as compared to \$106,000 for the three month period ended June 30, 2002. The increase was due to additional interest expense on the Company's higher debt balances during 2003 as compared to 2002.

Comparison of Results for the Nine Months Ended June 30, 2003 to the Nine Months Ended June 30, 2002

Revenues

Revenues increased \$890,000 (17%) from \$5,116,000 for the nine month period ended June 30, 2002 to \$6,006,000 for the nine month period ended June 30, 2003.

For the nine months ended June 30, 2003 revenues consisted of \$1,773,000 (30%) in software licenses and \$4,233,000 (70%) related to services and other revenue. This compares to software license revenues of \$1,248,000 (24%) and services and other revenue of \$3,868,000 (76%) for the six-month period ended June 30, 2002.

Software license revenues increased \$525,000 for the nine month period ended June 30, 2003 compared to the nine month period ended June 30, 2002. The increase is due to higher sales of the eB product as a result of customers expanding their existing software systems and software orders from new customers. Prior years sales were lower as a result of the recent economic slowdown in the United States of America.

Revenues generated from services increased \$365,000 for the nine month period ended June 30, 2003 over the nine month period ended June 30, 2002. The increase is due to sales to several new customers which require more services that typically include a design study, integration with other business systems and training.

A small number of customers have typically accounted for a large percentage of the Company's annual revenue. One customer accounted for 21% of total revenue for the nine months ended June 30, 2003 as compared to one customer that accounted for 18% of total revenue for the nine-month period ended June 30, 2002. One consequence of this concentration in customers has been that revenue can fluctuate significantly on a quarterly basis. The Company's reliance on relatively few customers could have a material adverse effect on the results of its operations on a quarterly basis.

Cost of Revenues

Gross profit consists of gross profit from licenses and gross profit from services and other. Gross profit as a percentage of revenue was 61% for the nine-month period ended June 30, 2003 compared to a gross profit percentage of 33% for the nine-month period ended June 30, 2002. The increase in gross profit percentage was due to the increase in software license revenue, which has a higher gross profit margin and a reduction in the cost of sales in both license and service sales and software impairment write-downs of \$865,000 recorded in the fourth quarter of fiscal 2002.

Cost of license revenues consists of costs associated with reselling third-party software products and amortization of internal software development costs. The total overall costs of license revenues decreased \$310,000 due to a decrease in amortization of \$370,000 as a result of the write-down in 2002 of capitalized costs associated with certain older software products. The decrease was partially offset by an increase in third-party software costs during the Company's first and third quarter of fiscal 2003. The overall decrease in cost of license revenues resulted in an improvement in gross profit percentage of license revenues to 67% for the nine month period ended June 30, 2003 as compared to 28% for the same period ended June 30, 2002.

Cost of services and other revenues consists primarily of personnel-related costs in providing consulting services, training to customers and support. It also includes costs associated with reselling third-party hardware and maintenance. The total overall costs of services and other revenues decreased \$777,000. Gross profit from services and other revenue as a percentage of services and other revenue improved to 59% for the nine month period ended June 30, 2003 compared to 35% for the nine month period ended June 30, 2002. The decrease in cost of services and other revenues and the improvement in the gross profit percentage from services and other revenues was due to the savings effect of personnel reductions in March 2002 totaling \$486,000 and other costs of \$282,000 relating primarily to other third party costs, including maintenance, consultants and travel.

Operating Expenses

Research and development expense for the nine-month period ended June 30, 2003 was \$1,101,000 as compared to \$1,535,000 for the nine-month period ended June 30, 2002. The decreases in research and development expenses for the nine-month period ended June 30, 2003 was primarily due to the reduction of personnel and associated costs of \$456,000 as a result of personnel reductions in March 2002. The reductions were implemented with a view to retaining the Company's core technological competencies and maintaining its abilities to continue to enhance its eB product suite.

Marketing and sales expense for the nine-month period ended June 30, 2003 was \$1,918,000 as compared to \$2,911,000 for the nine-month period ended June 30, 2002. The decrease was primarily due to the reduction of marketing and sales personnel and associated costs of \$751,000 as a result of personnel reductions in March 2002 and other reductions in costs of \$304,000 relating primarily to travel and consultants. Management believes that the reduced sales and marketing expenditures are more in line with current revenues.

General and administrative expense was \$1,090,000 for the nine-month period ended June 30, 2003 as compared to \$1,523,000 for the nine-month period ended June 30, 2002. The decrease was primarily due to the reduction in general and administrative personnel and their associated costs of \$272,000 as a result of personnel reductions in March 2002 and a decrease in occupancy costs and allowance for bad debt of \$103,000.

Interest and other expense was \$393,000 for the nine-month period ended June 30, 2003 as compared to \$246,000 for the nine-month period ended June 30, 2002. The increase was due to additional interest expense on the Company's higher debt balances during 2003 as compared to 2002.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2003, the Company's cash and cash equivalents totaled \$534,000 as compared to \$87,000 at September 30, 2002, and its current ratio (current assets divided by current liabilities) was .27 to 1 at June 30, 2003.

For the nine months ended June 30, 2003, cash provided by operating activities totaled \$482,000, as compared to cash used by operating activities of \$3,175,000 for the same period in 2002. The reversal was due in part to increased sales and collections in fiscal year 2003 combined with the cost reductions implemented in March 2002.

The Company has received loans from Spescom and affiliates in the past to meet its obligations. Accrued interest for the nine months ended June 30, 2003 increased the outstanding balance of these loans from Spescom from \$4,881,000 at September 30, 2002 to \$5,220,000 at June 30, 2003. Such loans are secured by all of the assets of the Company. See Related Party Transactions below.

Although the Company in the past has received funding from Spescom for working capital purposes, Spescom is not obligated to provide additional loans. Spescom has stated that it intends to continue to support the Company's operations and depending on the merits of any situation that may arise in the future, Spescom will make its best efforts to provide further funding if necessary. However, if Spescom is otherwise able to provide additional loans on terms acceptable to the Company, the funding of such loans may be delayed or prevented by currency exchange regulations of the Republic of South Africa, under which Spescom is required to apply for and obtain the approval of the South African Reserve Bank before providing any funds to the Company. Moreover, the terms on which any additional funding may be provided are not specified and may include interest rates, security arrangements or additional equity dilution that are not acceptable to the Company or that could be materially adverse to the Company.

In March 2002, the Company implemented a plan to focus on core activities and to substantially reduce costs in an effort to achieve a break-even level of cash flow in fiscal 2003. For the three month period ended June 30, 2003 the Company had a (\$114,000) loss of Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) compared to a loss of \$(192,000) for the same period in fiscal 2002 (see table below). The improvement in EBITDA was due to the cost reductions implemented in March 2002 and increased sales from the prior year. For the nine months ended June 30, 2003, the Company had a (\$60,000) loss of EBITDA compared to a loss of (\$3,474,000) for the same period in fiscal 2002 (see table below). Management believes that the cost reductions implemented in March 2002 have proven effective and will continue in a effort to enable the Company to achieve a cash flow break-even from on-going operations based on the projected level of revenues.

| Calculation of EBITDA (Unaudited) | For the three months ended June 30, | | For the nine months ended June 30, | |
|-----------------------------------|--|--------------|---------------------------------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| Net Loss | \$ (390,000) | \$ (554,000) | \$ (830,000) | \$ (4,518,000) |
| Add back the following: | | | | |
| Interest and other, net | 130,000 | 105,000 | 389,000 | 240,000 |
| Depreciation and amortization | 146,000 | 257,000 | 381,000 | 804,000 |
| EBITDA | \$ (114,000) | \$ (192,000) | \$ (60,000) | \$ (3,474,000) |

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| | | | | |
|---------------------------------|----|------------|------------|------------|
| | | | | |
| EBITDA per common share | \$ | (0.00) | \$ | (0.01) |
| | \$ | 0.00 | \$ | (0.11) |
| | | | | |
| Shares used in computing EBITDA | | 30,861,000 | 30,842,000 | 30,850,000 |
| | | | | 30,842,000 |

Although the personnel reductions in March 2002 reduced the Company's research and development, marketing and sales capabilities, management believes that the reduced levels of research and development, marketing and sales costs are consistent with the level of revenues currently being achieved. Moreover, the Company believes such reductions were implemented with a view to maximizing the Company's ability to continue to maintain and support its eB product suite, while at the same time pursuing opportunities for sales of new eB core systems to new customers. The Company's future liquidity depends on its ability to generate new system sales of its eB product suite in the near term, which cannot be assured. Failure to generate sufficient system sales to meet the Company's cash flow needs can be expected to have a material adverse effect on the Company's business, results of operations, and financial condition. The Company's financial position can be a factor in attracting new customers. In an effort to strengthen the Company's financial condition and provide capital for expanding marketing and sales capabilities, the Company is seeking additional equity or debt financing from third parties. There can be no assurance that additional financing will be available or that the terms of such financing will be acceptable to the Company. The Company believes that its current cash and receivables, as well as additional cash that may be generated from operations, will be sufficient to meet its short-term needs for working capital. However, the Company may not be able to obtain sufficient orders to enable the Company to continue on a cash flow break-even level, which would be necessary to continue operations in the absence of further financing.

Net Operating Loss Tax Carryforwards

The Company has recorded a valuation allowance amounting to the entire net deferred tax asset balance due to its lack of a history of earnings, possible limitations on the use of net operating loss (NOL) carryforwards, and the expiration of certain of the net operating loss carryforwards which gives rise to uncertainty as to whether the net deferred tax asset is realizable.

The Company has net operating loss carryforwards of \$32,961,000 and \$7,271,000 for federal and state tax purposes, respectively, which expire over the years 2003 through 2021. Effective September 11, 2002, pursuant to California revenue and tax code section 24416.3, no net operating loss deduction would be allowed for any taxable year beginning on or after January 1, 2002, and before January 1, 2004. For any suspended losses, the carryover period would be extended by one year for losses incurred in tax year beginning on or after January 1, 2002, and before January 1, 2003; and by two years for losses incurred in taxable years beginning before January 1, 2002. The Company has investment and research activity credit carryforwards aggregating \$640,000, which will substantially expire in the years 2003 through 2006.

As a result of the Spescom acquisition, an additional ownership change occurred in April 2000. The Company's ability to utilize the consolidated NOL in future years will be limited pursuant to Internal Revenue Code Section 382. The annual limitation is approximately \$1,159,000.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

Foreign Currency

The Company's geographic markets are primarily in the United States and Europe, with sales in other parts of the world. In the nine months ended June 30, 2003, revenue from the United States, Europe and other locations in the world were 56%, 43% and 1%, respectively. This compares to 48%, 48% and 4%, respectively for the same period in 2002. The European currencies have been relatively stable against the U.S. dollar for the past several years. As a result, foreign currency fluctuations have not had a significant impact on the Company's revenues or results of operations. Changes in foreign currency rates, the condition of local economies, and the general volatility of software markets may result in higher or lower proportion of foreign revenues in the future. Although the Company's operating and pricing strategies take into account

changes in

exchange rates over time, there can be no assurance that future fluctuations in the value of foreign currencies will not have a material adverse effect on the Company's business, operating results and financial condition.

Inflation

The Company believes that inflation has not had a material effect on its operations to date. Although the Company enters into fixed-price contracts, management does not believe that inflation will have a material impact on its operations for the foreseeable future, as the Company takes into account expected inflation in its contract proposals and is generally able to project its costs based on forecasted contract requirements.

RELATED PARTY TRANSACTIONS

Under a royalty arrangement, Spescom resells certain of the Company's software. For the three and nine month periods ended June 30, 2003, the Company recognized royalty revenue of \$2,000 and \$11,000 compared to \$0 and \$9,000 for the three and nine month periods ended June 30, 2002, arising from this arrangement. Spescom, through its wholly-owned subsidiary, Spescom Ltd. U.K., provides certain administrative and accounting functions for the Company's United Kingdom operations. The Company is billed a monthly fee by Spescom for reimbursement of certain costs in the United Kingdom, including the office facilities (including rental expense as described below); all accounting and human resources services; and certain corporate marketing activities. For the three and nine month periods ended June 30, 2003, the administrative fees totaled \$155,000 and \$460,000 compared to \$142,000 and \$561,000 for the three and nine month periods ended June 30, 2002. At June 30, 2003, the Company had a payable to Spescom of \$470,000 as compared to \$495,000, at September 30, 2002. In the United States, for the three and nine month periods ended June 30, 2003, the Company billed Spescom for certain marketing services totaling \$13,000 and \$40,000 compared to \$13,000 and \$39,000 for the three and nine months ended June 30, 2002.

In 1999, as part of an agreement with Spescom, the lease for the United Kingdom office facility was to be assigned to Spescom; however, the landlord did not grant its consent to the assignment. Since 1999 Spescom has paid the rent under the lease for the entire office directly to the landlord and the Company reimburses Spescom for the entire payment. The lease expires in March 2006 and has an annual rent of \$530,000. A portion of the office has been subleased to a third party tenant for an annual rent of \$179,000. The sublease also expires March 2006; however, the tenant has an option to terminate the lease in February 2004. For the three and nine month periods ended June 30, 2003 the Company paid Spescom as part of the monthly administration fee, rent of \$69,000 and \$205,000 compared to \$69,000 and \$202,000 for the three and nine month periods ended June 30, 2002.

Related party liabilities consist of the following:

| | June 30, 2003 | September 30, 2002 |
|---|------------------|-----------------------|
| Long-term Note Including Accrued Interest Payable to Shareholder: | | |
| Notes payable on demand-Spescom Ltd. U.K. | \$ 1,798,000 | \$ 1,669,000 |
| Note payable Spescom Ltd. U.K. | 2,132,000 | 1,980,000 |
| Note payable Spescom | 1,290,000 | 1,232,000 |

| | | | |
|----|-----------|----|-----------|
| \$ | 5,220,000 | \$ | 4,881,000 |
|----|-----------|----|-----------|

At June 30, 2003, the Company had three demand notes payable to Spescom Ltd U.K. for \$400,000, \$500,000 and \$700,000, respectively, each bearing an annual interest rate of 10%. As of June 30, 2003, the balance owed on the demand notes was \$1,798,000 including accrued interest. Interest expense, accrued but unpaid on the notes for the three and nine month periods ended June 30, 2003 was \$44,000 and \$129,000 compared to \$26,000 and \$27,000 for the three and nine month periods ended June 30, 2002. Spescom has agreed that the demand notes will not be called prior to October 1, 2004.

At June 30, 2003, pursuant to a promissory note, the Company owed Spescom Ltd. U.K. \$2,132,000, including accrued interest. The note bears interest at an interest rate of 10% per annum, with principal and interest payable at maturity, on October 15, 2003. Spescom extended the maturity date on this note to October 1, 2004. Interest expense, accrued but unpaid on this note for the three and nine-month periods ended June 30, 2003 was \$52,000 and \$153,000 compared to \$47,000 and \$139,000 for the three and nine month periods ended June 30, 2002.

As of June 30, 2003, the Company had a note payable to Spescom for \$1,290,000, including accrued interest. Interest on the outstanding note accrues at the rate of 10% per annum. Principal and all unpaid accrued interest is payable at maturity on October 15, 2003. Spescom extended the maturity date on this note to October 1, 2004. Interest expense, accrued but unpaid on this note for the three and nine month periods ended June 30, 2003 totaled \$32,000 and \$92,000 compared to \$29,000 and \$67,000 for the three and nine-month periods ended June 30, 2002.

These notes payable are collateralized by a security interest in favor of both Spescom and Spescom Ltd. U.K. in respect of all of the Company's assets.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Rate Risk

The Company's exposure to market rate risk for changes in interest rates relates primarily to the Company's investment portfolio. The Company does not use derivative financial instruments in its investment portfolio. The Company places its investment with high quality issuers and follows internally developed guidelines to limit the amount of credit exposure to any one issuer. Additionally, in an attempt to limit interest rate risk, the Company follows guidelines to limit the average and longest single maturity dates. The Company is adverse to principal loss and ensures the safety and preservation of its invested funds by limiting default, market and reinvestment risk. The Company's investments include money market accounts, as of June 30, 2003.

ITEM 4. CONTROLS AND PROCEDURES

The Company carried out an evaluation required by Rule 13a-15(b) of the Exchange Act, under the supervision and with the participation of its principal executive officer and principal financial officer, of the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information required to be included in its periodic SEC reports. It should be noted that the design of any system of controls is based in part upon certain assumptions, and there can be no assurance that any design will succeed in achieving its stated goals. During the most recent fiscal quarter, there has not occurred any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1 Legal Proceedings

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

Item 4 Submission of Matters to a Vote of Security Holders

None

Item 6 Exhibits and Reports on Form 8-K:

(a) Exhibits

- 3.1* Registrant's Articles of Incorporation, as amended.
- 3.2* Registrant's Bylaws, as amended.
- 10.1 Lease between CFD-Mesa Ridge Partners and Altris Software, Inc., dated April 1, 2003.
- 10.2 (1) 10.0% promissory note due October 15, 2003 in principal amount of \$1,235,076 issued by Altris Software, Inc. to Spescom Limited, a South African corporation on February 15, 2002.
- 10.3 (2) 10.0% promissory note due October 15, 2003 in principal amount of \$1,810,383 issued by Altris Software, Inc. to Spescom Limited, a United Kingdom corporation, on February 15, 2002.
- 10.4 (3) Security Agreement between Altris Software, Inc. and Spescom Limited, a United Kingdom corporation, and Spescom Limited, a South African corporation, dated February 15, 2002.
- 10.5 (4) 10% promissory note due upon demand in principal amount of \$400,000 issued by Altris Software, Inc. to Spescom Limited, a United Kingdom corporation, on March 15, 2002.
- 10.6 (5) Security Agreement dated March 15, 2002 between Altris Software, Inc., a California corporation, and Spescom Limited, a United Kingdom corporation.
- 10.7 (6) Pledge Agreement dated March 15, 2002 by and between Altris Software, Inc., a California corporation, Spescom Limited, a United Kingdom corporation, and Solomon Ward Seidenwurm & Smith, LLP.
- 10.8 (7) 10.0% promissory note due upon demand in principal amount of \$500,000 issued by Altris Software, Inc. to Spescom Limited, a United Kingdom corporation, on April 19, 2002.

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10.9 (8) 10.0% promissory note due upon demand in principal amount of \$700,000 issued by Altris Software, Inc. to Spescom Limited, a United Kingdom corporation, on May 31, 2002.

31.1 Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934.

31.2 Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934.

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

No Reports on Form 8-K have been filed during the quarterly period covered by this report.

-
- (1) Incorporated by reference to Exhibit 10.28 to the Form 10-Q filed on May 15, 2002.
 - (2) Incorporated by reference to Exhibit 10.29 to the Form 10-Q filed on May 15, 2002.
 - (3) Incorporated by reference to Exhibit 10.29 to the Form 10-Q filed on May 15, 2002.
 - (4) Incorporated by reference to Exhibit 10.29 to the Form 10-Q filed on May 15, 2002.
 - (5) Incorporated by reference to Exhibit 10.29 to the Form 10-Q filed on May 15, 2002.
 - (6) Incorporated by reference to Exhibit 10.29 to the Form 10-Q filed on May 15, 2002.
 - (7) Incorporated by reference to Exhibit 10.34 to the Form 10-Q filed on August 14, 2002.
 - (8) Incorporated by reference to Exhibit 10.35 to the Form 10-Q filed on August 14, 2002.

* Incorporated herein by this reference from previous filings with the Securities and Exchange Commission.

SIGNATURES

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

| Signature | Title | Date |
|----------------------------------|---|-----------------|
| /s/ Carl Mostert Carl Mostert | Director and Chief Executive Officer (Principal Executive Officer) | August 14, 2003 |
| /s/ John W. Low John W. Low | Chief Financial Officer and Secretary (Principal Financial and Accounting Officer) | August 14, 2003 |