

Splinx Technology Inc.  
Form 10QSB  
November 20, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2006

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 333-116817

Splinx Technology Inc.

\_\_\_\_\_  
(Exact name of small business issuer as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**20-0715816**

(IRS Employer Identification No.)

500 W. Cypress Creek Road Suite 100  
Fort Lauderdale, FL 33309

(Address of principal executive offices)

(954) 556-4020

(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: On November 17, 2006, the number of shares outstanding of the registrant's common stock was 100,757,770 shares.

Transitional Small Business Disclosure Format (Check one): Yes  No



**SPLINEX TECHNOLOGY INC.**  
**Form 10-QSB**  
**For the Quarter Ended September 30, 2006**  
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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements.

SPLINEX TECHNOLOGY INC.  
(A DEVELOPMENT STAGE COMPANY)  
CONDENSED CONSOLIDATED UNAUDITED BALANCE SHEETS

	September 30, 2006	March 31, 2006
<b>ASSETS</b>		
Current assets		
Cash	\$ 892	\$ 9,458
Prepaid expenses and other	20,488	39,189
Total current assets	21,380	48,647
Property and equipment, net	3,054	7,340
Accounting software license	-	20,192
Other assets	9,881	9,881
Total assets	\$ 34,315	\$ 86,060
<b>LIABILITIES AND STOCKHOLDERS' DEFICIENCY IN ASSETS</b>		
Current liabilities		
Demand note payable and accrued interest due to related party - Ener1 Group	652,733	435,540
Note payable and accrued interest due to related party - Bzinfin	2,741,457	2,677,707
Accounts payable	654,703	563,006
Accrued expenses	582,929	683,093
Due to related parties	138,262	138,262
Total current liabilities	4,770,084	4,497,608
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' DEFICIENCY IN ASSETS</b>		
Preferred stock (\$.001 par value, 150,000,000 shares authorized and no shares issued and outstanding)	-	-
Common stock (\$.001 par value, 300,000,000 shares authorized and 100,757,770 shares issued and outstanding)	100,758	100,758
Treasury stock, at cost; 250,000 shares	(62,500)	(62,500)
Paid in capital	1,109,712	1,109,712
Deficit accumulated during the development stage	(5,883,739)	(5,559,518)
Total stockholders' deficiency in assets	(4,735,769)	(4,411,548)
Total liabilities and stockholders' deficiency in assets	\$ 34,315	\$ 86,060

See accompanying notes.

SPLINEX TECHNOLOGY INC.  
(A DEVELOPMENT STAGE COMPANY)  
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF OPERATIONS

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Six Months Ended September 30, 2006	Six Months Ended September 30, 2005	Cumulative From Inception (October 28, 2003) Through September 30,2006
Net sales	\$ 793	\$ 617	\$ 793	\$ 687	\$ 2,813
<b>Operating Expenses</b>					
Sales and marketing	-	49,952	-	190,120	561,296
General and administrative	67,746	688,661	222,094	958,159	3,408,311
Research and development	1,707	287,014	24,996	588,203	2,009,512
Total operating expenses	69,453	1,025,627	247,090	1,736,482	5,979,119
Costs of merger and registration	-	-	-	-	512,321
Total expenses	69,453	1,025,627	247,090	1,736,482	6,491,440
Loss from operations	(68,659)	(1,025,010)	(246,297)	(1,735,795)	(6,488,627)
Interest expense, net	(39,212)	(30,720)	(77,924)	(55,908)	(217,959)
Loss before income taxes	(107,872)	(1,055,730)	(324,221)	(1,791,703)	(6,706,586)
Income taxes	-	-	-	-	-
Net loss	\$ (107,872)	\$ (1,055,730)	\$ (324,221)	\$ (1,791,703)	\$ (6,706,586)
<b>Net loss per basic and fully diluted share</b>					
	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.02)	
<b>Weighted average shares outstanding</b>					
	100,757,770	100,670,270	100,757,770	100,670,270	

See accompanying notes.

SPLINEX TECHNOLOGY INC.  
(A DEVELOPMENT STAGE COMPANY)  
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS

	Six Months Ended September 30, 2006	Six Months Ended September 30, 2005	Cumulative From Inception (October 28, 2003) Through September 30, 2006
Cash flows from operating activities:			
Net loss	\$ (324,221)	\$ (1,791,703)	\$ (6,706,586)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	4,286	13,232	68,763
Executive compensation and other expenses paid with common stock	-	-	32,179
Non cash interest expense	77,048	55,661	211,295
Changes in operating assets and liabilities:			
Prepaid expenses and other	38,062	(14,812)	(20,488)
Due to related parties	-	28,743	138,261
Other assets	-	-	(9,881)
Accounts payable	91,697	35,982	654,704
Accrued expenses	(100,164)	561,159	529,179
Total adjustments	110,929	679,965	1,604,012
Net cash used in operating activities	(213,292)	(1,111,738)	(5,102,574)
Cash flows from investing activities:			
Purchase of equipment	-	6,710	(79,429)
Employee loans and advances, net	831	7,485	-
Net cash provided by (used) in investing activities	831	14,195	(79,429)
Cash flows from financing activities:			
Note payable related parties	203,895	850,000	3,182,895
Contributed capital from equity investors	-	-	2,000,000
Net cash provided by financing activities	203,895	850,000	5,182,895
Net increase (decrease) in cash	(8,566)	(247,543)	892
Cash at beginning of period	9,458	256,347	-
Cash at end of period	\$ 892	\$ 8,804	\$ 892

See accompanying notes.

SPLINEX TECHNOLOGY INC.  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

Splinx Technology Inc. (“Technology”) was organized under the laws of the State of Delaware as a wholly owned subsidiary of Splinx, LLC, a Florida limited liability company (the “Predecessor”), to conduct the business and operations of the Predecessor. Under an agreement effective April 1, 2004 (the “Contribution Agreement”), the Predecessor contributed substantially all of its assets, liabilities and operations to Technology. The financial statements include the accounts of Technology and the Predecessor (combined, the “Company”), and all material intercompany transactions have been eliminated. The Company began its development stage activity on October 28, 2003 (“Inception”).

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and Regulation S-B. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results for the interim periods presented have been included. These results have been determined on the basis of generally accepted accounting principles and practices applied consistently with those used in the preparation of the Company's Annual Financial Statements for the year ended March 31, 2006. Operating results for the six months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending March 31, 2007. It is recommended that the accompanying condensed consolidated financial statements be read in conjunction with the financial statements and notes for the year ended March 31, 2006 included in the Company's Form 10-KSB filed with the Securities and Exchange Commission on July 14, 2006.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current year presentation.

Basis of Consolidation

The consolidated interim financial statements include the accounts of Technology and its wholly owned subsidiary, ANTAO Ltd., a limited liability company formed under the laws of Russia (“ANTAO”). All material intercompany accounts and transactions have been eliminated in consolidation.

Business Activity

The Company licenses software which it developed that enables the generation, manipulation, viewing and image-based searching of complex, multi-dimensional mathematical objects and information. Since Inception, the Company has operated in a development phase typical of a software company and has focused on developing technologies and products and securing intellectual property rights while developing relationships with potential customers. Corporate activities to date have included raising capital, strategic and business planning, completing the registration of the Company's securities with the U. S. Securities and Exchange Commission, and retaining executive management. In September 2005, the Company substantially reduced its development activity, terminated most of its personnel, and ceased marketing activities other than maintaining an Internet web store. The Company plans to explore business development opportunities including possibly merging with another company. The Company has minimal sales and no sales contracts and is considered to be in the development stage as of September 30, 2006.

The Company has no significant revenues to date. Since its Inception, the Company has been dependent upon the receipt of capital investment or other financing to fund its continuing activities. In addition to the normal risks associated with a new business venture, there can be no assurance that the Company's product will be a commercial success. Further, the Company is dependent upon certain related parties to provide continued funding and capital resources.



#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the balance sheet date and the reported amounts of expenses for the period presented. Actual results could differ from those estimates.

#### Cash and Cash Equivalents

Cash and cash equivalents include highly liquid money market investments purchased with an original maturity of three months or less. At September 30, 2006, the Company had no cash equivalents. The Company maintains its cash in a bank deposit account, the balance of which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At September 30, 2006, the Company had no amounts in excess of FDIC insured limits.

#### Foreign Currency Transactions

All transactions of the Company are denominated in U.S. dollars. The Company paid Russian research, programming and administrative costs under a U.S. dollar denominated agreement. Consolidated general and administrative expenses include immaterial foreign exchange rate losses on Russian bank balances maintained by ANTAO. The Company has not engaged in foreign currency hedging activities.

#### Stock-Based Compensation

Statement of Financial Accounting Standards ("SFAS") No. 123R, "Accounting for Stock-Based Compensation," requires companies to record employee stock option compensation at fair value. The Company adopted SFAS 123R during the quarter ending March 31, 2005. No options were granted or exercised and 250,000 options expired during the six months ending September 30, 2006. At September 30, 2006, the Company has 550,000 options outstanding under its plan, of which 275,000 options are vested, with an exercise price of \$0.10 per share and with a remaining contractual term of 8 years.

#### Software Development Costs

The Company accounts for software development costs in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed." Costs incurred to establish the technological feasibility of a computer software product are considered research and development costs and are expensed as incurred. When the technological feasibility of a software product has been established using the working model approach, development cost are capitalized. Capitalization of these costs ceases when the product is ready for production. The Company has expensed all software development costs since Inception.

#### Revenue Recognition

The Company's revenues, net of sales returns and other allowances, are from the licensing of products. The Company recognizes revenues in accordance with Statement of Position or "SOP" 97-2, "Software Revenue Recognition," as amended, SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts," and Staff Accounting Bulletin or "SAB" 104, "Revenue Recognition." The Company will recognize revenues when persuasive evidence of an arrangement exists, delivery has occurred, the vendor's fee is fixed or determinable, vendor-specific objective evidence exists for all undelivered elements of the arrangement and collection is determined to be probable.



## Net Loss Per Share

Basic net loss per common share is computed by dividing net loss applicable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net loss per common share is determined using the weighted-average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents, consisting of shares issuable upon exercise of common stock options. In periods when losses are reported, the weighted-average number of common shares outstanding excludes common stock equivalents because their inclusion would be anti-dilutive.

## Advertising

Advertising expense, including direct mail and email advertising, was \$1,951 and \$73,804 for the three and six months ended September 30, 2005, respectively. There were no advertising expenses for the six months ending September 30, 2006.

## Fair Value of Financial Instruments

The Company's financial instruments consist mainly of cash, short-term payables and borrowings under the notes payable. The Company believes that the carrying amounts approximate fair value, due to their short-term maturities and current interest rates.

## Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes indicate that the carrying amount of an asset or group of assets may not be recoverable. An impairment loss of \$0 and \$20,000 was recorded during the three and six months ending September 30, 2006 related to accounting software licenses no longer in use. No impairment losses were recorded during the period ended September 30, 2005.

## NOTE 2. GOING CONCERN CONSIDERATIONS

The Company's financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company is in the development stage and has had minimal revenues since Inception. Management recognizes that the Company must raise capital sufficient to fund start up, development and marketing activities until such time as it can generate revenues and net cash flows in amounts necessary to enable it to continue in existence. The realization of assets and satisfaction of liabilities in the normal course of business is dependent upon the Company achieving these goals. Management's plans include continuing efforts to develop the Company's first commercial product, borrowing funds under the revolving loan agreement described below, and raising additional capital.

In accordance with the funding provisions in the Predecessor's operating agreement, certain members of the Predecessor contributed capital of \$2,000,000 to the Predecessor. As of July 27, 2005, the Company had borrowed \$2,500,000 under a \$2,500,000 revolving loan agreement with a company that is affiliated with the Company through common ownership (the "Bzinfon Loan"). The Company borrowed an additional \$50,000 from Bzinfon during September 2005, and the loan agreement was amended to include the additional borrowing under the same terms and conditions. From October 2005 through September 30, 2006, the Company borrowed \$633,000 from Ener1 Group, Inc. under a demand note.

Since September 2005, the Company has implemented a change in its business strategy and taken certain actions to reduce its overhead costs. The Company is providing minimal maintenance and support of its existing *nViz<sup>x</sup>* visualization products, and does not presently plan to introduce new versions of the product. The Company has

discontinued its development projects. In September 2005, the Company terminated its use of software development services previously provided to the Company by Splinx Outsourcing, Inc., a Russian outsourcing company, terminated its development activity, terminated most of its personnel, and ceased marketing activities other than maintaining an Internet web store. The Company plans to explore business development opportunities including possibly merging with another company. The Company has minimal sales and no sales contracts and is considered to be in the development stage as of September 30, 2006.

The Company has borrowed funds from a related party, Ener1 Group, Inc., to pay certain ongoing expenses while it pursues such alternatives, which could include acquisitions of or joint ventures with companies that could benefit from certain of the Company's core technologies. The Company does not anticipate receiving funding from Ener1 Group, Inc. sufficient to pay past due obligations including severance obligations until it has been able to implement its business development further.

Management believes that actions presently being taken, as described in the preceding paragraphs, provide the opportunity for the Company to continue as a going concern; however, there is no assurance this will occur.

#### NOTE 3. SEGMENT INFORMATION

The Company's sole reportable business segment is visual communication software products and services. The Company's accounting policies for segments are the same as those described in the summary of significant accounting policies.

#### NOTE 4. ACCRUED EXPENSES

Accrued expenses represent expenses that are owed at the end of the period that either have not been billed by the provider or are expenses that are estimated for services provided. Accrued expenses also include severance and other wage related expenses due to former employees. At September 30, 2006 and March 31, 2006, accrued expenses consisted of the following:

	September 30, 2006	March 31, 2006
Accrued severance and termination obligations	\$ 471,877	\$ 561,111
Accrued Russian programming closing costs	43,000	43,000
Audit	31,000	40,000
Accrued vacation and wages	9,626	11,555
Miscellaneous	27,426	27,427
	\$ 582,929	\$ 683,093

#### NOTE 5. STOCKHOLDERS' EQUITY

The Company has the authority to issue 300,000,000 shares of common stock, par value of \$0.001 per share. Each holder of common stock is entitled to one vote for each share held. The Company has the authority to issue 150,000,000 shares of preferred stock, par value \$0.001 per share, which may be divided into series with the designations, powers, preferences, and relative rights and any qualifications, limitations or restrictions as determined by the Company's board of directors.

During October 2005, a former employee forfeited 250,000 restricted shares of the Company's common stock. The Company has recorded the forfeited restricted stock as treasury stock at \$62,500 based upon the closing price of the common stock on the date of forfeiture.

#### NOTE 6. RELATED PARTY TRANSACTIONS

On January 1, 2004 and February 1, 2004, the Company entered into consulting agreements with two members of the Predecessor, one of whom is also director of the Company. The consulting agreements engage the members to provide consulting services including providing advice regarding equity restructuring, business planning, strategic planning,

and international licensing in exchange for \$100,000 per year, or a monthly fee to each consultant of \$8,333. General and administrative expenses include consulting fees under these agreements of \$50,000 and \$100,000 for the three and six months ended September 30, 2006 and 2005, respectively. Accounts payable includes \$300,666 owed under these agreements.

The Company shared personnel with Ener1, Inc. and Ener1 Group, Inc., entities affiliated with the Company by common ownership and through common control. Accordingly, amounts have been allocated to and from the Company for the services of personnel and other expenses. The Company incurred rent expense of \$0 and \$10,486 for its office space under a sublease with Ener1 Group, Inc. for the three and six months ended September 30, 2006 and \$15,414 and \$30,829 for the three and six months ended 2005, respectively. In the period ended March 31, 2006 ("fiscal 2006"), related parties reimbursed the Company for the time spent by one of its employees for patent and research work in the amount of \$1,080 and \$2,280 for the three and six months ended September 30, 2005. General and administrative expenses include legal expenses payable to Ener1 Group, Inc. for the services of an Ener1 Group employee who serves as the Company's general counsel in the amount of \$3,300 and \$7,700 for the three and six months ended September 30, 2005.

During fiscal 2006, the Company worked with Russia-based scientists and programmers who were employed by Splinx Outsourcing LLC, a Russian company. During the three months ended September 30, 2005, the Company paid \$120,207 to Splinx Outsourcing of which \$40,207 was paid through ANTAO And \$80,000 was paid through Ener1 Group.

Effective February 1, 2006, the Company's President, Mr. Herlihy, was appointed to the position as Chief Financial Officer of Ener1, Inc. in addition to his continuing role at Splinx. Splinx is paying \$60,000 of Mr. Herlihy's \$250,000 annual salary as Chief Financial Officer of Ener1, and Ener1 is paying \$190,000 of Mr. Herlihy's salary. Mr. Herlihy dedicated substantially all of his time to Ener1 except for the time necessary to attend to the administrative and financial matters of Splinx. Effective October 16, 2006, Mr. Herlihy resumed his full time role as President of Splinx and will terminate his role at Ener1 following a brief transition period, at which time Splinx will be responsible for 100% of Mr. Herlihy's salary.

#### NOTE 7. DEBT DUE TO RELATED PARTIES

Effective April 1, 2004, a company that is affiliated with the Company through common ownership, entered into a revolving loan agreement with the Company under which the Company borrowed \$2,550,000 in aggregate principal through March 31, 2006. Loans under this agreement bear interest at an annual rate of 5% and must be repaid two years from the date of the initial funding, which occurred on February 7, 2005.

At September 30, 2006, the Company had borrowed \$632,895 from Ener1 Group under a demand note bearing annual interest of 5% to fund working capital needs. Accrued interest at September 30, 2006 was \$19,838.

#### NOTE 8. COMMITMENTS AND CONTINGENCIES

##### *Foreign subsidiary*

Prior to September 2005, the Company outsourced computer programming to a company located in Ekaterinberg Russia. The Company may resume outsourcing in Russia in the future. The outsourcing company's operations in Russia are subject to significant risks not typically associated with companies in North America and Western Europe. These risks include, among others, political, economic and legal risks associated with doing business in Russia, limitations on foreign currency transactions, and risks associated with evolving Russian laws on issues including creditor rights and intellectual property. The Company's ability to develop products and earn revenues may be adversely affected by changes in the political, economic, legal and social conditions in Russia, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, foreign currency transactions, and rates and methods of taxation, among other things.

##### *Lease Commitments*

Effective April 1, 2004, the Company assumed the rights and obligations under a sublease agreement for its office facility that the Predecessor entered into in October 2003. The sublease agreement expires on February 28, 2008. A subtenant assumed the lease obligations to Ener 1 Group on June 1, 2006.

Item 2. Management's Discussion and Analysis or Plan of Operation.

*This Quarterly Report on Form 10-QSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to our expectations, hopes, intentions or strategies regarding future events or future financial performance. Any statements contained in this report that are not statements of historical fact may be deemed forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "intend", "believe," "estimate," "predict," "potential" or "continue," or the negative of such terms or other comparable terminology. Forward-looking statements include but are not limited to statements regarding: our future business plans; the expected release dates and future sales of our products; development of other products; expected hiring levels; marketing plans; increases of selling, general and administrative costs and research and development spending; our product development strategy; financing requirement and capital raising plans. These statements are only predictions and are subject to a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. The following important factors, in addition to those discussed in our filings with the Securities and Exchange Commission (the "Commission") from time to time, and other unforeseen events or circumstances, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in our forward-looking statements: general economic conditions; competition; our ability to raise capital; our ability to control costs; changes within our industries; release of new and upgraded products and services by us or our competitors; development of our sales force; employee retention; our ability to protect our intellectual property; legal and regulatory issues; changes in accounting policies or practices; and successful adoption of our products and services.*

*All forward-looking statements are based on information available to us on the date of this filing, and we assume no obligation to update such statements.*

*The following discussion should be read in conjunction with our other filings with the Securities and Exchange Commission and the consolidated interim financial statements and related notes included in this Quarterly Report.*

## **Overview**

Splinx licenses software which it developed that enables the generation, manipulation, viewing and image-based searching of complex, multi-dimensional mathematical objects and information. We believe end-users of our software products, such as mathematicians, scientists, graphic designers or digital artists working on complex graphical three-dimensional problems, will experience greater productivity through improved interaction with, enhanced visual representation and faster manipulation of, and greater technical and artistic precision in representing, multi-dimensional mathematical objects and information.

Since Inception, we have operated in a development phase typical of a software company and have focused on developing technologies and products and securing intellectual property rights while we develop relationships with potential customers and resellers. Our corporate activities to date have included raising capital, strategic and business planning, completing the registration of our securities with the Commission, and retaining executive management. In September 2005, we substantially reduced our development activity, terminated most of our personnel, and ceased marketing activities other than maintaining an Internet web store. We plan to explore business development opportunities including possibly merging with another company. We have minimal sales and no sales contracts and are considered to be in the development stage as of September 30, 2006.

We began activity October 28, 2003 (Inception). Effective April 1, 2004, our Predecessor reorganized as a corporation and, as a result, contributed its assets, liabilities and operations to us. Our financial statements include the accounts of Splinx Technology Inc. and our Predecessor, and all material intercompany transactions have been eliminated.



The Company's financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company is in the development stage and has had minimal revenues since Inception. Management recognizes that the Company must raise capital sufficient to fund start up, development and marketing activities until such time as it can generate revenues and net cash flows in amounts necessary to enable it to continue in existence. The realization of assets and satisfaction of liabilities in the normal course of business is dependent upon the Company achieving these goals. Management's plans include continuing efforts to develop the Company's first commercial product, borrowing funds under the revolving loan agreement described below, and raising additional capital.

In accordance with the funding provisions in the Predecessor's operating agreement, certain members of the Predecessor contributed capital of \$2,000,000 to the Predecessor. As of July 27, 2005, the Company had borrowed \$2,500,000 under a \$2,500,000 revolving loan agreement with a company that is affiliated with the Company through common ownership (the "Bzinfin Loan"). The Company borrowed an additional \$50,000 from Bzinfin during September 2005, and the loan agreement was amended to include the additional borrowing under the same terms and conditions. From October 2005 through September 30, 2006, the Company borrowed \$524,000 from Ener1 Group, Inc. under a demand note.

Since September 2005, the Company has implemented a change in its business strategy and taken certain actions to reduce its overhead costs. The Company is providing minimal maintenance and support of its existing *nViz<sup>x</sup>* visualization products, and does not presently plan to introduce new versions of the product. The Company has discontinued its development projects. In September 2005, the Company terminated its use of software development services previously provided to the Company by Splinx Outsourcing, Inc., a Russian outsourcing company, terminated its development activity, terminated most of its personnel, and ceased marketing activities other than maintaining an Internet web store. The Company plans to explore business development opportunities including possibly merging with another company. The Company has minimal sales and no sales contracts and is considered to be in the development stage as of September 30, 2006.

The Company has borrowed funds from a related party, Ener1 Group, Inc., to pay certain ongoing expenses while it pursues such alternatives, which could include acquisitions of or joint ventures with companies that could benefit from certain of the Company's core technologies. The Company does not anticipate receiving funding from Ener1 Group, Inc. sufficient to pay past due obligations including severance obligations until it has been able to implement its business development further.

Management believes that actions presently being taken, as described in the preceding paragraphs, provide the opportunity for the Company to continue as a going concern; however, there is no assurance this will occur.

### **Plan of Operation**

During the period from Inception on October 28, 2003 through October 1, 2004, our research and development activities were primarily directed towards developing core technologies and software libraries that could be used in various applications and market segments.

During the period from October 1, 2004 through August 2005, we have directed most of our software development activities to developing and releasing a commercial version of our software product called *nViz<sup>x</sup>*, the first versions of which were designed for use with Mathematica and Maple, two third-party technical computing software programs published by Wolfram Research Inc. and Waterloo Maple, Inc., respectively. Mathematica and Maple are programs used for advanced mathematical functions and problem solving, such as numeric and symbolic computation plus interactive document creation. *nViz<sup>x</sup>* is an add-on (i.e., a product sold separately and used in connection with the technical computing software) software program that allows users to visualize sophisticated and complex multi-dimensional data and objects faster and with greater control and detail than is currently possible.

The first version of *nViz<sup>x</sup>* v1.0 for Mathematica was commercially released and made available for purchase in March 2005. *nViz<sup>x</sup>* v1.5 for Maplesoft was commercially released and made available for purchase in June 2005. In June 2005, we entered into a Reseller Agreement with Waterloo Maple Inc., the parent company of Maplesoft, the developer of Maple software. Under the Reseller Agreement, Maplesoft and Splinx agreed to conduct a number of joint marketing and sales initiatives. Additionally, Maplesoft agreed to promote *nViz<sup>x</sup>* v1.5 for Maple through its web site and other marketing activities directed to its customer base. We have not had significant sales of either product, and do not have sufficient funds to market the product to achieve higher sales. Our current marketing activities consist solely of the marketing efforts of our reseller and availability of the product for purchase at our internet web store.

Using our core software libraries, we have the capability to develop additional versions of *nViz<sup>x</sup>* as visualization add-ons for other technical computing software products similar to Mathematica and Maplesoft and for spreadsheet products like Microsoft Excel. However, due to low product sales, we intend to make available for purchase our existing *nViz<sup>x</sup>* visualization products, but do not presently plan to introduce new versions of the product or upgrades unless and until sales of the current products increase significantly. We may explore alternative uses of our existing technology through licensing or other business development activities. We may pursue acquisitions of, or joint ventures with, companies that can benefit from our technology.

On December 13, 2005, we signed a letter of intent to acquire EnerSoft, Inc. ("EnerSoft"), a privately held technology company that specializes in the development of video processing filters, signal and imaging processing and video compression technologies. Ener1 Group, Inc., a company affiliated with our Company by common ownership and common control, owns 95% of the equity of EnerSoft. EnerSoft is a development stage software company with no assets or revenues. The Company discontinued further due diligence activities and negotiations related to EnerSoft in May 2006.

At September 30, 2006, we had cash of \$892 and negative working capital of \$4,748,704. Through employee terminations, the termination of our use of software development services previously provided to us by Splinx Outsourcing, Inc., and implementation of other expense controls, we have reduced our monthly cash expenses to approximately \$50,000. We are currently dependent upon funds advanced from Ener1 Group, Inc. to pay these ongoing expenses. We do not anticipate receiving funding sufficient to pay our past due obligations, including severance obligations, until we have been able to implement our business development plans further.

We cannot provide assurance you that we will be able to raise additional funds on terms favorable to us or at all. If we raise additional funds through the sale of equity or convertible debt securities, our current stockholders' ownership percentage of our common stock will be reduced. In addition, these transactions may dilute the value of our common stock. We may have to issue securities that have rights, preferences and privileges senior to our common stock. The terms of any additional indebtedness may include restrictive financial and operating covenants that would limit our ability to compete and expand. Our failure to obtain any required future financing could materially and adversely affect our financial condition.

As of September 30, 2006, we have no material planned capital expenditures.

### **Results of Operations for the Three Month Period Ended September 30, 2006**

We incurred a loss of \$107,872, or \$(0.00) per share, for the three months ended September 30, 2006, compared to a loss of \$1,055,730, or \$(0.01) per share in the prior year quarter. Weighted average shares outstanding were 100,757,770 and 100,670,270 for the three months ended September 30, 2006 and 2005, respectively. Operations for the three months ended September 30, 2005 were primarily related to the development and commercial release of software products. Operations for the three months ended September 30, 2006 reflect the termination of a substantial part of our software development team and reduced administrative overhead costs and marketing expenditures due to limited funds available for operations.

Operating expenses of \$69,453 for the three months ended September 30, 2006 included \$67,746 for general and administrative expenses, and \$1,707 for research and development costs. Operating expenses of \$1,025,627 for the three months ended September 30, 2005 included \$49,952 for sales and marketing expenses, \$688,661 for general and administrative expenses and \$287,014 for research and development costs. Interest expenses increased to \$39,212 for the three months ended September 30, 2006 from \$30,720 in the three months ended September 30, 2005 due to additional loans from Ener1 Group. Interest under the Bzinfon loan is due at maturity in February 2007.

Sales and marketing expenses for the three months ended September 30, 2005 consisted primarily of wages and benefits of \$39,379.

General and administrative expenses for the three months ended September 30, 2006 included wages and benefits of \$18,000, consulting fees of \$50,000 payable to a director, Dr. Novak and, a related party, Mike Zoi; audit fees of \$17,000; insurance costs of \$17,000, offset by a \$50,000 credit from settlement of a termination obligation. General and administrative expenses for the three months ended September 30, 2005 included severance expense of \$404,960, wages and benefits of \$89,892, consulting fees of \$50,000 paid to a director, Dr. Novak and, a related party, Mike Zoi; legal expenses of \$27,401, of which \$3,300 was payable to Ener1 Group to reimburse Ener1 Group for the services of

our general counsel, who is also an officer of Ener1 Group; audit fees of \$30,845; insurance costs of \$21,328; and rent of \$15,414. The severance expense relates to the termination or resignation of certain executives and managers, and is payable through December 21, 2007.

Research and development expenses for the three months ended September 30, 2006 were for final wages and benefits paid to a U.S. based programmer. Research and development expenses for the three months ended September 30, 2005 included \$196,355 for wages and benefits paid to U.S. based programmers; \$84,207 for wages and administrative costs of our Russian-based scientists and programmers and \$5,400 paid to software consultants. In September 2005, we terminated or accepted resignations from certain members of our U.S. development team and terminated the software development services of our Russian programmers.

Related parties reimburse us for the time spent by one of our employees for patent and research work. Our research and development wages and benefits are net of reimbursements of \$1,080 for the three months ended September 30, 2005.

### **Results of Operations for the Six Month Period Ended September 30, 2006**

We incurred a loss of \$324,221, or \$0.00 per share for the six months ending September 30, 2006 compared to a loss of \$1,791,703, or \$0.02 per share, for the six months ended September 30, 2005. Operating expenses of \$1,736,482 for the six months ended September 30, 2005 included \$190,120 for sales and marketing expenses, \$958,159 for general and administrative expenses, and \$588,203 for research and development costs.

There were no sales and marketing expenses for the six months ended September 30, 2006. Sales and marketing expenses for the six months ended September 30, 2005 consisted primarily of wages and benefits of \$96,064 and direct mail advertising expenses of \$71,338.

General and administrative expenses for the six months ended September 30, 2006 included wages and benefits of \$35,000, consulting fees of \$100,000 payable to a director and a related party, Mike Zoi; audit fees of \$34,000; insurance costs of \$43,000, and amortization of accounting software license fees of \$40,000, offset by a \$50,000 credit from settlement of a termination obligation. General and administrative expenses for the six months ended September 30, 2005 included severance expense of \$404,960; wages and benefits of \$193,964, consulting fees of \$100,000 paid to a director, and related party, legal expenses of \$10,214, of which \$7,700 was payable to Ener1 Group to reimburse Ener1 Group for the services of our general counsel; audit fees of \$48,943; insurance costs of \$42,015; and rent of \$30,829.

Research and development expenses for the six months ended September 30, 2006 are for wages and benefits of a programmer whose employment was terminated in July 2006. Research and development expenses for the six months ended September 30, 2005 included \$401,962 for wages and benefits paid to U.S. based programmers; \$156,207 for wages and administrative costs of our Russian-based scientists and programmers and \$17,850 paid to software consultants. In September 2005, we terminated or accepted resignations from certain members of our U.S. development team and terminated the software development services of our Russian programmers.

Related parties reimburse us for the time spent by one of our employees for patent and research work; as a result, our research and development wages and benefits are net of reimbursements of \$2,280 for the six months ended September 30, 2005.

### **Liquidity and capital resources**

At September 30, 2006, we had negative working capital of \$4,748,704 and cash of \$892, and we have no further borrowing availability under the Bzinfon Loan. Approximately \$3,833,000 of the \$4,770,000 of current liabilities are due to related parties, and the remainder is due substantially to vendors and former employees under severance or other obligations which amounts have not been timely paid.

Several factors exist that raise significant doubt as to our ability to continue operating as a going concern. These factors include our history of net losses and the facts that our company is in the development stage and we have earned minimal revenues to date. We have no remaining funds available under our revolving loan agreement and are dependent upon Ener1 Group, Inc. to fund our operations. Our independent auditors' report on our financial statements for the year ended March 31, 2006 contains an explanatory paragraph about our ability to continue as a going concern. In the absence of attaining profitable operations and achieving positive cash flow from operations or obtaining significant additional debt or equity financing, we will continue to have difficulty meeting current and long-term obligations.

Since September 2005, the Company has implemented a change in its business strategy and taken certain actions to reduce its overhead costs. The Company is providing minimal maintenance and support of its existing *nViz<sup>x</sup>* visualization products, and does not presently plan to introduce new versions of the product. The Company has discontinued its development projects. In September 2005, the Company terminated its use of software development services previously provided to the Company by Splinx Outsourcing, Inc., a Russian outsourcing company, terminated its development activity, terminated most of its personnel, and ceased marketing activities other than maintaining an Internet web store. The Company plans to explore business development opportunities including possibly merging with another company. The Company has minimal sales and no sales contracts and is considered to be in the development stage as of September 30, 2006.

From October 2005 through September 30, 2006, the Company borrowed \$633,000 from Ener1 Group, Inc. under a demand note to pay certain ongoing expenses while it pursues such alternatives, which could include acquisitions of or joint ventures with companies that could benefit from certain of the Company's core technologies. The Company does not anticipate receiving funding from Ener1 Group, Inc. sufficient to pay past due obligations including severance obligations until it has been able to implement its business development further.

In accordance with the funding provisions in the Predecessor's operating agreement, certain members of the Predecessor contributed capital of \$2,000,000 to the Predecessor. As of July 27, 2005, the Company had borrowed \$2,500,000 under a \$2,500,000 revolving loan agreement with a company that is affiliated with the Company through common ownership (the "Bzinfin Loan"). The Company borrowed an additional \$50,000 from Bzinfin during September 2005, and the loan agreement was amended to include the additional borrowing under the same terms and conditions.

In the absence of attaining profitable operations and achieving positive cash flows from operations or obtaining significant additional debt or equity financing, we will continue to have difficulty meeting current and long-term obligations.

We do not have material exposure to market risks associated with changes in interest rates related to cash equivalent securities held at September 30, 2006.

#### **Off-balance sheet arrangements**

At September 30, 2006, we did not have any off-balance sheet arrangements, as defined in item 303(c)(2) of Regulation S-B.

#### **Recent Accounting Pronouncements**

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions. This Interpretation requires that the Company recognize in its financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for the Company on January 1, 2007, with the cumulative effect of the change in accounting principle, if any, recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on its financial position, cash flows, and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which clarifies the definition of fair value, establishes guidelines for measuring fair value, and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 will be effective for the Company on January 1, 2008. The Company is currently evaluating the impact of adopting SFAS 157 on its financial position, cash flows, and results of operations.

In September 2006, the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretive guidance on the SEC's views on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The provisions of SAB 108 will be effective for the Company for the fiscal year ended December 31, 2006. The Company is currently evaluating the impact of applying SAB 108 but does not believe that the application of SAB 108 will have a material effect on its financial position, cash flows, and results of operations.





Item 3. Controls and Procedures.

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of September 30, 2006, we carried out an evaluation, under the supervision and with the participation of our management, including our president and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our president and chief financial officer concluded that our disclosure controls and procedures were effective and were operating at the reasonable assurance level. During the quarter ended September 30, 2006, there were no changes in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal proceedings

From time to time, we may be involved in litigation relating to claims arising out of our intellectual property and operations. We are not currently a party to any such proceedings the outcome of which would have a material affect on our company.

Item 6. Exhibits

Exhibit

Number

Description

- 2.1 Agreement and Plan of Merger among Ener1 Acquisition Corp., Splinx and Ener1, Inc., dated as of June 9, 2004, incorporated herein by reference to Exhibit 2.1 to Splinx's Registration Statement on Form S-1 filed with the Commission on June 24, 2004 (Registration No. 333-116817)
- 2.2 First Amendment to Agreement and Plan of Merger among Ener1 Acquisition Corp., Splinx and Ener1, Inc., dated as of October 13, 2004, incorporated herein by reference to Exhibit 2.2 to Splinx's Registration Statement on Form S-1 filed with the Commission on October 15, 2004 (Registration No. 333-116817)
- 2.3 Second Amendment to Agreement and Plan of Merger among Ener1 Acquisition Corp., Splinx and Ener1, Inc., dated as of December 23, 2004, incorporated herein by reference to Exhibit 2.3 to Splinx's Registration Statement on Form S-1 filed with the Commission on December 27, 2004 (Registration No. 333-116817)
- 3.1 Certificate of Incorporation of Splinx, incorporated herein by reference to Exhibit 3.1 to Splinx's Registration Statement on Form S-1 filed with the Commission on June 24, 2004 (Registration No. 333-116817)
- 3.2 Certificate of Merger of Splinx, incorporated herein by reference to Exhibit 3.2 to Splinx's Registration Statement on Form S-1 filed with the Commission on December 27, 2004 (Registration No. 333-116817)
- 3.3 Bylaws of Splinx, incorporated herein by reference to Exhibit 3.3 to Splinx's Registration Statement on Form S-1 filed with the Commission on June 24, 2004 (Registration No. 333-116817)
- 31.1 Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Principal Executive Officer pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**SIGNATURES**

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

Splinx Technology Inc.  
Registrant

Date: November 20, 2006

By: /s/ Gerard A. Herlihy

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Name: Gerard A. Herlihy  
Title: President and Chief Financial Officer