Espre Solutions Inc
Form 10-Q/A
October 08, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q /A
(Amendment No. 1)

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

For the quarterly period ended June 30, 2008

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

Commission File Number: 000-51577

ESPRE SOLUTIONS INC.

(Exact name of registrant as specified in its charter)

NEVADA (State or other jurisdiction of incorporation or organization)	68-0576847 (I.R.S. Employer Identification No.)
5700 W. Plano Parkway, Suite 2600, Plano, Texas (Address of principal executive offices)	75093 (Zip Code)

(214) 254-3708

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
x Yes o No

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

Large accelerated filer o Accelerated filer o Non-accelerated filer o
Small reporting company x

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

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

EXPLANATORY NOTE

This Amendment No. 1 to the Quarterly Report on Form 10-QSB/A (the "Report") for the quarterly period ended June 30, 2008, includes a restatement of our consolidated financial statements for the quarterly periods ended June 30, 2008 (and related disclosures), initially filed on August 19, 2008.

The Company has restated its Consolidated Balance Sheet as of June 30, 2008, its Consolidated Statement of Stockholders' (deficit) Equity for the three and nine months ended June 30, 2008, and its Consolidated Statements of Operations and Cash Flows for the three and nine months ended June 30, 2008 (as contained in this Report) to correct its accounting for its stock based compensation related to employee stock options. A further discussion of the restatement of the consolidated financial statements for these fiscal quarters is contained in Note 2 to the unaudited consolidated financial statements of this Report.

FORM 10-Q/A

CONTENTS

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1 — Financial Statements

ESPRE SOLUTIONS INC. AND SUBSIDIARY
Consolidated Balance Sheets

	June 30, 2008 (Unaudited) (as Restated)	September 30, 2007
ASSETS		
Current assets:		
Cash	$ 703,034	$ 3,850,666
Accounts receivable, net	52,750	251,050
Prepaid expenses and advances	50,373	34,564
Total current assets	806,157	4,136,280
Equipment, net	348,429	296,758
Intangible assets, net	77,121	73,191
Loans to related parties	60,432	69,432
Other assets	123,975	97,292
Total assets	$ 1,416,114	$ 4,672,953
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable to related parties	25,000	1,667,944
Accounts payable and accrued expenses	1,307,845	1,449,399
Total current liabilities	1,332,845	3,117,343
Deferred revenue — related party	-	1,000,000
Minority interest	959,334	348,093
Stockholders' (deficit) equity		
Common shares — $0.001 par value; authorized 500,000,000 shares; and 353,782,630 and 318,522,499 shares issued and outstanding , respectively	353,782	318,522
Additional paid-in capital	78,727,115	71,110,086
Stock subscription receivable	(18,500)	(190,000)
Retained (deficit)	(79,938,462)	(71,031,091)
Total stockholders' (deficit) equity	(876,065)	207,517
Total liabilities and stockholders' equity	$ 1,416,114	$ 4,672,953

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

Table of Contents

ESPRE SOLUTIONS INC. AND SUBSIDIARY
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008 (As Restated)	2007	2008 (As Restated)	2007
Revenue:				
Software licensing fees	$ 1,000,000	$ 150,000	$ 2,000,000	$ 1,390,000
Custom engineering fees	37,116	92,500	512,742	497,700
Other	(35,576)	20,656	27,554	126,764
Total revenue	1,001,540	263,156	2,540,296	2,014,464
Expenses:				
General, administrative and selling expenses	4,073,240	1,535,665	8,552,070	3,990,052
General, administrative and selling expenses stock based compensation	457,029	2,646,051	1,998,827	5,656,459
Research and development	163,471	692,995	2,487,191	878,595
Amortization and depreciation	57,770	31,615	115,443	78,361
Total operating expenses	4,751,510	4,906,326	13,153,531	10,603,467
Loss from operations	(3,749,970)	(4,643,170)	(10,613,235)	(8,589,003)
Interest income	6,708	1,342	42,738	311
Interest expense	(3,503)	(1,956)	(1,928)	(11,640)
Net loss before minority interest	(3,746,765)	(4,643,784)	(10,572,425)	(8,600,332)
Minority interest	754,376	68,693	1,665,054	129,354
Net (loss)	$ (2,992,389)	$ (4,575,091)	$ (8,907,371)	$ (8,470.978)
Basic and diluted net loss per share	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.04)
Weighted average shares outstanding, basic and diluted	342,487,914	232,546,146	331,337,944	216,455,124

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

Table of Contents

ESPRE SOLUTIONS INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
Nine Months Ended June 30
(Unaudited)

	2008 (As Restated)	2007
Cash flows from operating activities:		
Net (loss) for period	$ (8,907,371)	$ (8,470,978)
Adjustments to reconcile net loss to cash used in operating activities:		
Stock and options issued for services	1,356,685	-
Stock based compensation	1,998,827	5,656,459
Amortization and depreciation	115,443	78,361
Minority interest	(1,665,054)	(129,354)
Changes in assets and liabilities:		
Deferred revenue	(1,000,000)	1,150,000
Accounts receivable	198,300	(390,020)
Prepaid expenses	(15,809)	4,399
Other assets	(26,682)	(36,120)
Accounts payable and accrued expenses	(141,554)	178,566
Total cash used in operating activities	(8,087,215)	(1,958,687)
Net cash used in investing activities:		
Purchase of equipment	(115,213)	(54,035)
Purchase of intangible assets	(55,832)	(197,230)
Loan to affiliate	9,000	(50,000)
Net cash used in investing activities	(162,045)	(301,265)
Cash flows provided by financing activities:		
Payments on notes payable to related parties	(100,000)	32,956
Proceeds from sale of stock	2,925,333	2,455,050
Minority capital raised	2,276,295	376,721
Net cash provided (used in) by financing activities	5,101,628	2,864,727
Net (decrease)/increase in cash	(3,147,632)	604,775
Cash, beginning of period	3,850,666	291,426
Cash, end of period	$ 703,034	$ 896,201
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ -	$ -
Non-cash transactions:		
Issuance of common stock to retire debt	$ 1,542,943	$ 619,000

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

4

Table of Contents

ESPRE SOLUTIONS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND CONTROLLED SUBSIDIARY

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

It is suggested that the financial statements be read in conjunction with the financial statements and notes thereto included in the Company’s Form 10/A filed March 31, 2008.

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

2. RESTATEMENT OF PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS

The Company has restated its Consolidated Balance Sheet as of June 30, 2008, its Consolidated Statement of Stockholders’ Equity (Deficit) for the three and nine months ended June 30, 2008, and its Consolidated Statements of Operations and Cash Flows for the three and nine months ended June 30, 2008, to correct its accounting for its stock based compensation related to employee stock options.

The Company’s originally filed financial statements for the quarter ended December 31, 2007, reflected stock option expense for the entire year ended September 30, 2008, and not just the three months ended December 31, 2007, rather than being amortized on a straight-line basis over the vesting period. This error was corrected in the quarter ended June 30, 2008, and all prior quarters.

The impact of the restatement and other reclassifications on the Company's Consolidated Balance Sheet as of June 30, 2008, its Consolidated Statement of Stockholders’ Equity (Deficit) for the three and nine months ended June 30, 2008, and its Consolidated Statements of Operations and Cash Flows for the three and nine months ended June 30, 2008, is summarized in the tables below:

Table of Contents

CONSOLIDATED BALANCE SHEET

	as previously reported	reclassifications and adjustment	as restated
ASSETS			
Current assets:			
Cash	$ 703,033	$ 1	$ 703,034
Accounts receivable	52,750	-	52,750
Prepaid expenses and advances	50,373	-	50,373
Total current assets	806,156	1	806,157
Equipment, net	348,429	-	348,429
Intangible assets, net	77,121	-	77,121
Loans to related parties	60,432	-	60,432
Other assets	123,975	-	123,975
Total assets	$ 1,416,113	$ 1	$ 1,416,114
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY			
Current liabilities:			
Notes payable to related parties	$ 25,000	$ -	$ 25,000
Accounts payable and accrued expenses	1,303,988	3,857	1,307,845
Total current liabilities	1,328,988	3,857	1,332,845
Minority interest	959,334	-	959,334
Stockholders' (deficit) equity			
Common stock	354,232	(450)	353,782
Additional paid in capital	78,712,970	(15,840)	78,727,115
Stock subscription receivable	(18,500)		(18,500)
Retained (deficit)	(79,920,911)	12,434	(79,938,462)
	(872,209)	(3,856)	(876,065)
Total liabilities and stockholders' (deficit) equity	$ 1,416,113	$ 1	$ 1,416,114

6

Table of Contents

CONSOLIDATED STATEMENT OF OPERATIONS

	Three months ended June 30, 2008			Nine months ended June 30, 2008		
	as previously reported	reclassifications and adjustment	as restated	as previously reported	reclassifications and adjustment	as restated
Revenue:						
Software licensing fees	$ 1,000,000	$ -	$ 1,000,000	$ 2,000,000	$ -	$ 2,000,000
Custom engineering fees	1,750	35,366	37,116	512,742	-	512,742
Other	-	(35,576)	(35,576)	27,554	-	27,554
Total revenue	1,001,750	(210)	1,001,540	2,540,296	-	2,540,296
Expenses:						
General, administrative and selling expenses	3,111,176	962,064	4,073,240	8,645,670	(93,600)	8,552,070
General, administrative and selling expenses		-			-	
stock based compensation	-	457,029	457,029	1,891,532	107,295	1,998,827
Research and development	664,079	(500,608)	163,471	2,487,191	-	2,487,191
Amortization and depreciation	32,719	25,051	57,770	115,443	-	115,443
Total operating expenses	3,807,974	943,536	4,751,510	13,139,836	13,695	13,153,531
		-			-	
Loss from operations	(2,806,224)	(943,746)	(3,749,970)	(10,599,540)	(13,695)	(10,613,235)
Interest income	2,661	4,047	6,708	42,738	-	42,738
Interest expense	(1,254)	(2,249)	(3,503)	(1,928)	-	(1,928)
Net loss before minority interest	(2,804,817)	(941,948)	(3,746,765)	(10,558,730)	(13,695)	(10,572,425)
Minority interest	754,376	-	754,376	1,665,054	-	1,665,054
	$ (2,050,441)	$ (941,948)	$ (2,992,389)	$ (8,893,676)	$ (13,695)	$ (8,907,371)

Net income (loss)										
Basic and diluted net loss per share	$	(0.01)	$	(0)	(0.01)	$	(0.03)	$	(0)	$	(0.03)
Weighted average shares outstanding basic and diluted		342,487,914		-	342,487,914		331,337,944		-		331,337,944

7

Table of Contents

CONSOLIDATED STATEMENT OF CASH FLOWS

	as previously reported	reclassifications and adjustment	as restated
Cash flows from operating activities:			
Net income (loss) for period	$ (8,889,820)	$ (17,551)	$ (8,907,371)
Adjustments to reconcile net loss to cash used in operating activities:			
Stock and options issued for services	1,356,685	-	1,356,685
Stock based compensation	1,891,532	107,295	1,998,827
Amortization and depreciation	115,443	-	115,443
Minority interest	(1,665,054)	-	(1,665,054)
Changes in assets and liabilities:			
Deferred revenue	(1,000,000)	-	(1,000,000)
Accounts receivable	198,300	-	198,300
Prepaid expenses	(15,809)	-	(15,809)
Other assets	(26,683)	1	(26,682)
Accounts payable and accrued expenses	(145,410)	3,856	(141,554)
Total cash used in operating activities	(8,180,816)	93,600	(8,087,215)
Net cash used in investing activities:			
Purchase of equipment	(115,213)	-	(115,213)
Purchase of intangible assets	(55,832)	-	(55,832)
Loan to affiliate	9,000	-	9,000
Net cash used in investing activities	(162,045)	-	(162,045)
Cash flows provided by financing activities:			
Payments on notes payable to related parties	(100,000)	-	(100,000)
Proceeds from sale of stock	3,018,933	(93,600)	2,925,333
Minority capital raised	2,276,295	-	2,276,295
Net cash provided (used in) by financing activities	5,195,228	(93,600)	5,101,628
Net decrease in cash	(3,147,633)	-	(3,147,632)
Cash, beginning of period	3,850,666	-	3,850,666
Cash, end of period	$ 703,033	-	$ 703,034
Supplemental disclosures of cash flow information:			
Cash paid for interest	-		-
Non-cash transactions:			
Issuance of common stock to retire debt	$ 1,542,943	-	$ 1,542,943

Table of Contents

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary. All intercompany transactions have been eliminated in consolidation.

Reclassifications

Prior year's information is reclassified whenever necessary to conform to current year's presentation.

Stock Based Compensation

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 123R, "Share-Based Payment" effective July 1, 2005, which requires companies to record compensation expense for stock options issued to employees or non-employee directors at the fair value of the options. SFAS NO. 123R is effective for annual periods beginning after June 15, 2005.

The Company has adopted SFAS No. 123R using the "modified prospective application" and, therefore, financial statements from periods ended prior to October 1, 2005 have not been restated. The Company's net loss for the three months ended June 30, 2008 and 2007 was $457,029 and $2,646,051, respectively higher than if it had continued to account for share-based compensation under APB No. 25. The Company's net loss for the nine months ended June 30, 2008 and 2007 was $1,998,827 and $5,656,459, respectively, higher than if it had continued to account for share-based compensation under APB No. 25.

Recent pronouncements

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company will adopt SFAS No. 159 on October 1, 2008, and is currently evaluating the impact of such adoption on its financial statements.

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141 (revised 2007), Business Combinations, which replaces SFAS No 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective for us beginning October 1, 2008 and will apply prospectively to business combinations completed on or after that date.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB 51, which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as non-controlling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the non-controlling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS No. 160 is effective for us beginning October 1, 2009, and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. We are currently assessing the potential impact that adoption of SFAS No. 160 would have on our financial statements.

Table of Contents

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, and an amendment of FASB Statement No. 133." SFAS No. 161 requires enhanced disclosure related to derivatives and hedging activities and thereby seeks to improve the transparency of financial reporting. Under SFAS No. 161, entities are required to provide enhanced disclosures relating to: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedge items are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 must be applied prospectively to all derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS No. 133 for all financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is currently assessing the impact that SFAS No. 161 will have on its financial position and results of operations.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles” (SFAS 162”). SFAS 162 identifies the sources of accounting principles and the framework for selecting principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. This statement shall be effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board’s amendments to AU section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The Company is in the process of evaluating the potential effect of adoption of SFAS 162.

4. GOING CONCERN AND MANAGEMENT’S PLAN

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company has incurred significant and recurring losses and negative cash flow from operations which raises substantial doubt about its ability to continue as a going concern. The Company’s continued existence is dependent upon its ability to achieve profitability and to generate cash either from operations or financing.

For the remainder of calendar year 2008 we will continue to focus on completing development of VUELIVE (formerly called ESPRELive) and the planning for product launch. The Company will continue to raise additional debt and equity financing to fund product development and sales and marketing efforts.

On May 15, 2008, Blideo, Inc. (“Blideo”), the Company’s 39.76% owned subsidiary, launched its product, which the underlying technology is a subset of the Company’s VUELIVE. We will continue to develop technology and enhancements for Blideo for a fee equivalent to what third party developers would charge for such services. Blideo is in the process of raising capital through the sale of equity which will reduce the Company’s ownership percentage.

In the period from inception to June 30, 2008, the Company has transacted a substantial amount of its business with related parties. The Company continues to be dependent on revenues from these related parties. The achievement of profitability and the ability to generate cash flows from operations are dependent upon, among other things, the acceptance of the Company’s products and services, competition from other products, and the deployment of video applications by our customers. There is no assurance that management’s plan will be successful. Accordingly, substantial doubts exist about the Company’s ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Table of Contents

5. CASH

At June 30, 2008, the Company had $280,500 in cash (excluding Blideo's cash of $422,533, over which the Company may be deemed to have control through the ownership interests in Blideo of the Company and Mr. Leighton) compared with $3,352,414 (excluding Blideo's cash of $498,252) at September 30, 2007.

6. INVESTMENT IN AND LOANS TO RELATED PARTIES

Blideo Inc.

On April 24, 2007, prior to joining the Company, Peter Leighton, who served as the Company's President from July 26, 2007, and a director from May 1, 2007, until August 21, 2008, founded Blideo, Inc., and invested $200,000 in May 2007, and $300,000 in July 2007. The Company invested the same amounts in the same time periods. In May 2007, Blideo acquired an exclusive license from Media Distribution Solutions, LLC ("MDS"), a customer of the Company since April 2006, for the distribution and use of MDS's software in any social networking application for $175,000 plus certain ongoing royalties. In September 2007, Espre's Vice President — Sales invested $125,000 in Blideo. Certain former officers and employees of the Company are now officers and employees of Blideo. Subsequent to year end, on October 31, 2007, the Company licensed VUELIVE (formerly known as ESPRE Live) on a non-exclusive basis to Blideo for five (5) years for a one time license fee of $1,000,000 plus 1% of gross revenues.

As an integral part of this agreement, Blideo agreed to pay the Company $700,000 for engineering and design services to build the Blideo Application Release 1.0 from September 1, 2007 to March 31, 2008. The $700,000 contract engineering fees paid for core technology development will decrease the license fee. As part of this license the Company has agreed not to contract with any application service provider that plans to launch a service competitive to Blideo's for one year following the acceptance by Blideo of the application the Company is designing and building. In addition, Blideo is obligated to pay the Company a product maintenance fee for the application the Company is building for Blideo of $70,000 for the first year commencing September 2007 and thereafter at a rate to be negotiated. In addition, until April 1, 2008, the Company provided office accommodation to Blideo for $2,000 per month. On April 1, 2008, Blideo sublet offices from an independent third party and moved its entire staff to them. The Company provided accounting services to Blideo for $500 per month through May 2008. The Company believes all related party transactions have been consummated on terms equivalent to those that prevail in arms'- length transactions.