

SPESCOM SOFTWARE INC  
Form S-1  
January 06, 2006

As filed with the Securities and Exchange Commission on January 6, 2006

Registration No. 333-[ ]

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM S-1**

**REGISTRATION STATEMENT  
Under  
THE SECURITIES ACT OF 1933**

---

**SPESCOM SOFTWARE INC.**

(Exact Name of Registrant as Specified in Its Charter)

**California**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**7373**  
(Primary Standard Industrial  
Classification Code Number)

**95-3634089**  
(IRS Employer Identification Number)

**10052 Mesa Ridge Court, Suite 100  
San Diego, California 92121  
(858) 625-3000**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Agent for Service:  
John W. Low  
Chief Financial Officer and Secretary**

**Copy to:  
Russell C. Hansen  
Jeffrey N. Petit  
Gibson, Dunn & Crutcher, LLP**

Edgar Filing: SPESCOM SOFTWARE INC - Form S-1

**Spescom Software Inc.**  
**10052 Mesa Ridge Court, Suite 100**  
**San Diego, California 92121**  
**(858) 625-3000**

**1881 Page Mill Rd.**  
**Palo Alto, CA 94304**  
**(650) 849-5300**

(Name and address, including zip code, and telephone number, including area code, of agent for service)

**Approximate Date of Commencement of Proposed Sale to the Public:** As soon as practicable after the Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act ), check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Amount to be Registered</b>	<b>Proposed Maximum Offering Price Per Unit</b>	<b>Proposed Maximum Aggregate Offering Price</b>	<b>Amount of Registration Fee</b>
Common Shares, no par value	26,896,552	\$ 0.17	\$ 4,572,414(1)	\$ 489.25
Common Shares, no par value, underlying certain of selling shareholders warrants	925,926	\$ 0.27	\$ 250,000(2)	\$ 26.75
Common Shares, no par value, underlying certain of selling shareholders warrants	300,000	\$ 0.17	\$ 51,000(2)	\$ 5.46
<b>Total</b>	<b>28,122,478</b>		<b>\$</b>	<b>\$ 521.46</b>

(1) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended. The average of the high and low prices as of January 3, 2006 was \$0.17 per share.

Edgar Filing: SPESCOM SOFTWARE INC - Form S-1

(2) In accordance with Rule 457(g), the proposed maximum aggregate offering price of shares issuable upon the exercise of warrants is based on a proposed maximum offering price per unit equal to the higher of (i) the exercise price of the warrants, (ii) the offering price of the common shares in the registration statement, or (iii) the average sales price of the common shares as determined by 457(c).

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

---

**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**Subject to Completion, dated January 6, 2006**

**PROSPECTUS**

**28,122,478 Common Shares**

**Spescom Software Inc.**

---

The selling shareholders named in this prospectus are offering up to 28,122,478 of our common shares, including up to 26,896,552 common shares to be issued upon conversion of Series H Preferred Stock and the exercise of certain options and warrants. We will not receive any of the proceeds from their sale of our shares, but if the selling shareholders pay the exercise price under any of the options or warrants in cash, we will use those proceeds for general corporate purposes, including working capital.

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

**Investing in our shares involves a high degree of risk. See Risk Factors beginning on page 6 of this prospectus to read about the risks you should consider before buying our shares.**

---

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

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

---

The date of this prospectus is January 6, 2006

---

## TABLE OF CONTENTS

	Page
<u>INFORMATION REGARDING FORWARD-LOOKING STATEMENTS</u>	<u>3</u>
<u>PROSPECTUS SUMMARY</u>	<u>4</u>
<u>RISK FACTORS</u>	<u>6</u>
<u>USE OF PROCEEDS</u>	<u>13</u>
<u>DILUTION</u>	<u>13</u>
<u>SELLING SHAREHOLDERS</u>	<u>15</u>
<u>PLAN OF DISTRIBUTION</u>	<u>15</u>
<u>DESCRIPTION OF CAPITAL STOCK</u>	<u>18</u>
<u>LEGAL MATTERS</u>	<u>21</u>
<u>EXPERTS</u>	<u>21</u>
<u>BUSINESS</u>	<u>21</u>
<u>PROPERTIES</u>	<u>33</u>
<u>LEGAL PROCEEDINGS</u>	<u>33</u>
<u>MARKET PRICE OF AND DIVIDENDS ON THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS</u>	<u>33</u>
<u>SELECTED FINANCIAL DATA</u>	<u>34</u>
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>35</u>
<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES</u>	<u>45</u>
<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>45</u>
<u>DIRECTORS AND EXECUTIVE OFFICERS</u>	<u>45</u>
<u>EXECUTIVE COMPENSATION</u>	<u>47</u>
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	<u>51</u>
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	<u>52</u>
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	<u>53</u>
<u>FINANCIAL STATEMENTS AND CERTAIN OTHER FINANCIAL INFORMATION</u>	<u>F-1</u>

---

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

---

**INFORMATION REGARDING FORWARD-LOOKING STATEMENTS**





## Edgar Filing: SPESCOM SOFTWARE INC - Form S-1

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

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

The Company's control by and indebtedness to Spescom Ltd.

Our dependence on a small number of new customers

The fluctuation of our operating results

A developing market and rapid technological changes

Our lack of product diversification

Potential violation of our intellectual property rights

Our dependence on third-party software providers

Potential intellectual property infringement claims by third parties

Potential product liability claims by customers

Our potential inability to compete effectively

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

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

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

Fluctuations in foreign currency exchange rates

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

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

**PROSPECTUS SUMMARY**



## Edgar Filing: SPESCOM SOFTWARE INC - Form S-1

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

### **Our Company**



## Overview

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

In 2000, the Company acquired the rights to certain configuration management technology and skills from Spescom Ltd. (Spescom Ltd.), which at the same time acquired a controlling interest in the Company. From this combination of document and configuration management technologies and skills, the Company began doing business as Spescom Software Inc. on October 1, 2001. As of January 3, 2006, Spescom Ltd. owned approximately 56% of the outstanding common shares of the Company after giving effect to the conversion of the shares of the Company's Series F Preferred Stock held by Spescom Ltd.

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

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

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

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

Continue investment in the Company's direct sales force.

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

Outsource non-core operations.

Opportunistic investing in technology.

Increase the Company's market presence.

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

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

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

### **This Offering**

Shares offered by the selling shareholders



## Edgar Filing: SPESCOM SOFTWARE INC - Form S-1

28,122,478, including 26,896,552 shares of common stock issuable upon conversion of the Company's Series H Preferred Stock and 1,225,926 shares of common stock issuable upon exercise of warrants (collectively, the Warrants).

### Use of proceeds

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

### Risk factors

The purchase of our common stock involves a high degree of risk. You should carefully review and consider Risk Factors beginning on page 6.

### OTC Bulletin Board Trading Symbol

SPCO.OB

**RISK FACTORS**



## Edgar Filing: SPESCOM SOFTWARE INC - Form S-1

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

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

The Company has a history of losses and may incur losses in the foreseeable future. We incurred net losses of \$6,049,000, \$223,000 and \$3,004,000 for the fiscal 2005, 2004 and 2003, respectively. As of September 30, 2005, our accumulated deficit was \$90,291,000. If revenues do not reach the levels the Company anticipates, or if operating expenses exceed the Company's expectations, the Company may not be able to achieve or sustain profitability in the near future or at all. If the Company is unable to achieve and sustain profitability at satisfactory levels, its financial condition and stock price could be materially adversely affected.

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

As of January 3, 2006, Spescom Ltd. (together with its subsidiaries), by virtue of its ownership of common stock and Series F Preferred Stock, was entitled to 27,408,249, or 56%, of the total number of votes eligible to be cast in the election of directors. Spescom Ltd. therefore currently has the ability to elect the Company's entire board of directors. Moreover, even if the above-referenced percentage were to drop below 50%, it is likely that Spescom Ltd. would have sufficient votes to retain control of the Company. As a result, Spescom Ltd. will likely continue to control all matters affecting the Company, including but not limited to:

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

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

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

the Company's acquisition or disposition of assets; and

the Company's financing.

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

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

*One or more affiliates of M.A.G. Capital, LLC, as holders of Series H Convertible Preferred Stock, may become entitled to elect a majority of the Board of Directors if certain corporate transactions do not occur on or before April 30, 2006.*

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

There are currently 1,950 shares of Series H Preferred Stock outstanding, all held by Monarch Pointe Fund, Ltd. ( Monarch ), an affiliate of M.A.G. Capital, LLC ( MAG ). Under the terms of the Series H Preferred Stock private placement, the Company has agreed to sell 500 additional shares of Series H Preferred Stock to one or more of Monarch, Mercator Momentum Fund, L.P., or Momentum Fund III, L.P., each an affiliate of MAG, at a second closing to occur on or before January 20, 2006. In the event that a corporate transaction of the variety discussed in the preceding paragraph does not occur on or before April 30, 2006 and an election for redemption by the holders of Series H Preferred Stock is made, the redemption price is anticipated to be \$1,950,000 or \$2,450,000, depending on whether an additional 500 shares have been issued in the prospective second closing, plus all declared but unpaid dividends. In the event of such an election, unless the Company is able to raise additional debt or equity funds, the Company anticipates that it would not have sufficient funds to carry out the redemption. If the Company were able to raise additional funds, it is likely that existing shareholders would suffer additional substantial dilution. If the election to redeem the Series H Preferred Stock is made and the Company is unable to pay the redemption price, those MAG affiliates holding Series H Preferred Stock would become entitled to elect a majority of the authorized directors of the Company. In this event, those entities, through their majority control of the Board of Directors, would be able to control or (with respect to matters requiring shareholder approval) exert significant influence over all matters affecting the Company, including:

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

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

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

the Company's acquisition or disposition of assets; and

the Company's financing.

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

At September 30, 2005, the Company owed, including accrued but unpaid interest, an aggregate amount of \$615,000 to Spescom Ltd. Interest accrues on such debt at an annual interest rate of 10%, and such debt is secured by a security interest in favor of Spescom Ltd. on all of the Company's assets. Spescom Ltd. has agreed to extend the maturity date on such debt until October 1, 2006. In addition the Company owes Spescom Ltd. \$302,000 relating to certain marketing research and analysis that Spescom Ltd. performed on behalf of the Company. The obligation accrues interest at 11% per annum. Spescom Ltd. has agreed to forego payment on the \$302,000 until October 1, 2006. If the Company is unable to generate sufficient cash flow from its operations, secure funds from the capital markets or lenders or restructure its debt to Spescom Ltd., the Company will become insolvent.

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

Although the Company in the past has received funding from Spescom Ltd. for working capital purposes, such additional financing if necessary is not assured. The Company may need financing in the future and such financing from Spescom Ltd. or other sources may not be available on favorable terms or at all. In addition, if Spescom Ltd.

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 Ltd. is required to apply for and obtain the approval of the South African Reserve Bank before providing any funds to the Company.

The Company believes its capital requirements will vary greatly from quarter to quarter, depending on, among other things, capital expenditures, fluctuations in its operating results, financing activities, and investments and third party products and receivables management. The Company's future liquidity will depend on its ability to generate new system sales of its 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. Management believes that the Company's current cash and receivables, as well as additional cash that may be generated from operations, will be sufficient to meet its short-term needs for working capital. However, the Company may not be able to obtain sufficient orders to enable the Company to continue on a cash flow break-even level, which would be necessary to continue operations in the absence of further financing. Future equity financings would be dilutive to the existing holders of the Company's common stock. Future debt financings could involve restrictive covenants.

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

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

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

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

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

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



obtaining more favorable terms;

customer decisions to delay implementation of the Company's products;

the size and complexity of the Company's license transactions;

any seasonality of technology purchases;

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

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

changes in the Company's pricing policy;

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

changes in foreign currency exchange rates; and

domestic and international economic and political conditions.

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

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

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

The Company must continue to enhance and improve the performance, functionality and reliability of its products and services in a timely manner. The software industry is characterized by rapid technological change, changes in user requirements and preferences, frequent new product and services introductions embodying new technologies, and the emergence of new industry standards and practices that could render the Company's products and services obsolete. The Company has experienced product development delays in the past, and may experience delays in the future. The Company's failure to continually enhance its products and services in a timely manner would adversely impact its business and prospects. In the past, the Company has also discovered that some of its customers desire additional performance and functionality not currently offered by its products. The Company's success will depend, in part, on its ability to internally develop and license leading

## Edgar Filing: SPESCOM SOFTWARE INC - Form S-1

technologies to enhance its existing products and services, to develop new products and services that address the increasingly sophisticated and varied needs of its customers, and to respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis. The Company's product development efforts with respect to its eB product suite are expected to continue to require substantial investments by the Company, and the Company may not have sufficient resources to make the necessary investments. If the Company is unable to adapt its products and services to changing market conditions, customer requirements or emerging industry standards, it may not be able to maintain or increase its revenue and expand its business.

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

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

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

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

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

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

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

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

***The Company may face product liability claims from its customers.***

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

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

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

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

The market for the Company's products is intensely competitive, subject to rapid change and significantly affected by new product introductions and other market activities of industry participants. The Company currently encounters competition from a number of public and private companies, including Electronic Document Management System/Enterprise Content Management vendors such as EMC (formerly Documentum), FileNet,

OpenText, Sword and Hummingbird; Enterprise Asset Management vendors such as Indus and MRO/Maximo; and to a lesser extent Product Data Management/Product Lifecycle Management vendors such as Matrix I, PTC and EDS. Many of these direct competitors have significantly greater financial, technical, marketing and other resources than the Company. The Company also expects that direct competition will increase as a result of recent consolidation in the software industry.

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

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

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

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

With a price of less than \$5.00 per share;

That is not traded on a recognized national exchange;

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

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

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

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

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

***Conversion of the Company's preferred stock will result in significant dilution to existing shareholders.***

In October 2005 the Company completed the first closing of a private placement to issue, in addition to certain warrants, a new Series H Convertible Preferred Stock which upon conversion into common stock will result in substantial dilution to common shareholders. Additional Series H Preferred Stock and warrants may be issued at a second closing which is anticipated to occur in January 2006. The number of shares of the Company's common stock into which shares of Series H Preferred Stock may be converted varies based on a volume-weighted measure of the market price of the common stock and based on the trailing revenues of the last four fiscal quarters reported by the Company. The shares of preferred stock issued at the first closing and the shares subject to issuance at the second closing are convertible into no fewer than 4,875,000 and 1,250,000 common shares, respectively and into no more than 26,896,552 and 6,896,552 common shares, respectively if the Company's trailing revenues of the last four fiscal quarters were to be less than \$5 million.

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

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

As part of the Series H Convertible Preferred Stock private placement completed in October 2005, the Company agreed to file a registration statement for the common stock of the Company issuable upon conversion of such preferred stock. Any sales of these shares of common stock or shares of the Company's common stock issued in any future offering could cause a decline in the price of the Company's stock. In addition, Spescom Ltd. holds 27,408,249 shares of the Company's common stock on a fully diluted basis as of January 3, 2006, and if it sells its shares of the Company from time to time in the future, the Company's stock price may be adversely affected. Spescom Ltd. also has certain demand and piggyback registration rights relating to 11,757,778 of these shares.

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



## Edgar Filing: SPESCOM SOFTWARE INC - Form S-1

As of September 30, 2005, the Company had outstanding stock options to purchase approximately 4,856,000 shares of common stock and warrants to purchase approximately 5,492,502 shares of common stock. If all or a significant number of the options are exercised, shareholders could suffer significant dilution.

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

Changes in foreign currency rates, the condition of local economies, and the general volatility of software markets may result in a higher or lower proportion of foreign revenues in the future. Although the Company's operating and

pricing strategies take into account changes in exchange rates over time, future fluctuations in the value of foreign currencies may have a material adverse effect on the Company's business, operating results and financial condition.

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

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

#### **USE OF PROCEEDS**

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

**DILUTION**

The following table compares the \$0.11 offering price (the average of the high and low price of the shares in December 15, 2005) of the shares to the cost to our existing shareholders of shares of common stock that they acquired from us within the past five years, that are issuable upon conversion of outstanding shares of preferred stock acquired from us within the past five years, or that they have the right to acquire from us under outstanding stock options or warrants.

	Shares Purchased		Total Consideration		Average price per share
	Number	Percent	Amount	Percent (3)	
Existing stockholders	58,662,721(1)	68%	\$ 13,065,843(4)	82%	\$ 0.22(6)
New investors	28,122,478(2)	32%	\$ 2,952,860(5)	18%	\$ 0.11(7)
Total	86,785,199	100%	\$ 16,018,703	100%	

---

(1) The number of shares of our common stock currently outstanding that were purchased from us within the five years ended December 15, 2005 plus the number of shares of common stock that are issuable upon the conversion of outstanding shares of preferred stock that were purchased from us within the past five years, plus the number of shares issuable upon the exercise of currently outstanding stock options and warrants.

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

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

(4) The sum of the price paid to us for all shares of common stock purchased from us within the five years ended December 15, 2005 (including shares of preferred stock that are convertible into common stock) and the aggregate exercise price of all currently outstanding stock options and warrants.

(5) The product of an assumed offering price of \$0.11 per share (the average of the high and low price of the shares on December 15, 2005) and the aggregate maximum number of shares being offered to investors in the offering.

(6) The weighted average price of all shares purchased from us within the five years ended December 15, 2005 (including shares of preferred stock that are convertible into common stock) and the exercise price of all currently outstanding stock options and warrants.

(7) For purposes of this table, we have assumed an offering price of \$0.11 per share (the average of the high and low price of the shares on December 15, 2005).

Our net tangible book value as of September 30, 2005 was approximately (\$5,465,000), or (\$0.07) per share of our common stock. If you invest in our common stock, your interest will be diluted to the extent of the difference between the price you pay per share of our common stock and the net tangible book value per share of our common stock at the time of your purchase. Net tangible book value per share is calculated by subtracting our total liabilities from our total tangible assets, and dividing this amount by the number of shares of our common stock issued and outstanding after giving effect to the conversion of all shares of our outstanding preferred stock. The sale of shares of common stock in this offering by the selling shareholders will not affect our net tangible book value because we will not receive any proceeds from their sale of our common stock. Based on our net tangible book value as of September 30, 2005 and assuming an offering price of \$0.11 per share, investors in this offering will experience immediate and substantial dilution of \$0.18 per share.

The foregoing discussion is based upon the number of shares actually issued and outstanding as of December 15, 2005, which assumes the conversion of all of our outstanding shares of preferred stock into 38,654,330 shares of common stock. As of that date, there were 13,756,428 options and warrants outstanding at a weighted average exercise price of \$0.32 per share and there were a total of 2,262,962 shares available for future awards under our stock incentive plans. To the extent outstanding options or warrants are exercised, you may experience further dilution.

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

**SELLING SHAREHOLDERS**

The following table sets forth the number of common shares beneficially owned by each of the selling shareholders as of January 3, 2006, except as provided in footnote 4 below. To our knowledge, except as provided in footnote 3 below, none of the selling shareholders has had a material relationship with us within the past three years other than as a result of the ownership of the shares covered by this prospectus. Because the selling shareholders may offer all or some of the shares which they hold pursuant to the offering contemplated by this prospectus, and because there are currently no agreements, arrangements or understandings with respect to the sale of any of the shares, no definitive estimate can be given as to the amount of shares that will be held by the selling shareholders after completion of this offering and the following table has been prepared on the assumption that all options and warrants will be exercised and all common shares offered hereby will be sold. The selling shareholders named below are not obligated to sell any of the shares shown as offered by them below but may offer the shares offered by this prospectus from time to time.

Name of Shareholder	Shares beneficially owned before offering		Shares being offered	Shares beneficially owned after offering	
	Common Shares	Common Shares issuable on conversion of Preferred Stock and/or exercise of warrants		Number of Shares	Percent of Class
Monarch Pointe Fund, Ltd. (1)(3)	3,081,083	29,559,515	27,359,515	5,281,083	17%
M. A. G. Capital, LLC (2)(3)	0	1,012,963	462,963	550,000	2%
Liolios Group, Inc. (4)	0	300,000	300,000	0	0%
Total	3,081,083	30,322,478	28,122,478	5,831,083	19%

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

(1) M. A. G. Capital, LLC ( MAG ) controls the investments of Monarch Pointe Fund, Ltd. ( Monarch ). David F. Firestone is the Managing Member of MAG. The right to vote and the right to dispose of the shares beneficially owned by Monarch are shared among Monarch, MAG and David Firestone. See footnote 5 to the table provided under Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, page 51.

(2) David Firestone is the Managing Member of MAG. The right to vote and the right to dispose of the shares beneficially owned by MAG are shared by MAG and David F. Firestone.

(3) On November 4, 2004, the Company issued 1) 2,200 shares of Series G Convertible Preferred Stock to Monarch and 2) warrants, which expire November 5, 2007, to purchase an aggregate of 2.75 million shares of common stock at \$0.44 per share to Monarch and MAG, which was then named Mercator Advisory Group, LLC. The aggregate purchase price of the Series G Convertible Preferred Stock and warrants was \$2.2 million. During fiscal 2005, 750 shares of this preferred stock was converted into 2,428,000 shares of common stock. The remaining 1,450 shares of this preferred stock were transferred to the Company on October 25, 2005 in connection with the first closing of the private placement of Series H Preferred Stock.

(4) The Company anticipates the issuance of warrants for the purchase of up to an aggregate of 300,000 common shares to Liolios Group, Inc. pursuant to an agreement entered into between the parties on November 15, 2005, as further described under "The Warrants" on pages 19 and 20.

**PLAN OF DISTRIBUTION**



The selling shareholders, or their pledgees, donees, transferees, or any of their successors in interest selling shares received from a named selling shareholder as a gift, partnership distribution or other non-sale-related transfer after the date of this prospectus (all of whom may be selling shareholders) may sell the common shares offered by this prospectus from time to time on any stock exchange or automated interdealer quotation system on which the common shares are listed or quoted at the time of sale, in the over-the-counter market, in privately negotiated

transactions or otherwise, at fixed prices that may be changed, at market prices prevailing at the time of sale, at prices related to prevailing market prices or at prices otherwise negotiated. The selling shareholders may sell the common shares by one or more of the following methods, without limitation:

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

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

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

Privately negotiated transactions;

In connection with short sales of Company shares;

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

By pledge to secure debts of other obligations;

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

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

In a combination of any of the above.

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

The selling shareholders may engage brokers and dealers, and any brokers or dealers may arrange for other brokers or dealers to participate in effecting sales of the common shares. These brokers or dealers may act as principals, or as an agent of a selling shareholder. Broker-dealers may agree with a selling shareholder to sell a specified number of the shares at a stipulated price per share. If the broker-dealer is unable to sell common shares acting as agent for a selling shareholder, it may purchase as principal any unsold shares at the stipulated price. Broker-dealers who acquire common shares as principals may thereafter resell the shares from time to time in transactions in any stock exchange or automated interdealer quotation system on which the common shares are then listed, at prices and on terms then prevailing at the time of sale, at prices related to the then-current market price or in negotiated transactions. Broker-dealers may use block transactions and sales to and through broker-dealers, including transactions of the nature described above. The selling shareholders may also sell the common shares in accordance with Rule 144 or Rule 144A under the Securities Act, rather than pursuant to this prospectus. In order to comply with the securities laws of some states, if applicable, the shares of common stock may be sold in these jurisdictions only through registered or licensed brokers or dealers.

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

To the extent required under the Securities Act, the aggregate amount of selling shareholders' shares being offered and the terms of the offering, the names of any agents, brokers, dealers or underwriters, any applicable commission

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

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

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

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

We have agreed to indemnify the selling shareholders who participated in our October 25, 2005 private placement (the Private Placement Shareholders) and any brokers, dealers and agents who may be deemed to be underwriters, if any, of the common shares offered by this prospectus, against specified liabilities, including liabilities under the Securities Act.

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

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



**DESCRIPTION OF CAPITAL STOCK**

## **Authorized Stock**

As of the date of this prospectus, our authorized capital stock consists of 100,000,000 shares of common stock, no par value, and 1,000,000 shares of preferred stock, no par value. As of December 15, 2005, our issued and outstanding shares of capital stock consists of 36,818,528 common shares, 5,291 shares of Series F Preferred stock, and 1,950 shares of Series H Preferred Stock. These numbers exclude the approximately 1,225,926 common shares issuable upon the exercise of the Warrants, 7,717,502 shares issuable under other warrants, 4,813,000 common shares issuable pursuant to outstanding options under the Company's equity compensation plans, and 2,262,962 common shares currently available for future issuance under the Company's equity compensation plans.

## **Common Shares**

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

## **Series F Convertible 5% Preferred Stock**

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

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

## **Series H Convertible Preferred Stock**

On the Company entered into a definitive agreement relating to a private placement with Monarch Pointe Fund, Ltd. ( Monarch ) and M.A.G. Capital, LLC ( MAG ). As further described below, the terms of the financing provide, subject to certain conditions, for the issuance by the Company at two closings of an aggregate of 2,450 shares of Series H Convertible Preferred Stock ( Series H Preferred Stock ) and warrants to purchase an aggregate of 1,851,852 shares of common stock at \$0.27 per share, at an aggregate purchase price of \$1,000,000.

The first closing of the transaction took place on October 25, 2005. At the first closing, the Company issued 1,950 shares of Series H Preferred Stock, and warrants, expiring October 25, 2008, to purchase 925,926 shares of common stock at \$0.27 per share. The preferred stock issued at the first closing is convertible into up to 26,896,552 shares of common stock. In connection with the first closing, Monarch transferred 1,450 shares of the Company s Series G Convertible Preferred Stock to the Company for cancellation. The aggregate consideration paid by the investors for



the preferred stock and warrants issued at the first closing was \$500,000 and the 1,450 shares of Series G Convertible Preferred Stock transferred by Monarch. As part of the financing the Company has agreed to use commercially reasonable efforts to register by December 31, 2005 the common shares issuable under the Series H Preferred Stock and related warrants. Monarch and MAG have agreed to extend the registration date to January 6, 2006.

Under the terms of the financing, the second closing will occur no later than January 20, 2006, provided that the investors are not obligated to consummate the second closing unless certain conditions are satisfied. The financing terms provide for the issuance by the Company at the second closing of 500 shares of Series H Preferred Stock and warrants, expiring on the third anniversary of the second closing, to purchase 925,926 shares of common stock at \$0.27 per share. The preferred stock subject to issuance at the second closing is convertible into up to 6,896,552 shares of common stock. The financing terms provide that the investors participating in the second closing will be MAG and one or more of Monarch, Mercator Momentum Fund, L.P., or Momentum Fund III, L.P., as designated by MAG. The aggregate purchase price of the preferred stock and warrants subject to issuance at the second closing is \$500,000.

If the Company has not entered into a binding agreement to consummate a consolidation, merger, reclassification of the stock of the Company (subject to certain exceptions), or disposition of all or substantially all of the assets of the Company, on or before April 30, 2006, the holders of Series H Preferred Stock may, by the vote not later than June 30, 2006 of at least two-thirds of the then-outstanding shares, elect to have all of the outstanding shares of Series H Preferred Stock redeemed by the Company. Upon such election, the Company would be obligated to redeem the Series H Preferred Stock at an amount equal to \$1000 per share plus all declared but unpaid dividends. In the event that the holders of Series H Preferred Stock exercise their redemption right but the Company does not have sufficient funds available to redeem the Series H Preferred Stock in accordance with applicable law, the holders of Series H Preferred Stock as a class will be entitled to elect the smallest number of directors of the Company constituting a majority of the authorized number of directors.

The Series H Preferred Stock shares issued at the first closing and those subject to issuance at the second closing are convertible into common stock at the conversion rate in effect at the time of conversion. The conversion price per share of the Series H Preferred Stock is equal to 85% of the market price (the volume weighted average price of the Company's common stock during the 5 immediately preceding trading days, subject to adjustment), provided that in no event shall the conversion price exceed a ceiling price of \$0.40 per share, or be less than a floor price which varies with the aggregate gross revenues of the Company during the last four fiscal quarters for which revenues have been reported by the Company prior to such time, but which will not be lower than \$0.0725 per share and not higher than \$0.16 per share. The conversion price is subject to adjustment in the case of any stock split, combination, capital reorganization, reclassification, consolidation or merger, and certain dividends. Subject to certain exceptions, the conversion price is also subject to weighted average anti-dilution adjustment in the case of an issuance of shares of common stock or securities exercisable for or convertible into common stock, at a per share price, exercise price or conversion price less than the conversion price then in effect.

### **The Warrants**

As of December 15, 2005, warrants to purchase a total of 6,443,428 shares of our common stock were outstanding. Of such shares, 925,926 are issuable under warrants issued on October 25, 2005 together with shares of preferred stock in the private offering of Series H Preferred Stock to Monarch Pointe Fund, Ltd. ( Monarch ). Of such warrants, 462,963 were issued to Monarch and 462,963 were issued to its affiliate, M. A. G. Capital, LLC ( MAG ), which was formerly named Mercator Advisory Group, LLC. Those warrants have an exercise price of \$0.27 per share and expire on October 25, 2008. The warrants prohibit any exercise thereof that would result in the holder owning beneficially more than 9.99% of the outstanding shares of Common Stock of the Company as determined under Section 13(d) of the Securities Exchange Act of 1934.

On November 15, 2005, the Company entered into an agreement with Liolios Group, Inc. ( Liolios ) for the provision of public relations services to the Company. As part of the compensation due Liolios, the Company agreed to issue to Liolios, every month the agreement is effective, a warrant to purchase up to 50,000 shares of the Company s common stock at an exercise price of \$0.10 per share. The Company granted standard piggy-back registration rights with respect to any such warrants issued. The agreement provides for a term of six months and

for continuation of the engagement thereafter on a month-to-month basis under identical monthly compensation until termination in accordance with the provisions of the agreement. The Company anticipates that, at a minimum, warrants to purchase up to an aggregate of 300,000 shares of the Company's stock will be issued to Liolios pursuant to the terms described in this paragraph.

The warrants to purchase up to an aggregate of 300,000 common shares that the Company anticipates will be issued to Liolios, together with the warrants issued to Monarch and MAG on October 25, 2005, comprise the Warrants referred to in this prospectus, and are subject to registration rights as described below.

### Other Options and Warrants

In addition to the Warrants and options issued pursuant to the Company's equity compensation plans, 7,717,502 common shares are issuable upon the exercise of other warrants, as described below:

In addition to the warrants issuable to Liolios on a monthly basis under the November 15, 2005 agreement between Liolios and the Company as described above, that agreement provides that the Company will issue to Liolios, as part of the compensation due it, a one-time performance warrant to purchase 500,000 shares of the Company's common stock at \$0.25 per share. Under the agreement, that performance warrant shall vest if during the term of the agreement the volume weighted average price of the Company's common stock is above \$0.50 for five consecutive days.

Warrants to purchase 2,750,000 common shares were issued together with shares of preferred stock in the private offering of Series G Preferred Shares to Monarch. Of such warrants, 2,200,000 were issued to Monarch and 550,000 were issued to MAG. Those warrants have an exercise price of \$0.44 per share and expire on November 5, 2007. The warrants prohibit any exercise thereof that would result in the holder owning beneficially more than 9.99% of the outstanding shares of Common Stock of the Company as determined under Section 13(d) of the Securities Exchange Act of 1934.

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

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

## Edgar Filing: SPESCOM SOFTWARE INC - Form S-1

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

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

## **Registration Rights**

### *Preferred Stock and Warrants Issued in Private Placement*

In connection with our October 25, 2005 private offering of Series H Preferred Stock, we entered into a registration rights agreement with Monarch and MAG for their benefit, and the benefit of the direct and indirect transferees of the shares sold in that offering. Under this registration rights agreement, we agreed to use commercially reasonable efforts to file with the SEC, no later than December 31, 2005 a registration statement providing for the resale of the common shares into which the preferred shares sold in that private offering are convertible, as well as the common shares issuable upon the exercise of warrants issued to each of Monarch and MAG in connection with that private offering. Monarch and MAG have agreed to extend the registration date to January 6, 2006. The registration statement of which this prospectus is part was filed to satisfy that obligation.

### *Additional Warrants*

All of the shares that may be issued upon exercise of the Warrants are subject to registration rights. The 925,926 shares issuable upon exercise of the warrants issued in our October 25, 2005 private placement are subject to the registration rights described above under Common Stock and Warrants Issued in Private Placement. The remaining Warrants issued or to be issued to Liolios are entitled to piggyback registration rights allowing the holders to request that the Company register any of its common stock issuable pursuant to such Warrants after notification by the Company that it proposes to register any of its securities under the Securities Act of 1933 for sale to the public. Liolios has elected to include in this registration statement the shares issuable upon exercise of the Warrants that have been or will be issued to it.

## **Transfer Agent**

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

## **LEGAL MATTERS**



Edgar Filing: SPESCOM SOFTWARE INC - Form S-1

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

**EXPERTS**





## Edgar Filing: SPESCOM SOFTWARE INC - Form S-1

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

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

### **BUSINESS**

## General

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

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

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

## History

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

As of September 30, 2005 Spescom Ltd. owned 51% of the outstanding shares of the Company on a fully diluted basis including the shares issuable upon conversion of the shares of the Company's Series F Preferred Stock held by Spescom Ltd.

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

### 1999

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

### 2000

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

2001

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

2002

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

2003

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

2004

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

2005

In November 2004 the Company completed a financing arrangement whereby the Company issued 2,200 shares of Series G Convertible Preferred Stock along with 2,750,000 common stock warrants for gross proceeds of \$2,200,000. During fiscal 2005, 750 shares of this preferred stock was converted into 2,428,000 shares of common stock. Subsequent to the end of fiscal 2005, in October 2005 the Company completed the first closing of another financing whereby the Company issued 1,950 shares of Series H Convertible Preferred Stock in exchange for \$500,000 and the remaining 1,450 shares of Series G Convertible Preferred Stock. As a result of these financing activities,

Spescom Ltd.'s ownership of the Company on a fully diluted basis including the shares issuable upon conversion of the shares of the Company's Series F Convertible Preferred Stock held by Spescom Ltd is now less than 50%. Spescom Ltd., however, by virtue of its ownership of common stock and Series F Convertible Preferred Stock, is currently entitled to 56% of the total number of votes eligible to be cast in the election of directors.

## Industry Background

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

Enterprise information can be broadly divided into two categories:

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

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

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

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

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

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

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

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

### **The Company's Strategic Positioning**

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

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

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

### **Competition**

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

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

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

### **The Company's Solution**

#### *Challenges of Document and Change Management*

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

Deliver more complex, innovative and customized products and services at a faster rate.

Reduce costs, improve quality, and shorten time to market, while achieving the targeted return on investment.



Establish more comprehensive, collaborative, and improved relationships with their customers, suppliers, and business partners.

Comply with strictly enforced, ever increasingly stringent regulatory and safety requirements.

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

#### Current Solutions

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

#### Limitations of Enterprise Solutions

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

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

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

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

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

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

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

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

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

Market Opportunity: Information Integration and Synchronization

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

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

The eB Solution

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

**1. Rapid access to information**

Provides availability of information from existing enterprise solutions

**2. Accurate information**

Ensures information integrity in a rapidly changing environment

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

Transforms information into knowledge

*Differentiators Defining the Niche*

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

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

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

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

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

*The Company's Unique Solution Addresses the Niche*

The Company's integrated document, configuration and records management (iDCR) solutions enable all requirements (design, safety, environmental, etc.), all documents, structured and unstructured, within an enterprise (including office documents, emails, CAD drawings, images, voice and computer print outs), and all data on products, assets, processes, projects and people to be captured, identified and inter-linked. This results in a unified and structured view of all enterprise information and promotes rapid access to relevant information by

authorized users in context to their tasks and functions. *eB*'s collaborative workspace environment provides an automated closed-loop change management process that ensures information integrity throughout the enterprise and compliance with legal, regulatory, corporate, audit and quality requirements.

### **The Company's Products**

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

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

Document/content management

Imaging

Workflow

Computer Output to Laser Disc (COLD/ERM)

Item management

Requirements management

Change management

Records management

Collaborative workspace management

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

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

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

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

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

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

This integrated solution provides enterprises with many benefits, including:

1. A single system for all document, data, records and process orientated functions across an enterprise that simplifies maintenance for administrators and IT staff.
2. A single point of entry for users, which reduces the cost of training and eliminates the need for users to know or care where documents and other information resides.
3. A broad range of functionality that addresses the needs of many different users throughout an organization, thereby maximizing the investment.
4. Rapid deployment using standard out-of-the-box interfaces and applications resulting in a fast return on investment.
5. A single point of contact and support for the technology, which results in potentially fewer problems with software upgrades, than might otherwise be encountered in systems that use products from multiple vendors.



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

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

## Strategy

### Business Model

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

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

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

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

### Strategic Initiatives

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



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

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

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

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

- i) Allocate its resources to its critical, core functions,
  
  
- ii) Focus on the delivery of higher margin services and products such as system design services and solution products, and

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

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

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

**Grow revenues by:**

- i) Leveraging senior business development executives with extensive market contacts within each of the Company's targeted vertical markets in the US and UK/Europe. In addition, the Company plans to allocate additional resources to support these key persons with adequate staffs and budgets to leverage their effect in the market.
- ii) Leveraging existing user groups to increase the number of licensed seats and/or number of software modules. This is intended to not only increase software sales but also enhance the recurring revenue stream the Company realizes from annual software maintenance contracts. In addition, the Company will target conversion of legacy Altris software seats into eB.
- iii) Applying resources to expand horizontally or vertically to new user groups, departments or subsidiaries within existing markets
- iv) Leverage partnerships into new markets

**Customers**

## Edgar Filing: SPESCOM SOFTWARE INC - Form S-1

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

Utilities (power, water and gas)

Transportation (air, rail and sea)

Public Sector/Local Government

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

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

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

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

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

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

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

## **Sales and Marketing**

### Direct sales

The Company focuses its direct sales force on select vertical markets with compelling business needs for the Company's information management solutions. The Company has established a strong market presence in those chosen verticals both domestically and internationally. The Company's strategy is to continue its direct sales and marketing to increase its market penetration in these verticals. As of September 30, 2005, the Company's sales and marketing organization consisted of 11 employees, 8 based in the U.S. and 3 based in the UK. The Company's field sales force regularly conducts presentations and demonstrations of the Company's suite of products to management and users at customer sites as part of the direct sales effort. Sales cycles for the Company's products generally last from six to twelve months.

### Indirect distribution channels

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

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

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

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

### **Services and Support**

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

VARs, Systems Integrators and OEM support

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

**Technical Support and Software Maintenance**

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

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

**Product Development**

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

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

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

### **Backlog and Current Contracts**

The Company's contract backlog consists of the aggregate anticipated revenues remaining to be earned at a given time from the uncompleted portions of its existing contracts. It does not include revenues that may be earned if customers exercise options to make additional purchases. At September 30, 2005, the Company's contract backlog was \$4,355,000, as compared to \$2,599,000 at September 30, 2004. The Company

expects a majority of the September 30, 2005 backlog to be substantially completed in fiscal 2006. The amount of contract backlog is not necessarily indicative of future contract revenues because short-term contracts, modifications to or terminations of present contracts and production delays can provide additional revenues or reduce anticipated revenues. The Company's backlog is typically subject to large variations from time to time when new contracts are awarded. Consequently, it is difficult to make meaningful comparisons of backlog.

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

#### **Patents and Technology**

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

#### **Employees**

As of September 30, 2005, the Company had 38 full-time employees, of whom 7 were engaged in product development, 16 in customer support, implementation and application engineering activities, 11 in sales and marketing and 4 in administration. The Company also utilizes consultants for specific projects. None of the Company's employees is represented by a labor union. The Company has not experienced work stoppages and believes its relationship with its employees is good. Competition for qualified personnel in the industry in which the Company competes is intense and the Company expects that such competition will continue for the foreseeable future. The Company has an incentive stock option plan for granting options to employees as a means of attracting and keeping key individuals. The Company believes that its future success will depend, in large measure, on its ability to continue to attract, hire and retain qualified employees and consultants.



**PROPERTIES**



## Edgar Filing: SPESCOM SOFTWARE INC - Form S-1

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

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

### **LEGAL PROCEEDINGS**



## Edgar Filing: SPESCOM SOFTWARE INC - Form S-1

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

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



## Edgar Filing: SPESCOM SOFTWARE INC - Form S-1

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

	High	Low
<b>Year Ended September 30, 2005</b>		
First Quarter	\$ 0.55	\$ 0.31
Second Quarter	0.68	0.30
Third Quarter	0.50	0.21
Fourth Quarter	0.36	0.16
<b>Year Ended September 30, 2004</b>		
First Quarter	\$ 0.73	\$ 0.40
Second Quarter	0.72	0.41
Third Quarter	0.56	0.42
Fourth Quarter	0.45	0.30

On January 3, 2006, there were approximately 900 holders of record of the Company's Common Stock and the last sale price of the Common Stock as reported on the OTC Bulletin Board on January 3, 2005 was \$0.18 per share.

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

### Equity Compensation Plan Information

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

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a) (c)
Equity compensation plans approved by security holders	4,856,000	\$ 0.30	2,219,962
Equity compensation plans not approved by security holders	3,500,000(1)(2)	\$ 0.27	
<b>Total</b>	<b>8,356,000</b>	<b>\$ 0.29</b>	<b>2,219,962</b>

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

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

#### **SELECTED FINANCIAL DATA**



**ITEM 6. SELECTED FINANCIAL DATA**

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

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

	2005	2004	Years ended September 30,		2002	2001
			2003			
	(In thousands except per share data)					
<b>Consolidated Statement of Operations Data</b>						
<b>Revenues</b>						
Licenses	\$ 737	\$ 3,897	\$ 2,053	\$ 1,958	\$ 4,806	
Services and other	5,088	5,105	5,309	5,012	6,352	
Total revenues	5,825	9,002	7,362	6,970	11,158	
<b>Cost of revenues</b>						
Licenses	206	260	690	2,041	1,371	
Services and other	2,232	2,249	2,334	3,218	3,914	
Total cost of revenues	2,438	2,509	3,024	5,259	5,285	
Gross profit	3,387	6,493	4,338	1,711	5,873	
<b>Operating expenses:</b>						
Research and development	852	1,393	1,494	1,828	1,963	
Marketing and sales	3,799	2,949	2,452	3,479	4,100	
General and administrative	1,994	1,965	1,410	1,809	1,276	
	6,645	6,307	5,356	7,116	7,339	
Income (loss) from operations	(3,258)	186	(1,018)	(5,405)	(1,466)	
<b>Nonrecurring loss on conversion of debt to preferred stock</b>						
			(1,499)			
Interest and other income	1	13	4	7	182	
Interest and other expense	(291)	(151)				