

Espre Solutions Inc  
Form 10-Q  
August 19, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2008

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.  Yes  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  Accelerated filer  Non-accelerated filer   
Small reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  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.

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The consolidated financial statements of Espre Solutions, Inc. (the “Company”) contained in this Report on Form 10-Q have not been reviewed by the Company’s independent public accountant in accordance with Securities and Exchange Commission Rules 10-01(d) and 8-03. The Company will file an amended Report when the review by its independent public accountant using professional standards and procedures for conducting such review has been completed.

FORM 10-Q

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## PART I — FINANCIAL INFORMATION

The consolidated financial statements of Espre Solutions, Inc. (the "Company") contained in this Report on Form 10-Q have not been reviewed by the Company's independent public accountant in accordance with Securities and Exchange Commission Rules 10-01(d) and 8-03. The Company will file an amended Report when the review by its independent public accountant using professional standards and procedures for conducting such review has been completed.

## Item 1 — Financial Statements

ESPRE SOLUTIONS INC. AND SUBSIDIARY  
Consolidated Balance Sheets

	June 30, 2008 (unaudited)	September 30, 2007
<b>ASSETS</b>		
Current assets:		
Cash	\$ 703,033	\$ 3,850,666
Accounts receivable	52,750	251,050
Prepaid expenses and advances	50,373	34,564
Total current assets	806,156	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	123,974	97,292
Total assets	\$ 1,416,113	\$ 4,672,953
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>		
Current liabilities:		
Notes payable to related parties	\$ 25,000	\$ 1,667,944
Accounts payable and accrued expenses	1,303,988	1,449,399
Total current liabilities	1,328,988	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 340,690,490 and 318,522,499 shares issued and outstanding , respectively	354,232	318,522
Additional paid-in capital	78,712,970	71,110,086
Stock subscription receivable	(18,500 )	\$ (190,000 )
Retained (deficit)	(79,920,911)	\$(71,031,091)
Total stockholders' equity	(872,209 )	207,517
Total liabilities and stockholders' (deficit) equity	\$ 1,416,113	\$ 4,672,953

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

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ESPRESOLUTIONS INC. AND SUBSIDIARY  
Consolidated Statements of Operations  
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	2008	2007
Revenue:				
Software licensing fees	\$ 1,000,000	\$ 150,000	\$ 2,000,000	\$ 1,390,000
Custom engineering fees	1,750	92,500	512,742	497,700
Other	0	20,656	27,554	126,764
Total revenue	1,001,750	263,156	2,540,296	2,014,464
Expenses:				
General, administrative and selling expenses	3,111,177	1,535,665	8,645,670	3,990,052
General, administrative and selling expenses stock based compensation	-	2,646,051	1,891,532	5,656,459
Research and development	664,079	692,995	2,487,192	878,595
Amortization and depreciation	32,719	31,615	115,443	78,361
Total operating expenses	3,807,974	4,906,326	13,139,836	10,603,467
Loss from operations	(2,806,224)	(4,643,170)	(10,599,540)	(8,589,002)
Interest income	2,661	1,342	42,738	311
Interest expense	1,254	1,956	1,928	11,640
Net loss before minority interest	(2,802,310)	(4,639,872)	(10,554,874)	(8,577,052)
Minority interest	754,376	68,693	1,665,054	129,354
Net income (loss)	\$ (2,047,934)	\$ (4,571,179)	\$ (8,889,820)	\$ (8,447,698)
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

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

	2008	2007
Cash flows from operating activities:		
Net income (loss) for period	\$ (8,889,820)	\$ (8,447,698)
Adjustments to reconcile net loss to cash used in operating activities:		
Stock and options issued for services	1,356,685	-
Stock based compensation	1,891,532	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	(145,410)	155,286
Total cash used in operating activities	(8,180,816)	(1,958,688)
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	3,018,933	2,455,050
Minority capital raised	2,276,295	376,721
Net cash provided (used in) by financing activities	5,195,228	2,864,727
Net decrease in cash	(3,147,633)	604,775
Cash, beginning of period	\$ 3,850,666	\$ 291,426
Cash, end of period	703,033	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





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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 for the year ended September 30, 2007.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its majority owned and controlled 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.

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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 ending 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 \$2,047,934 and \$4,571,179, 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 \$8,889,820 and \$8,447,698, 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, 2009, 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 July 1, 2009 and will apply prospectively to business combinations completed on or after that date.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling 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 noncontrolling 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 noncontrolling 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 July 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.

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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.

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3. 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.

Management's plan is as follows:

For the remainder of 2008 and beyond we will focus on completing the shift from licensing markets and territory licenses, to completing the development and launching VUELIVE services.

VUELIVE will deliver live interactive services targeted at specific verticals in a subscription model.

Remote consultations – Medical  
Remote Depositions – Legal  
Remote Maintenance – Industrial  
Online Advertising – Visual collaboration

VUEChat transforms the camera on any device into a broadcast feed that can be viewed, live or on-demand, to anyone on the web with a browser.

Multi-party video-communication (up to 7-way): the ability for a subscriber to communicate through video with anyone else in the community

Additionally there will be specific focus on live event broadcasting, including sports and breaking news through our service offering VUECAST.

VUECAST transforms the camera on any device into a broadcast feed that can be viewed, live or on-demand, to anyone on the web with a browser.

Panel Broadcasts (up to 3 panelists): a broadcast is enhanced by a "panel" of commentators or guests  
Selective Broadcasts: the ability to broadcast live or pre-recorded content to a selected, limited number of subscribers.  
User Generated Broadcasts: the ability for a subscriber to broadcast their own live or pre-recorded content  
Multi-party video-communication (up to 4-way): the ability for a subscriber to communicate through video with anyone else in the community

Engage in partnerships with firms in key vertical markets. These partners will be market experts and have well defined application strategies that require VueLive application services.

Establish independent sales agreements with representatives to sell VueLive services. The Company will actively pursue the engagement of additional independent sales representatives who can distribute the Company's existing video products and services both domestically and internationally.

Foster partnerships with leading technology providers that want to add live video elements to their existing product portfolio, thereby leveraging their existing install bases.

Obtain additional debt or equity financing to fund the deployment and operation of the VueLive service.

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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 is dependent upon, amongst 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.

4. CASH

At June 30, 2008 the Company had \$280,500 in cash (excluding Blideo's cash of \$422,533, over which we exercise no control) compared with \$3,352,414 (excluding Blideo's cash of \$498,252) at September 30, 2007.

5. INVESTMENT IN AND LOANS TO RELATED PARTIES

Blideo Inc.

On April 24, 2007, prior to joining the Company, Leighton founded Blideo Inc. ("Blideo") 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 of 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 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.

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The assets of Blideo are not available to the Company other than through the contractual agreements more fully described above.

## 6. NOTES PAYABLE TO RELATED PARTIES

Notes payable —consisted of the following:

	June 30, 2008	September 30, 2007
Contingent repurchase agreement to Video Software Partners, secured by certain software products, payable on February 1, 2008, interest imputed at 10%	\$ -	\$ 1,642,944
Note payable to a related individual, at 10%, due November 25, 2004, extended year to year, unsecured	25,000	25,000
	\$ 25,000	\$ 1,667,944

## 7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at:

	June 30, 2008	September 30, 2007
Accounts payable - trade	\$ 1,024,577	\$ 543,485
Accrued expenses	64,490	242,151
Due to investment banker	-	139,825
Accrued vacation pay	129,673	76,640
Accrued payroll and payroll taxes	85,248	297,298
Customer advances	-	150,000
	\$ 1,303,988	\$ 1,449,399

## 8. OTHER RELATED PARTY TRANSACTIONS

The Company regularly engages the services of a related vendor. The vendor became related when its principals purchased restricted common stock from the Company. In the three and nine month periods ending June 30, 2008 the Company incurred \$219,417 and \$619,075, respectively, in Product Development and Consulting expenses and \$1,967 in General, Sales and Administrative expenses from this vendor.

The Company sold a license to a related customer. The customer became related when its principals purchased restricted common stock from the Company. In the three and nine month periods ending June 30, 2008 the Company licensed \$0 and \$2,000,000, respectively, in software license fee from this customer.



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9. STOCKHOLDERS' EQUITY

Common stock

Payments for Services

In the nine months ended June 30, 2008, the Company issued a total of 7,676,719 shares of common stock for consulting, advisory and other services recorded at market values ranging between of \$0.13 and \$0.26 per share or \$1,524,394. For the same period in the previous fiscal year the Company issued 4,438,462 shares at market values ranging between \$0.05 and \$0.13 per share or \$482,500 for consulting and advisory services

Capital Raises

In the nine months ended June 30, 2008, the Company issued 27,385,412 shares of restricted common stock with no demand or piggy-back registration rights to accredited investors for \$2,746,886. The Company paid fees of \$175,242 in connection with the sale of these common shares.

10. STOCK OPTIONS

The Company's 2004 Equity Incentive Plan (, the "Stock Option Plan") provides that employees, consultants and directors can be granted options to purchase shares of the Company's common stock, including incentive stock options ("ISOs"). The maximum aggregate number of shares of common stock available for award under the Stock Option Plan is 100,000,000, and is subject to adjustment as set forth therein. Under the plan, ISOs may not be vested until a date, or dates, subsequent to their date of grant, or until the occurrence of on or more specified events annually. At June 30, 2008, the Company had granted 74,014,634 ISOs. Of the granted ISOs, 61,600,000 vest on the anniversary of the date of grant equally over three years; 9,039,634 vested immediately; and 3,375,000 vest completely eighteen months after the date of grant. All ISOs expire no later than ten years from the date of grant for participants that own no more than ten percent of all classes of voting stock of the Company and its subsidiaries. The expiration for participants that own more than ten percent of all voting classes of stock of the Company and its subsidiaries is five years from the date of grant.

The exercise price for the ISOs is not to be less than the fair market value of the common stock of the Company at the date of grant for participants owning less than ten percent of all voting classes of stock in the Company and its subsidiaries and not less than 110% of the fair market value of the common stock of the Company at the date of grant for participants owning more than ten percent of all classes of voting stock in the Company and its subsidiaries.



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	Outstanding Stock Options		Exercisable Stock Options	
	Shares	Weighted Average exercise Price	Shares	Weighted Average exercise Price
Outstanding at September 30, 2007	66,814,634	\$ 0.10	18,986,301	\$ 0.12
Granted during period	29,200,000	\$ 0.09	10,053,975	\$ 0.09
Outstanding at June 30, 2008	96,014,634	\$ 0.10	29,040,275	\$ 0.11

At June 30, 2008, summarized stock options outstanding and exercisable were:

Exercise Price Range	Outstanding Stock Options			Exercisable Stock Options		
	Shares	Life	Weighted Average exercise Price	Shares	Life	Weighted Average exercise Price
\$0.010 - \$0.085	48,239,634	8.23	\$ 0.08	12,156,942	8.25	\$ 0.07
\$0.100 - \$0.200	45,855,000	7.74	\$ 0.10	15,123,333	6.60	\$ 0.10
\$0.210 - \$1.333	1,920,000	6.94	\$ 0.48	1,760,000	6.94	\$ 0.50
	96,014,634			29,040,275		

The weighed average fair value of each option has been approximated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants; no dividend yield, volatility of 200%, risk free interest rate of 3.47%, and an expected term of five years.

As of June 30, 2008, there was approximately \$6.8 million of unrecognized compensation cost related to unvested share-based compensation arran