Enterprise Informatics Inc
Form 10-K
January 15, 2008

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

FORM 10-K

(Mark One)

x	Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended September 30, 2007

OR

o	Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 0-15935

ENTERPRISE INFORMATICS INC.
(Exact name of registrant as specified in its charter)

California (State or other jurisdiction of incorporation or organization)	95-3634089 (IRS Employer Identification No.)
10052 Mesa Ridge Court, Suite 100 San Diego, CA (Address of principal executive offices)	92121 (Zip Code)

(858) 625-3000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12 (g) of the Act:
Common Stock
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 x

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

The aggregate market value of the voting and non-voting common equity on March 31,2007, (the last business day of the Registrant's most recently completed second fiscal quarter) held by non-affiliates* of the Registrant, based upon the last price reported on the OTC Bulletin Board on such date was $2,600,115

The number of shares outstanding of the Registrant's Common Stock at the close of business on January 14, 2008 was 37,862,332.

* Without acknowledging that any individual director of Registrant is an affiliate, all directors have been included as affiliates with respect to shares owned by them.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s proxy statement relating to its 2008 Annual Shareholders Meeting are incorporated by reference into – Part III hereof.

PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or anticipated results, including those set forth under the heading “Risk Factors” and elsewhere in, or incorporated by reference into, this report. Other risks and uncertainties include such factors, among others, as market acceptance and market demand for the Company’s (as defined below) technologies and services, pricing, the changing regulatory environment, the effect of the Company’s accounting policies, potential seasonality, industry trends, adequacy of the Company’s financial resources to execute its business plan, the Company’s ability to attract, retain and motivate key technical, marketing and management personnel, possible disruption in commercial activities occasioned by terrorist activity and armed conflict, and other risk factors detailed in the Company’s other SEC filings.

In some cases, you can identify forward looking statements by terms such as “may,” “intend,” “might,” “will,” “should,” “coul “would,” “expect,” “ believe, “ “ anticipate, “ “estimate,” “predict,” “potential,” or the negative of these terms, and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. The forward-looking statements in this report are based upon management’s current expectations and belief, which management believes are reasonable. These statements represent our estimates and assumptions only as of the date of this Annual Report on Form 10-K, and we undertake no obligation to publicly release the result of any revisions to any forward-looking statement, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. You are cautioned not to place undue reliance on any forward-looking statements.

In this report, unless the context indicates otherwise, the terms “Company,” “we,” “us,” and “our” refer to Enterprise Informatics Inc., a California corporation, and its subsidiaries.

ITEM 1. BUSINESS

General

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

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

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

History

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

As of September 30, 2007 Spescom Ltd. by virtue of its ownership of common stock and Series F Preferred Stock controlled 59% of the outstanding voting shares of the Company.

A timeline summary of equity transactions between the Company and Spescom Ltd. and between the Company and ERP2 Holdings, LLC, which purchased the interests of Spescom Ltd. in the Company in October 2007, follows:

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

2000

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

2001

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

2002

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

2003

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

2004

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

2005

In November 2004, the Company completed a financing arrangement whereby the Company issued 2,200 shares of Series G Convertible Preferred Stock along with 2,750,000 common stock warrants for gross proceeds of $2,200,000. During fiscal 2005, 750 shares of this preferred stock was converted into 2,428,000 shares of common stock.

2006

In fiscal 2006, the Company completed two preferred stock financings, the net aggregate result of which was the Company's issuance of 2,450 shares of Series I Convertible Preferred Stock along with 1,851,852 common stock warrants, its receipt of cash consideration of $1,000,000 and its cancellation of the remaining 1,450 shares of Series G Convertible Preferred Stock. As a result of these financing activities and certain anti-dilution provisions under the terms of the Company's Series F Convertible Preferred Stock held by Spescom Ltd. resulted in the Series F conversion rate was adjusted from $0.45 per share to $0.39 per share.

2007

On October 10, 2007, pursuant to a Securities Purchase Agreement , dated as of September 30, 2007, between Spescom Ltd, and its wholly owned subsidiary Spescom Ltd. UK (collectively, "Spescom"), on the one hand, and ERP2 Holdings, LLC ("ERP2"), on the other hand, Spescom sold to ERP2, for aggregate consideration of $2,500,000, all shares of the capital stock of the Company held by Spescom, two demand notes payable by the Company to Spescom, and certain contract rights and other interests held by Spescom in connection with its ownership of such shares and notes (the "Transaction"). The shares of capital stock sold to ERP2 consist of 15,650,471 shares of the Company's common stock and 5,291 shares of the Company's Series F Convertible Preferred Stock.

2008

On January 14, 2008, the Company entered into a term sheet with ERP2 that provides, among other things, for the concurrent consummation (the "ERP2 Closing") of the following transactions: (i) the extension of the maturity date of the demand notes acquired by ERP2 from Spescom Ltd. to the date that is two years from the date of the ERP2 Closing, (ii) the agreement of ERP2 not to call such demand notes following an event of default, prior to September 30, 2008; (iii) the issuance of additional notes to ERP2 in the aggregate principal amount of $1,500,000 with a maturity date two years from the date of the ERP2 Closing. Disbursement of $300,000 of such aggregate principal amount is subject to delivery at the ERP2 Closing of definitive transaction documents pursuant to the term sheet. Disbursement of the remaining $1,200,000 of such amount is subject to completion of all actions required to be completed by the Company in order to effectuate a 1000-to-1 reverse split of the Company's common stock and the deregistration of the Company's common stock under the Securities Exchange Act of 1934.

Upon execution of the term sheet, the Company's issued to ERP2 a warrant exercisable for 17,175,971 shares of Common Stock, which warrant has a per share exercise price of $0.08 and a 10-year term. The term sheet provides that, upon the above-referenced $1,200,000 disbursement, the Company will issue to ERP2 warrants for the purchase of the number of shares of common stock equal to the greater of (i) 26,735,508 shares of common stock and (ii) 20% of the fully diluted outstanding common stock as of the issuance date. Such warrants will have a per share exercise price of $0.08 and a 10-year term.

Upon execution of the term sheet, the Company declared a dividend payable to ERP2 in the amount of 20,827,268 shares of Common Stock, in satisfaction of the entire amount of accrued and unpaid dividends (together with interest) on the shares of the Company's Series F Convertible Preferred Stock held by ERP2.

Industry Background

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

Enterprise information can be broadly divided into two categories:

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

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

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

3

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

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

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

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

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

While all of the above categories of products create, organize, and track data, they do little to ensure the integrity or relevance of the information they manage. A new category of products called Enterprise Information Management (EIM) is emerging that add this level knowledge. The Company sees itself as being an early entrant in this category.

The Company's Strategic Positioning

The Company has leveraged its historic domain knowledge and developed technology built on the modern Microsoft .NET framework that encompasses many of the features of an ECM and PLM system. These features have been uniquely combined and enhanced with the ability to relate all relevant and interdependent information together providing an EIM solution ideal for maintaining the information integrity necessary for compliance needs across many industries and business needs. The unique combination of features developed to work in the pervasive Microsoft infrastructure enable the Company to deliver superior solutions at a better value compared to the competition.

While the Company's product offerings are applicable and deployed in many markets, the Company has focused on and been successful in the regulated energy sector and local governments.

Competition

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

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

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

The Company's Solution

The Company's solutions are for regulated organizations with vast quantities of interdependent documents that need to be managed and controlled through their lifecycle. Customers are generally focused on meeting regulatory compliance requirements and reducing business risk while optimizing process efficiency to lower the cost of operations and compliance. The Company's product "eB" is n Enterprise Information Management solution that vastly improves the integrity, visibility and access to all relevant information at the time it is needed. The eB product is unlike document and records management solutions that collect and archive documents for search and retrieval and lack document control capabilities such as IBM/FileNET or EMC/Documentum. The solution ensures the integrity of the controlled information, and uniquely connects information objects with relevant assets, people, processes, projects and functions to create a framework for rapid access to accurate information in context.

Technology

The company has been an early adopter of the critically acclaimed Microsoft .NET Framework as the development platform for all products. The core product architecture embodies several best practice concepts such as Service Oriented Architecture (SOA), XML data structures, and modular n-tier components that make it scalable in terms of quantity of data, number of users, and volume of transactions.

With strong partnership ties with Microsoft (Gold Certified Partner, Managed Partner), the Company has access to valuable insight and guidance in the use of Microsoft technology and products.

The Company's Products

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

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

- Document/content management
- Imaging
- Workflow
- Item management
- Requirements management
- Change management
- Records management

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

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

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

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

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

Multiple ways of accessing eB are provided from standard out-of-the-box interfaces as well as integrations with other business applications. Full access is also provided over the Internet using standard web browsers enabling global collaboration and access to information anytime, anywhere to authorized users. Any one or all of the components of eB can be deployed, depending on a customer's specific requirements.

In December 2006, the Company announced the ability of eB to manage the integrity of documents stored in a Microsoft Office 2007 Server (SharePoint), making it even easier to deploy eB solutions within an enterprise.

This integrated solution provides enterprises with many benefits, including:

1. A single system for all document, data, records and process orientated functions across an enterprise that simplifies maintenance for administrators and IT staff.

2. A single point of entry for users, which reduces the cost of training and eliminates the need for users to know or care where documents and other information resides.

3. A broad range of functionality that addresses the needs of many different users throughout an organization, thereby maximizing the investment.

4. Rapid deployment using standard "out-of-the-box" interfaces and applications resulting in a fast return on investment.

5. A single point of contact and support for the technology, which results in potentially fewer problems with software upgrades, than might otherwise be encountered in systems that use products from multiple vendors.

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

7. Rapid application development and simplified integration with other critical systems such as ERP applications using the powerful eB Software Development Kit.

In June 2007, the Company announced it had received Microsoft Vista Logo Certification for its flagship product eB. It has been participating in the Early Adopter program for certification for the new Microsoft Windows 2008 Server product. These certifications not only validate the design and robustness of Enterprise Informatics software products, but provide significant marketing opportunities with Microsoft as Microsoft launches its offerings.

Strategy

Business Model

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

- Expertise and a large customer base in the Nuclear industry
- A large customer base in applications within local governments — mainly where some form of regulatory compliance is required.
- The inherently broad application set the eB product can handle when combined with the Microsoft SharePoint product.

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

Strategic Initiatives

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

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

• Form product strategic partnering agreements to be able to provide more enhanced solutions. The Company will continue its efforts to develop integrations/interconnections with already established software market leaders.

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

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

i) Allocate its resources to its critical, core functions,

ii) Focus on the delivery of higher margin services and products such as system design services and solution products, and

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

• Increase Company’s Market Presence. The Company plans to increase the awareness and credibility of the Company and the eB suite within its vertical markets, with its partners, and within the investment and technology analyst communities. To heighten the profile of the Company in its customer markets, the Company will be modernizing its corporate image to showcase its state-of-the-art technology and focus on regulatory compliance issues.

- Grow revenues by:

i) Leveraging senior business development executives with extensive market contacts within each of the Company's targeted vertical markets in the US and UK/Europe. In addition, the Company plans to allocate additional resources to support these key persons with adequate staffs and budgets to leverage their effect in the market.

ii) Leveraging existing user groups to increase the number of licensed seats and/or number of software modules. This is intended to not only increase software sales but also enhance the recurring revenue stream the Company realizes from annual software maintenance contracts. In addition, the Company will target conversion of legacy software seats into eB.

iii) Applying resources to expand horizontally or vertically to new user groups, departments or subsidiaries within existing markets.

iv) Leverage partnerships into new markets.

Customers

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

- Utilities (power, water and gas)
- Transportation (air, rail and sea)
- Public Sector/Local Government

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

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

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

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

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

A small number of customers has typically accounted for a large percentage of the Company's annual revenues. In fiscal 2007 Aveva Solutions Limited and Network Rail accounted for 25% and 12%, respectively. In fiscal 2006 Constellation Energy Group accounted for 13% of revenues. In fiscal 2005 Network Rail accounted for 16% of revenues. The Company's reliance on relatively few customers could have a material adverse effect on the results of its operations on a quarterly basis. For this reason, alternatives "to market avenues" are being pursued with strategic partners. It is a defined objective of the Company to substantially grow our partnering relationships in markets where we are not directly active.

Sales and Marketing

Direct sales

The Company focuses its direct sales force on select vertical markets with compelling business needs for the Company's information management solutions. The Company has established a strong market presence in those chosen verticals both domestically and internationally. The Company's strategy is to continue its direct sales and marketing to increase its market penetration in these verticals. Sales cycles for the Company's products generally last from six to twelve months.

Indirect distribution channels

Although the Company has historically generated the majority of its revenues from its direct sales force, the Company has also established a network of third-party VARs, system integrators and OEMs who build and sell systems (with components or complete systems provided by the Company) that address specific customer needs within various vertical markets, including those targeted directly by the Company. Sales through indirect channels amounted to $485,000 or 5%, $796,000 or 11%, and $507,000 or 9% of total sales for fiscal years 2007, 2006 and 2005, respectively.

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

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

Services and Support

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

VARs, Systems Integrators and OEM support

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

Technical Support and Software Maintenance

The Company, in conjunction with its VARs and systems integrators, offers end-users a software maintenance program that includes software updates provided by the Company to end-users and technical support provided by the VARs and systems integrators.

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

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

Product Development

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

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

During 2006, the Company developed a new feature set that enable it to bring EIM features to an existing Microsoft SharePoint installation. This technology will continue to be enhanced and refined during 2007. In June 2007, the Company announced it had received Microsoft Vista Logo Certification for its flagship product eB. It has been participating in the Early Adopter program for certification for the new Microsoft Windows 2008 Server product. These certifications not only validate the design and robustness of Enterprise Informatics software products, but provide significant marketing opportunities with Microsoft as Microsoft launches its offerings. In addition, the Company is participating in the Early Adopter program for certification on Microsoft's new Vista operating system.

Backlog and Current Contracts

The Company's contract backlog consists of the aggregate anticipated revenues remaining to be earned at a given time from the uncompleted portions of its existing contracts. It does not include revenues that may be earned if customers exercise options to make additional purchases. At September 30, 2007, the Company's contract backlog was $3,530,000 as compared to $4,244,000 at September 30, 2006. The Company expects a majority of the September 30, 2007 backlog to be substantially completed in fiscal 2008. The amount of contract backlog is not necessarily indicative of future contract revenues because short-term contracts, modifications to or terminations of present contracts and production delays can provide additional revenues or reduce anticipated revenues. The Company's backlog is typically subject to large variations from time to time when new contracts are awarded. Consequently, it is difficult to make meaningful comparisons of backlog.

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

Patents and Technology

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

Employees

As of September 30, 2007, the Company had 37 full-time employees, of whom 10 were engaged in product development, 14 in customer support, implementation and application engineering activities, 6 in sales and marketing and 7 in administration. The Company also utilizes consultants for specific projects. None of the Company's employees is represented by a labor union. The Company has not experienced work stoppages and believes its relationship with its employees is good. Competition for qualified personnel in the industry in which the Company competes is intense and the Company expects that such competition will continue for the foreseeable future. The Company has an incentive stock option plan which is used for granting options to employees as a means of attracting and keeping key individuals. The Company believes that its future success will depend, in large measure, on its ability to continue to attract, hire and retain qualified employees and consultants.

ITEM 1A. RISK FACTORS

Because of the following factors, as well as other variables affecting our operating results and financial condition, past performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.

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

Although the Company reported net income of $998,000 for fiscal year 2007, the Company has a history of losses and may incur losses in the foreseeable future. We incurred net losses of $2,376,000 and $6,049,000 for fiscal years 2006 and 2005, respectively. As of September 30, 2007, our accumulated deficit was $91,051,000. If revenues do not reach the levels the Company anticipates, or if operating expenses exceed the Company's expectations, the Company may not be able to achieve or sustain profitability in the near future or at all. If the Company is unable to achieve and sustain profitability at satisfactory levels, its financial condition and stock price could be materially adversely affected.

The Company will be controlled by ERP2 Holdings, LLC as long as they are entitled to a majority of the votes eligible to be cast in the election of directors.

As of January 13, 2008, ERP2 Holdings, LLC ("ERP2"), by virtue of its ownership of common stock and Series F Preferred Stock, was entitled to 32,554,099, or 59%, of the total number of votes eligible to be cast in the election of directors. Furthermore, on January 14, 2008, the board of directors of the Company declared a dividend payable to ERP2 in the amount of 20,827,268 shares of common stock in satisfaction of the entire amount of accrued and unpaid dividends (together with interest) on the shares of the Company's Series F Convertible Preferred Stock held by ERP2. Upon payment of such dividend, ERP2 will be entitled to 50,044,406 or 69% of the total number of votes eligible to be cast in the election of directors. ERP2 therefore currently has the ability to elect a majority of the Company's board of directors and to remove the entire board of directors, with or without cause, without calling a special meeting. Moreover, even if the percentage of the voting power of the voting securities of the Company held by ERP2 were to drop below 50%, it is likely that ERP2 would have sufficient votes to retain control of the Company. As a result, ERP2 will likely continue to control all matters affecting the Company, including but not limited to:

- the composition of the Company's board of directors and, through it, any determination with respect to the Company's business direction and policies, including the appointment and removal of officers;
- the allocation of business opportunities that may be suitable for the Company and ERP2 ;
- any determinations with respect to mergers or other business combinations or extraordinary transactions;
- the Company's acquisition or disposition of assets; and
- the Company's financing.
- ERP2 is not prohibited from selling a controlling interest in us to a third party.

Upon a liquidation of the Company, sale of all or substantially all of the Company's assets, or merger of the Company, the Company's preferred shareholders would be entitled to receive substantial payments prior to any distribution to the common shareholders.

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Upon a liquidation of the Company, the holders of Series F Convertible Preferred Stock would be entitled to receive, prior to any distribution to the holders of common stock, an aggregate amount equal to $5,291,000 plus accrued but unpaid dividends per share and interest on all such dividends. Upon a liquidation of the Company, sale of all or substantially all of the Company’s assets, or merger of the Company, prior to any distribution or payment of merger consideration to the holders of common stock, the holders of Series I Convertible Preferred Stock would be entitled to receive an aggregate amount equal to the higher of (i) $2,450,000 and (ii) the amount such holders would be entitled to receive had such holders’ shares of Series I Preferred Stock been converted into shares of common stock immediately prior to the liquidation, sale of assets or merger in accordance with the terms of the Series I Preferred Stock.

The Company's indebtedness to ERP2 Holdings, LLC is secured by all the Company's assets, and the Company may become insolvent if repayment of such debt is due prior to the Company’s ability to obtain funds to repay such debt or if the Company fails to restructure such debt.

At December 31, 2007, the Company owed, including accrued but unpaid interest, an aggregate amount of $693,000 to ERP2 Holdings, LLC ("ERP2") under two demand notes. Interest accrues on such debt at an annual interest rate of 10%, and such debt is secured by a security interest in favor of ERP2 on all of the Company’s assets.

On January 14, 2008, the Company entered into a term sheet with ERP2 that provides, among other things, for the concurrent consummation (the “ERP2 Closing”) of the following transactions: (i) the extension of the maturity date of the existing demand notes to the date that is two years from the date of the ERP2 Closing; (ii) the agreement of ERP2 not to call such demand notes, as extended, following an event of default, prior to September 30, 2008; and (iii) the issuance of additional notes to ERP2 in the aggregate principal amount of $1,500,000 with a maturity date two years from the date of the ERP2 Closing. Interest will accrue on the Company’s debt under the notes so extended or issued at an annual rate of 10%, and such debt will be secured by a security interest in favor of ERP2 on all of the Company’s assets. Disbursement of $300,000 of such aggregate principal amount is subject to delivery at the ERP2 Closing of definitive transaction documents pursuant to the term sheet. Disbursement of the remaining $1,200,000 of such amount is subject to completion of all actions required to be completed by the Company in order to effectuate a 1000-to-1 reverse split of the Company’s common stock and the deregistration of the Company’s common stock under the Securities Exchange Act of 1934. If the Company fails to complete such actions by April 30, 2008, such failure will constitute an event of default under the extended demand notes and under the additional notes contemplated by the term sheet.

If the Company is unable to generate sufficient cash flow from its operations, secure funds from the capital markets or lenders or restructure its debt to ERP2 prior to the time that the debt under the demand notes, as extended, and the additional notes contemplated by the term sheet become due, the Company will become insolvent.

Financing to fund the Company’s future capital requirements may not be available on favorable terms or at all.

The Company and ERP2 have entered into a term sheet that contemplates the extension by ERP2 to the Company of a $1,500,000 loan, the disbursement of which, as discussed above, is subject to certain conditions. The Company, however, may need financing in the future in addition to any funding received from ERP2 pursuant to such term sheet, and such financing may not be available on favorable terms or at all from any source.

The Company believes its capital requirements will vary greatly from quarter to quarter, depending on, among other things, capital expenditures, fluctuations in its operating results, financing activities, and investments and third party products and receivables management. The Company’s future liquidity will depend on financing from ERP2 and its ability to generate new system sales of its eB product suite in the near term, which cannot be assured. Failure to generate sufficient system sales to meet the Company’s cash flow needs can be expected to have a material adverse effect on the Company’s business, results of operations, and financial condition. Management believes that the Company’s current cash and receivables, as well as additional cash that may be generated from operations and received from ERP2 pursuant to the above-referenced term sheet, will be sufficient to meet its short-term needs for working capital. However, the Company may not be able to obtain sufficient orders to enable the Company to achieve a sustained break-even level of cash flow, which would be necessary to continue operations in the absence of further financing. Future equity financings would be dilutive to the existing holders of the Company's common stock. Future debt financings could involve restrictive covenants. Moreover, the Company may not be able to attract equity or debt financing at all.

The Company is party to a term sheet with ERP2 Holdings, LLC that contemplates the consummation of a 1000-to-1 reverse split of the Company's common stock; in the event the reverse split is consummated, (i) certain shareholders will receive a cash payment in exchange for some or all of their common shares; (ii) the trading liquidity of the common shares could be adversely effected; (iii) the total market capitalization of the common sharesafter the reverse stock split may be lower than the total market capitalization before the reverse stock split; (iv) the market price of the common shares may become subject to greater declines on a percentage basis; and (v) some shareholders may consequently own "odd lots" requiring higher transaction costs to sell.

The Company is party to a term sheet with ERP2 Holdings, LLC ("ERP2"), which provides, among other things, for the extension to the Company by ERP2 of a $1,500,000 loan, of which $1,200,000 is subject to disbursement only upon completion of all actions required to be completed by the Company in order to effectuate a 1000-to-1 reverse split of the Company's common stock (as well as the subsequent deregistration of the Company's common stock under the Securities Exchange Act of 1934). In the event the Company fails to complete such actions prior to April 30, 2008, an event of default will exist with respect to the loan. ERP2, following payment to ERP2 of a dividend on the shares of the Company's Series F Convertible Preferred Stock held by ERP2 that the Company declared on January 14, 2008, will possess sufficient voting power to ensure the requisite shareholder approval of such reverse stock split.

In the event the reverse split contemplated by the term sheet is consummated, each shareholder will be entitled to receive that number of post-split common shares calculated by dividing their pre-split common share holdings by 1,000 and rounding down to the nearest whole number. If the total number of pre-split common shares that a shareholder holds is not evenly divisible by 1,000, the shareholder will receive cash equal to the fraction of a post-split common share that the shareholder otherwise would have been entitled to receive, multiplied by a value determined by the Company's board of directors to represent the approximate market value of 1,000 common shares prior to consummation of the split.

Consummation of the reverse stock split would reduce the number of issued and outstanding shares of the Company's common stock by a factor of one-thousand. Such reduction could lead to reduced trading volume of and a smaller number of market makers for the common shares, thereby adversely affecting the trading liquidity of the common shares.

In the event the reverse stock split is consummated, there can be no assurancesthat the market price of the Company's common sharesafter the reverse stock split will increase in proportion to the reduction in the number of common shares issued and outstanding before the reverse stock split. For example, based on the closing price on the OTC Bulletin Board of the Company's common shares on January 9, 2008 of $0.07per share, if the reverse stock splitis consummated, there can be no assurancesthat the post-split market price of the Company's common shares would be at least $70.00per share. Accordingly, the total market capitalization of the Company's common shares after the proposed reverse stock split may be lower than the total market capitalization before the proposed reverse stock split. Furthermore, if the reverse stock split is consummated and the market price of the Company's common shares subsequently declines, the percentage decline may be greater than would occur in the absence of the reverse split.

In the event the reverse stock split is consummated, some shareholders may consequently own less than 100 shares of the Company's common stock.A purchase or sale of less than 100 shares (an "odd lot" transaction) may result in incrementally higher tradingcosts through certain brokers. Therefore, those shareholders who own less than 100 common shares following the reverse stock split may be required to pay higher transaction costs if they shoulddetermine to sell their shares.

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The Company is party to a term sheet with ERP2 Holdings, LLC that contemplates the deregistration of the Company's common stock under the Securities Exchange Act of 1934; in the event the deregistration is consummated, (i) the Company will no longer make public filings under the Securities Exchange Act of 1934 and (ii) the Company's common stock will no longer be eligible for trading on the OTC Bulletin Board, and there may cease to be any public market for the Company's common stock.

The Company is party to a term sheet with ERP2 Holdings, LLC ("ERP2"), which provides, among other things, for the extension to the Company by ERP2 of a $1,500,000 loan, of which $1,200,000 will be subject to disbursement only upon completion of all actions required to be completed by the Company in order to effectuate the deregistration of the Company's common stock under the Securities Exchange Act of 1934 (the "Exchange Act") (as well as a 1000-to-1 reverse split of the Company's common stock, contemplated to occur prior to such deregistration). In the event the Company fails to complete such actions prior to April 30, 2008, an event of default will exist with respect to the loan.

In the event the deregistration contemplated by the term sheet is consummated, the Company will no longer be subject to public reporting requirements under the Exchange Act, including any requirements to file annual reports on Form 10-K, quarterly reports on Form 10-Q, or current reports on Form 8-K. Consequently, following any such deregistration, there will not be made available to the public current financial or other information concerning the Company, except such information, if any, as the Company may choose to voluntarily disclose or be required to disclose pursuant to applicable legal requirements.

Although the Company anticipates that, immediately following any such deregistration, its common stock will be quoted in the Pink Sheets, there can be no assurances that such quotation of the Company's common stock will occur or continue for any period of time. Rule 15c2-11 under Exchange Act requires brokers to obtain certain information and assess its reliability before publishing quotations for securities that are not registered under the Exchange Act. As indicated above, following deregistration, the Company will be under no obligation to make public filings under the Exchange Act, and any information that the Company makes available to the public may not include all of the information that a broker would need to have available in order to publish quotations of the Company's common stock under Rule 15c2-11. Accordingly, quotations for the Company's common stock in the Pink Sheets may cease to be published if brokers determine that the available information about the Company is no longer current. In that case, there would be no public market for the Company's common stock, and stockholders may be unable to sell shares of the Company's common stock.

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

A small number of customers has typically accounted, and will continue in the future to account, for a large percentage of the Company's annual revenues. Aveva Solutions Limited and Network Rail accounted for 25% and 12%, respectively, of revenue for fiscal 2007. Constellation Energy Group accounted for 13% of revenue for fiscal 2006. Network Rail accounted 16% of the Company's revenues in fiscal 2005. Because of the Company's reliance on sales to relatively few customers, the loss of any sale could have a material adverse effect on the results of its operations on any given quarter. Additionally, a significant portion of the Company's revenues has historically been, and is expected in the future to be, derived from the sale of systems to new customers. The Company generally incurs significant marketing and sales expense prior to entering into a contract with a new customer that generates revenues. The length of time it takes to establish a new customer relationship typically ranges from 6 to 12 months. As such, the Company may incur significant expenses associated with its sales efforts directed to prospective customers in any particular period before any associated revenues stream begins. If the Company is not successful at obtaining significant new customers or if a small number of customers cancel or delay their orders for its products, then its business and its prospects could be harmed which may cause the price of the Company's common stock to decline.

In fiscal 2007 the Company granted a source code license in the eB product suite, as it existed in March 2007, to Aveva Solutions Limited and could face competition from the offering by that company or one of its sublicensees of products with substantially the same functionality as the eB product suite.

On October 2, 2006, the Company entered into a $2 million licensing contract with an engineering IT solutions and services company, Aveva Solutions Limited ("AVEVA"), by which the Company granted to AVEVA a non-exclusive perpetual license to use and sublicense (subject to certain restrictions described below) the technology underlying the Company's eB product suite, including the source code of the eB product suite. However, prior to March 31, 2008, AVEVA may not (1) sublicense the source code of the eB product suite or any derivative of it (except to third party contractors under limited circumstances) or (2) sublicense the eB product suite or any derivative of it when such technology is not included with other products (except to existing customers of AVEVA's parent company, Aveva Group plc, and certain of its affiliates). Nevertheless, subject to the foregoing restrictions, AVEVA or a party to whom AVEVA grants a sublicense could offer products using the Company's source code and providing substantially the same functionality as the eB product suite, which could have a material adverse impact on the Company's business, results of operations, and financial condition. The source code license, however, was based on the state of the eB product in March 2007 and since that time the Company has developed new features and functions into the product for which AVEVA has no technology rights.

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

In a private placement completed in March 2006, the Company issued, in addition to certain warrants, shares of new Series I Convertible Preferred Stock, which upon conversion into common stock would result in substantial dilution to common shareholders. The number of shares of the Company's common stock into which the shares of Series I Preferred Stock may be converted varies based on a volume-weighted measure of the market price of the common stock. The range is from 11,666,667 common shares, if the market price measure were to be at least $0.25 at the time of all conversions, up to 33,793,104 common shares, if the market price measure were to be no greater than $0.08 at the time of all conversions.

On September 30, 2003, the Company issued 5,291 shares of Series F Preferred Stock with a stated value of $1,000 per share in consideration of the cancellation of $5,291,000 of certain debt. The Series F Preferred Stock is convertible into the Company's common stock at a stated conversion price of $0.45 per share, subject to certain anti-dilution provisions. As a result of these anti-dilution provisions and the issuance of the Series I Convertible Preferred Stock, the conversion price has been adjusted to $0.39 per share. Upon conversion of the Series F Preferred Stock at the $0.39 per share conversion price, 13,566,667 shares of the Company's common stock is issuable based on the stated value of the Series F Preferred Stock. In addition, upon such conversion, shares of the Company's common stock are issuable based on any unpaid accrued dividends and interest thereon related to the Series F Preferred Stock as of such date. As of the date of payment to ERP2 of the dividend declared by the Company on January 14, 2008, there will be no such unpaid accrued dividends and interest. Conversion of the Series F Preferred Stock may occur at the option of the holder until September 30, 2008. On that date, any outstanding Series F Preferred Stock not previously converted will be converted automatically. Conversion of the Series F Preferred Stock will result in substantial dilution to common shareholders.

Future sales of common stock by the Company's shareholders, including investors in future offerings and ERP2 Holdings, LLC, could adversely affect the Company's stock price.

ERP2 Holdings, LLC ("ERP2"), as of January 15, 2008 (i) holds 48,388,207 shares of the Company's common stock on a fully diluted basis and (ii) is entitled to payment of a dividend in the amount of 20,827,268 additional shares of common stock, in satisfaction of the entire amount of accrued and unpaid dividends (together with interest) on the shares of the Company's Series F Convertible Preferred Stock held by ERP2. In addition, as detailed below, ERP2 is anticipated to become entitled to receive warrants with a per share exercise price of $0.08 for the purchase of the number of shares of common stock equal to the greater of (A) 26,735,508 shares of common stock and (B) 20% of the fully diluted outstanding common stock as of the date of issuance of such warrants. If ERP2, from time to time in the future, sells the shares of common stock that it holds or may acquire, the Company's stock price may be adversely affected.

In connection with the Series I Convertible Preferred Stock private placement completed in March 2006, the Company filed a registration statement for the common stock of the Company issuable upon conversion of such preferred stock. The registration statement was declared effective by the Securities and Exchange Commission on July 10, 2006. Any sales of these shares of common stock or shares of the Company's common stock issued in any future offering could cause a decline in the price of the Company's stock.

The exercise of outstanding options and warrants and warrants that are anticipated to be issued to ERP2 Holding, LLC, would result in dilution of the Company's stock.

As of January 15, 2008, the Company had outstanding stock options to purchase approximately 5,755,250 shares of common stock and warrants to purchase approximately 19,877,823 shares of common stock including a warrant to purchase 17,175,971 shares of common stock at a per share exercise price of $0.08 issued to ERP2 Holdings, LLC ("ERP2"). If such options and warrants are exercised for all or a substantial number of the shares of common stock issuable thereunder, shareholders could suffer significant dilution.

The Company is party to a term sheet with ERP2, which provides, among other things, for the extension to the Company by ERP2 of a $1,500,000 loan in two tranches: (a) $300,000 upon delivery of definitive transaction documents pursuant to the term sheet and (b) $1,200,000 upon completion of all actions required to be completed by the Company in order to effectuate a 1000-to-1 reverse split of the Company's common stock and the deregistration of common stock under the Securities Exchange Act of 1934. The term sheet provides that, upon disbursement of such $1,200,000 tranche, the Company will issue to ERP2 warrants with a per share exercise price of $0.08 for the purchase of the number of shares of common stock equal to the greater of (i) 26,735,508 shares of common stock and (ii) 20% of the fully diluted outstanding common stock as of the date of such issuance. In the event such warrants are issued and subsequently exercised for all or a substantial number of the shares of common stock issuable thereunder, shareholders could suffer significant dilution.

The issuance of shares of common stock to ERP2 Holdings, LLC in payment of the dividend that has been declared on the Series F Convertible Preferred Stock will result in dilution of the Company's stock.

On January 14, 2008, the Company declared a dividend payable to ERP2 Holdings, LLC ("ERP2") in the amount of 20,827,268 shares of common stock, in satisfaction of the entire amount of accrued and unpaid dividends (together with interest) on the shares of the Company's Series F Convertible Preferred Stock held by ERP2. Such dividend was issued in satisfaction of a condition to the execution by ERP2 of a term sheet for a financing transaction that the Company and ERP2 entered into on January 14, 2008.

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

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

- the potential delay in recognizing revenue from license transactions due to revenue recognition rules which the Company must follow;
- the tendency to realize a substantial amount of revenue in the last weeks, or even days, of each quarter due to the tendency of some of the Company's customers to wait until quarter or year end in the hope of obtaining more favorable terms;
- customer decisions to delay implementation of the Company's products;
- the size and complexity of the Company's license transactions;
- any seasonality of technology purchases;
- demand for the Company's products, which can fluctuate significantly;

- the timing of new product introductions and product enhancements by both the Company and its competitors;
- changes in the Company's pricing policy;
- the publication of opinions concerning us, the Company's products or technology by industry analysts;
- changes in foreign currency exchange rates; and
- domestic and international economic and political conditions.

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

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

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

The Company must continue to enhance and improve the performance, functionality and reliability of its products and services in a timely manner. The software industry is characterized by rapid technological change, changes in user requirements and preferences, frequent new product and services introductions embodying new technologies, and the emergence of new industry standards and practices that could render the Company's products and services obsolete. The Company has experienced product development delays in the past, and may experience delays in the future. The Company's failure to continually enhance its products and services in a timely manner would adversely impact its business and prospects. In the past, the Company has also discovered that some of its customers desire additional performance and functionality not currently offered by its products. The Company's success will depend, in part, on its ability to internally develop and license leading technologies to enhance its existing products and services, to develop new products and services that address the increasingly sophisticated and varied needs of its customers, and to respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis. The Company's product development efforts with respect to its eB product suite are expected to continue to require substantial investments by the Company, and the Company may not have sufficient resources to make the necessary investments. If the Company is unable to adapt its products and services to changing market conditions, customer requirements or emerging industry standards, it may not be able to maintain or increase its revenue and expand its business.

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

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

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

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

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

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

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

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

The Company may face product liability claims from its customers.

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

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

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

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

The market for the Company's products is intensely competitive, subject to rapid change and significantly affected by new product introductions and other market activities of industry participants. The Company currently encounters competition from a number of public and private companies, including Electronic Document Management System/Enterprise Content Management vendors such as EMC (Documentum product), IBM (FileNet products) , OpenText, and Sword; Enterprise Asset Management vendors such as Indus, Computer Aided Design Vendors (CAD) / Product Lifecycle Management (PLM) vendor such as PTC, Siemens (UGS product), Matrix, Autotrol and Intergraph. Many of these direct competitors have significantly greater financial, technical, marketing and other resources than the Company. The Company also expects that direct competition will increase as a result of recent consolidation in the software industry.

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

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

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

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

- With a price of less than $5.00 per share;
- That is not traded on a "recognized" national exchange;

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

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

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

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

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

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

Changes in foreign currency rates, the condition of local economies, and the general volatility of software markets may result in a higher or lower proportion of foreign revenues in the future. Although the Company’s operating and pricing strategies take into account changes in exchange rates over time, future fluctuations in the value of foreign currencies may have a material adverse effect on the Company’s business, operating results and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Company’s headquarters are located in San Diego, California. The Company leased 12,192 square feet of a 40,000 square foot building in San Diego through June 14, 2007. The original lease, which commenced September 1, 2003 and was to terminate on August 31, 2009, carried a monthly rent starting at $18,898 in year one, increasing 3% each year to $21,908 in year six. On June 14, 2007, the Company signed a lease addendum with our landlord to reduce the amount of office space in our principal offices from 12,192 square feet to 6,996 square feet. The amended lease commenced on July 1, 2007 and terminates on June 30, 2012 and carries a monthly rent starting at $13,642, increasing approximately 3.5% each year to $15,640 in year five.

The Company leases 3,024 square feet of a 6,137 square foot building in Surrey, United Kingdom. The lease, which commenced on February 10, 2006 and terminates on February 10, 2011, includes an early termination option effective beginning February 9, 2009, provided six months notice is given. The monthly rent, which began on August 10, 2006, is $6,663 over the lease term.

See Note 9 of the Notes to the Consolidated Financial Statements for further information regarding the Company’s lease commitments.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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

	High	Low
Year Ended September 30, 2007		
First Quarter	$ 0.15	$ 0.05
Second Quarter	0.09	0.06
Third Quarter	0.25	0.05
Fourth Quarter	0.19	0.06
Year Ended September 30, 2006		
First Quarter	$ 0.25	$ 0.09
Second Quarter	0.25	0.11
Third Quarter	0.14	0.08
Fourth Quarter	0.12	0.06

On January 11, 2008, there were approximately 800 holders of record of the Company’s Common Stock and the last sale price of the Common Stock as reported on the OTC Bulletin Board on September 30, 2007 was $0.11 per share.

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

Equity Compensation Plan Information

The following table gives information about the Company’s common stock that may be issued upon the exercise of options under all of the Company’s equity compensation plans as of September 30, 2007. The table includes the 1996 Stock Incentive Plan and the 2007 Stock Incentive Plan.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a) (c)
Equity compensation plans approved by security holders	5,768,000	$0.24	—
Equity compensation plans not approved by security holders	1,300,000(1)(2)	$0.33	—
Total	7,068,000	$0.25	—

(1) A warrant underlying 1,000,000 of these option shares was granted in 2004 to a public relations firm. The exercise price under the warrant is $0.40 per share. The warrant expired unexercised on November 3, 2007.

(2) A warrant underlying 300,000 of these option shares was granted on March 31, 2006 to a public relations firm. The exercise price under the warrant is $0.10 per share. The warrant expires on the third anniversary of its date of issuance.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial data of the Company. The financial data for each of the years ended September 30, 2007, 2006, 2005, 2004 and 2003 have been derived from the audited Consolidated Financial Statements.

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

	Years ended September 30,				
	2007	2006	2005	2004	2003
	(In thousands except per share data)				
Consolidated Statement of Operations Data					
Revenues					
Licenses	$ 3,107	$ 1,775	$ 737	$ 3,897	$ 2,053
Services and other	5,867	5,231	5,088	5,105	5,309
Total revenues	8,974	7,006	5,825	9,002	7,362
Cost of revenues					
Licenses	169	324	206	260	690
Services and other	2,477	2,370	2,232	2,249	2,334
Total cost of revenues	2,646	2,694	2,438	2,509	3,024
Gross profit	6,328	4,312	3,387	6,493	4,338
Operating expenses:					
Research and development	1,152	1,058	852	1,393	1,494
Marketing and sales	1,936	2,410	3,799	2,949	2,452
General and administrative	1,719	1,622	1,994	1,965	1,410
	4,807	5,090	6,645	6,307	5,356
Income (loss) from operations	1,521	(778)	(3,258)	186	(1,018)
Nonrecurring loss on conversion of debt to preferred stock	—	—	—	—	(1,499)
Interest and other income	2	4	1	13	4
Interest and other expense	(261)	(248)	(291)	(151)	(491)
Net income (loss)	1,262	(1,022)	(3,548)	48	(3,004)
Deemed preferred dividend	—	(1,000)	(2,200)	—	—
Cumulative preferred dividends	(264)	(354)	(301)	(271)	—
Net income (loss) available to common shareholders	$ 998	$ (2,376)	$ (6,049)	$ (223)	$ (3,004)
Basic net income (loss) per share	$ 0.03	$ (0.06)	$ (0.17)	$ (0.01)	$ (0.10)
Diluted net income (loss) per share	$ 0.02	$ (0.06)	$ (0.17)	$ (0.01)	$ (0.10)

Shares used in computing basic and diluted net loss per common share										
Basic		37,324		36,875		34,941		34,016		31,100
Diluted		49,841		36,876		34,941		34,016		31,100
						Years Ended September 30,				
		2007		2006		2005		2004		2003
						(In thousands)				
Consolidated Balance Sheet Data										
Working deficit	$	(4,852)	$	(7,782)	$	(4,659)	$	(2,693)	$	(3,880)
Total assets		2,062		1,723		1,645		1,430		1,230
Long-term obligations		55		680		976		601		566
Shareholders' (deficit) equity		(4,348)		(7,878)		(4,960)		(3,136)		(4,141)

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

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

We develop, market and support eB, our integrated suite of collaborative document, configuration and records management software solutions. Our revenues in the fiscal year ended September 30, 2007 increased by 28% from the prior fiscal year primarily due to the sale of a perpetual license to Aveva Solutions Limited for $2.0 million.

Our revenues are derived from licenses of our software to our customers, services that we provide under maintenance support contracts and our non-maintenance services, consisting primarily of design studies, system implementation and training. Of our total revenues in fiscal 2007, license revenues accounted for 35%, maintenance services revenues accounted for 35% and non-maintenance services represented 30%.

Many of our customers are located outside the United States, with foreign-originated revenues accounting for 58% and 35% of fiscal 2007 and 2006 revenues, respectively. Revenue in fiscal 2007 reflected a foreign currency gain of $238,000 due to the declining value of the dollar during the year.

While revenues increased, our cost of revenues decreased by 2% in fiscal 2007 compared to fiscal 2006 primarily because of lower cost of sales for licenses. Our gross profit increased from 62% to 71% of revenues in fiscal 2007 due to the increase in high margin software sales. Operating expenses decreased by 6% primarily as a result of decreased marketing and sales personnel related costs during fiscal 2007.

At September 30, 2007, our principal sources of liquidity consisted of $553,000 of cash and cash equivalents, compared to $95,000 at September 30, 2006. The improvement in liquidity was primarily due to the $2.0 million perpetual license sale.

This Management's Discussion and Analysis of Financial Condition and Results of Operation summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and cash flow during the three-year period ended September 30, 2007, each year therein being referred to as fiscal 2007, fiscal 2006 and fiscal 2005. Unless otherwise indicated, references to any year in this discussion refer to the applicable fiscal year ended September 30. This discussion and analysis should be read with the consolidated financial statements and financial statement footnotes included in this Annual Report on Form 10-K.

This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements due to many factors, including but not limited to those set forth under the headings "Risk Factors" and "Special Note Regarding Forward-Looking Statements."

Critical Accounting Policies

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

Revenue Recognition

The Company's revenues are derived from sales of its document and configuration management systems that are primarily composed of software and services, including maintenance, training and consulting services, and third party software and hardware. The Company recognizes revenue in accordance with Statement of Position ("SOP") 97-2 "Software Revenue Recognition," SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions", Staff Accounting Bulletin ("SAB") No. 101, updated by SAB's 103 and 104 "Update of Codification of Staff Accounting Bulletins," and Emerging Issues Task Force No. 00-21 ("EITF 00-21") "Accounting for Revenue Arrangements with Multiple Deliverables." Revenue through the Company's Value Added Resellers ("VARS") are net of any VAR discount in accordance with EITF 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent."

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

Contracts are billed based on the terms of the contract. There are no retentions in billed contract receivables. Unbilled contract receivables relate to revenues earned but not billed at the end of the period.

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

- The actual contractual terms, such as payment terms, delivery dates, and pricing of the various product and service elements of a contract
- Availability of products to be delivered
- Time period over which services are to be performed
- Creditworthiness of the customer
- The complexity of customizations to the Company's software required by service contracts
- The sales channel through which the sale is made (direct, VAR, distributor, etc.)
- Discounts given for each element of a contract
- Any commitments made as to installation or implementation of "go live" dates.

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

Software Development Costs and Purchased Software

Software development costs and purchased software are capitalized when technological feasibility and marketability of the related product have been established. Software development costs incurred solely in connection with a specific contract are charged to cost of revenues. Capitalized software costs are amortized on a product-by-product basis, beginning when the product is available for general release to customers. In fiscal 2007 the Company capitalized no internal software development costs, while in fiscal 2006, the Company capitalized $35,000 of internal software developments costs. The capitalized software costs relate primary to the eB version 14 product release completed in November 2005 and is the core base product of the Company going forward. Annual amortization expense is calculated using the greater of the ratio of each product's current gross revenues to the total of current and expected gross revenues or the straight-line method over the estimated useful life of three to five years.

Allowance for Doubtful Accounts

The Company sells its products directly to end-users, generally requiring a significant up-front payment and remaining terms appropriate for the creditworthiness of the customer. The Company also sells its products to VARs and other software distributors generally under terms appropriate for the creditworthiness of the VAR or distributor. The Company retains no continuing obligations on sales to VARs. Management believes that no significant concentrations of credit risk existed at September 30, 2007. Receivables from customers are generally unsecured. The Company continuously monitors its customer account balances and actively pursues collections on past due balances. The Company maintains an allowance for doubtful accounts which is comprised of a general reserve based on historical collections performance plus a specific reserve for certain known customer collections issues. If actual bad debts are greater than the reserves calculated based on historical trends and known customer issues, the Company may be required to book additional bad debt expense which could have a material adverse effect on our business, results of operations and financial condition for the periods in which such additional expense occurs.

Share-Based Payments

In December 2004, the Financial Accounting Standards Board (FASB) revised Statement of Financial Accounting Standards No. 123 (FAS 123R), "Share-Based Payment," which establishes accounting for share-based awards exchanged for employee services and requires companies to expense the estimated fair value of these awards over the requisite employee service period. On April 14, 2005, the U.S. Securities and Exchange Commission adopted a new rule amending the effective dates for FAS 123R. In accordance with the new rule, the accounting provisions of FAS 123R were effective for the Company beginning in the quarter ended December 31, 2005.

Under FAS 123R, share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee’s requisite service period. The Company has no awards with market or performance conditions. The Company adopted the provisions of FAS 123R on October 1, 2005, the first day of the Company’s fiscal year 2006, using a modified prospective application, which provides for certain changes to the method for valuing share-based compensation. Under the modified prospective application, prior periods are not revised for comparative purposes. The valuation provisions of FAS 123R apply to new awards and to awards that are outstanding on the effective date and subsequently modified or cancelled. Estimated compensation expense for awards outstanding at the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under FASB Statement No. 123, “Accounting for Stock-Based Compensation” (FAS 123).

On November 10, 2005, the FASB issued FASB Staff Position No. FAS 123(R)-3, “Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards.” The Company has elected to adopt the alternative transition method provided in this FASB Staff Position for calculating the tax effects of share-based compensation pursuant to FAS 123R. The alternative transition method includes a simplified method to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee share-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of FAS 123R.

Results of Operations

The following table sets forth the percentage relationship to total revenues of items included in the Company's Consolidated Statements of Operations for the years ended September 30, 2007, 2006 and 2005.

	Years ended September 30,		
	2007	2006	2005
Revenues			
Licenses	35%	25%	13%
Services and other	65%	75%	87%
Total revenues	100%	100%	100%
Cost of revenues			
Licenses	1%	4%	4%
Services and other	28%	34%	38%
	29%	38%	42%
Gross profit	71%	62%	58%
Operating expenses:			
Research and development	13%	15%	15%
Marketing and sales	22%	35%	65%
General and administrative	19%	23%	34%
	54%	73%	114%
Income (loss) from operations	17%	(11) %	(56) %
Interest and other income	—	—	—
Interest expense	(3) %	(4) %	(5) %
Net income (loss)	14%	(15) %	(61) %
Deemed preferred dividend	—	(14) %	(38) %
Cumulative preferred dividends	(3) %	(5) %	(5) %
Net income (loss) available to common shareholders	11%	(34) %	(104) %

Revenues

Licenses Revenues
(in thousands)

	2007	Change	2006	Change	2005
License revenues	$ 3,107	75%	$ 1,775	141%	$ 737
Percentage of total revenues	35%		25%		13%

License revenues increased by $1.3 million, or 75%, to $3.1 million in fiscal 2007 from $1.8 million in fiscal 2006. The increase is due primarily to new customer Aveva Solutions Limited purchasing a perpetual license for $2,000,000, offset by lower license sales to other new and existing customers.

License revenues increased by $1.0 million, or 141% to $1.8 million in fiscal 2006 from $737,000 in fiscal 2005. The increase was due to (1) new customers ordering software systems such as Florida Power and Light for $269,000 and Defense Threat Reduction Agency (a part of the United States Defense Department) for $140,000 and (2) current customers expanding their systems such as Constellation Energy Group who placed sales for $282,000 and JEA for $275,000

The Company was successful in capitalizing on its pipeline of sales opportunities in 2007. While the Company's pipeline of sales

opportunities continues to be strong for 2008, the Company's license revenues can fluctuate from quarter to quarter, based on the timing of customers orders due to the long sales cycle and changes in customers' internal plans for the rollout of software licenses. The length of time it takes to establish new customer relationships typically ranges from 6 to 12 months and as such the timing of sales can fluctuate significantly.

A small number of customers has typically accounted for a large percentage of the Company's total annual revenues. Aveva Solutions Limited accounted for 25% and Network Rail accounted for 12% of fiscal 2007 revenue. Constellation Energy Group accounted for 13% of 2006 revenue, while Network Rail accounted for 16% of fiscal 2005 revenue. The Company's reliance on relatively few customers could have a material adverse effect on the results of its operations on a quarterly basis. In fiscal 2007 revenue through resellers totaled $485,000 or 5% of total revenue, versus $796,000 or 11% in fiscal 2006 and $507,000 or 9% in fiscal 2005.

Services and Other Revenues
(in thousands)

	2007	Change	2006	Change	2005
Services and other revenues	$ 5,867	12%	$ 5,231	3%	$ 5,088
Percentage of total revenues	65%		75%		87%

Services and other revenues are comprised of maintenance and non-maintenance services. Non-maintenance services typically relate to design studies, implementation of systems and training which vary with the level of license revenues while maintenance revenue is primarily dependent on customers renewing their annual maintenance support contracts.

Services and other revenues increased $636,000 or 12% from $5.2 million in fiscal 2006 to $5.9 million in fiscal 2007. Non-maintenance services increased $502,000 while maintenance revenue increased $134,000 in fiscal 2007. Non-maintenance services increased as customers continued to utilize the Company's resources to assist in implementing their systems in new business areas within their organization and upgrading from older legacy systems to the current versions of eB. Maintenance increases were due primarily to a full year of maintenance revenue for software purchased late in fiscal 2006 including a new customer, Defense Threat Reduction Agency, and expansions from two existing customers, JEA and Trinity Industries.

Service and other revenues had a slight increase of $143,000 or 3% from fiscal 2005 to fiscal 2006. Non-maintenance services increased $134,000 while maintenance revenue increased $9,000. Non-maintenance services increased slightly as customers continued to utilize the Company's resources to assist in implementing their systems in new business areas within their company and upgrading from older legacy systems to the current versions of eB.

We anticipate that service and other revenue will fluctuate primarily due to fluctuations in sales to new customers, which require more services that typically include a business process study, integration with other business systems and training. In addition, we expect that service and other revenues will continue to fluctuate from quarter to quarter based on the timing of customer orders.

Cost of Revenues

Cost of Licenses Revenues
(in thousands)

	2007	Change	2006	Change	2005
Cost of License Revenues	$ 169	(48) %	$ 324	57%	$ 206
Percentage of total revenues	1%		4%		4%

Cost of licenses revenues consists of costs associated with reselling third-party products and amortization of internal software development costs.

Cost of license revenue decreased $155,000 or 48% in fiscal 2007 compared to fiscal 2006 primarily due to fewer third party software orders. The gross profit percentage of license revenue increased to 95% in fiscal 2007 from 82% in fiscal 2006 due primarily to the large perpetual license sale to one customer, Aveva Solutions Limited, during fiscal 2007.

Cost of license revenues increased $118,000 or 57% in fiscal 2006 compared to fiscal 2005 primarily due to amortization of software development costs, which totaled $87,000, associated with the Version 14 eB upgrade project completed in November 2005 and an increase in third party software costs of $31,000 for one customer. However, the gross profit percentage of license revenue increased to 82% in fiscal 2006 from 72% in fiscal 2005 primarily due to the substantial increase in the sales of the Company's proprietary software during fiscal 2006 while the related costs were limited to the amortization of the Company's capitalized software development costs.

We expect the cost of license revenues to fluctuate based on customer requirements for third-party software products since these costs have the largest impact on cost of license revenues. We expect the gross profit percentage from license revenues to improve as sales of the Company's proprietary software become a greater portion of total license revenues in future years.

Cost of Services and Other Revenues
(in thousands)

	2007	Change	2006	Change	2005
Cost of services and other revenues	$ 2,477	5%	$ 2,370	6%	$ 2,232
Percentage of total revenues	28%		34%		38%

Cost of services and other revenues consists primarily of personnel-related costs in providing consulting services, training to customers and support. It also includes costs associated with reselling third-party hardware and maintenance, which includes telephone support costs.

Cost of services and other revenues increased by $107,000 or 5% in fiscal 2007 compared to fiscal year 2006 due to higher personnel related costs primarily related to bonuses. The gross profit percentage on services and other revenues increased to 58% in fiscal 2007 from 55% in fiscal 2006 primarily due to the increased services and other revenues to both new and existing customers resulting in a higher utilization of service engineers applied to service contracts.

Cost of services and other revenues increased by $138,000 or 6% primarily due to third party scanning services provided to one customer during fiscal 2006. The gross profit percentage on services and other revenue decreased slightly to 55% in fiscal 2006 from 56% in fiscal 2005.

We expect the cost of services and other revenues to fluctuate in absolute dollar amounts and as a percentage of total revenues as the related service revenue fluctuates.

Operating Expenses

Research and Development
(in thousands)

	2007	Change	2006	Change	2005
Research and development expenses	$ 1,152	9%	$ 1,058	24%	$ 852
Percentage of total revenue	13%		15%		15%

Research and development expenses consist of salaries and benefits for software developers as well as an allocation of corporate expenses, calculated on the basis of headcount, such as corporate insurance, facilities, telephone and other.

In fiscal 2007, research and development expenses increased $94,000, or 9% compared to fiscal 2006 primarily due to higher consulting fees of $53,000 in connection with services to integrate our eB product with the Microsoft Office SharePoint server environment. In addition, in fiscal 2006 there was a total of $35,000 of labor cost capitalized related to an updated version of our eB version 14 software product, while there was no labor costs capitalized in fiscal 2007.

In fiscal 2006, research and development expenses increased $206,000, or 24% compared to fiscal 2005. In fiscal 2005 capitalization costs relating to the Version 14 eB software upgrade totaled $514,000, while only $35,000 was capitalized in fiscal 2006 since the project was completed in November 2005, resulting in research and development costs of $479,000 being expensed. Excluding the effect from the capitalized software, research and development costs decreased $273,000 from fiscal 2005 to fiscal 2006 as a result of lower personnel related costs due to a reduction in personnel in September 2005.

We believe that continued investment in research and development is a critical factor in maintaining our competitive position and we expect research and development costs to increase in absolute dollar amounts but remain relatively unchanged as a percentage of total revenue.

Marketing and Sales
(in thousands)

	2007	Change	2006	Change	2005
Marketing and sales expenses	$ 1,936	(20) %	$ 2,410	(37) %	$ 3,799
Percentage of total revenue	22%		35%		65%

Marketing and sales expenses consist of salaries, cost of benefits, sales commissions and other expenses related to the direct sales force, as well as allocation of overall corporate expenses, calculated on the basis of headcount, related to items such as corporate insurance, facilities, telephone and other.

In fiscal 2007, marketing and sales expenses decreased $474,000, or 20% compared to fiscal 2006 due to lower personnel related costs of $591,000 with the consolidation of certain functions within the department. These lower costs were offset by higher professional fees of $100,000 related to the closing of the Aveva Solutions Limited license sale and tradeshow costs of $17,000 for marketing support associated with the Company's name change and goal to improve our communications and positioning in the marketplace.

In fiscal 2006, marketing and sales expenses decreased $1,389,000 or 37% when compared to fiscal 2005. This decrease is primarily due to a reduction in personnel in September 2005 resulting in $756,000 lower personnel related costs and reduced costs of $589,000 for advertising, consulting, and tradeshows.

We expect marketing and sales expense to increase in absolute dollar.

General and Administrative
(in thousands)

	2007	Change	2006	Change	2005
General and administrative expenses	$ 1,719	6%	$ 1,622	(19) %	$ 1,994
Percentage of total revenue	19%		23%		34%

General and administrative expenses consist primarily of personnel cost for finance, information technology, human resources and general management, as well as outside professional services and an allocation of overall corporate expenses, calculated on the basis of headcount, such as corporate insurance, facilities, telephone and other.

In fiscal 2007, general and administrative expenses increased by $97,000, or 6% when compared to fiscal 2006. This increase was due to higher legal and professional fees of $180,000 related to the Company's public filings and the license sale to Aveva Solutions Limited, offset by lower personnel related expenses primarily related to FAS 123R expenses.

In fiscal 2006, general and administrative expenses decreased by $372,000 or 19% when compared to fiscal 2005. A significant portion of the decrease was attributable to restructuring costs of $239,000 incurred in 2005 that was partially offset by a $77,000 reduction in the Company's allowance for uncollectible accounts. The balance of the decrease was due to a reduction in legal and professional fees of $333,000 that was offset by the increase of compensation expense of $123,000 related to the adoption of FAS 123R.

We expect that general and administrative expenses will increase slightly in absolute dollars in comparison to the prior year but decrease as a percentage of total revenue in fiscal 2008.

Interest & Other Income
(in thousands)

	2007	Change	2006	Change	2005
Interest & other income	$ 2	(50) %	$ 4	300%	$ 1
Percentage of total revenue	-%		-%		-%

Interest and other income consists primarily of interest earned on our cash and cash equivalents, gains on revaluation of derivatives or foreign translation adjustments, and gains on the sale of assets. In fiscal 2007, interest and other income decreased to $2,000 from $4,000 primarily due to a decrease in the foreign translation exchange and offset by an increase in interest earnings.

In fiscal 2006, interest and other income increased to $4,000 from $1,000, a net increase of $3,000, primarily from a foreign translation exchange difference.

Interest & Other Expense
(in thousands)

	2007	Change	2006	Change	2005
Interest & other expense	$ 261	5%	$ 248	(15) %	$ 291
Percentage of total revenue	(3) %		(4) %		(5) %

Interest and other expense increased $13,000 from fiscal 2006 to 2007. This increase was primarily due to loss on sales of assets of $5,000, interest expense of $4,000, and loss on foreign translation of $4,000.

Interest and other expense decreased $43,000 from fiscal 2005 to 2006. Other expense in fiscal 2005 included an expense of $146,000 relating to extending the expiration date of certain warrants. The expense was determined based on the value calculated using the Black-Scholes method. Excluding the expense associated with extending the life of the warrants, interest expense increased $103,000 from fiscal 2005 to 2006 primarily due to interest on the higher balance of dividends and notes payable to Spescom Ltd. and Spescom Ltd. UK.

Deemed Preferred Dividends
(in thousands)

	2007	Change	2006	Change	2005
Deemed preferred dividends	$ -	(100) %	$ 1,000	(55) %	$ 2,200
Percentage of total revenue	-%		(14) %		(38) %

In October 2005 the Company completed a financing arrangement whereby the Company issued 1,950 shares of our Series H Preferred Stock along with 925,926 common stock warrants for gross proceeds of $500,000 and the exchange and cancellation of 1,450 shares of Series G Convertible Preferred Stock. In accordance with EITF 00-27 “Application of issue No 98-5 to Certain Convertible Instruments,” the Company calculated using the Black–Scholes method the intrinsic value of the convertible instruments issued and determined that there was a deemed preferred dividend equal to the gross proceeds received of $500,000.

In March 2006 the Company completed a further round of financing whereby the Company issued 2,450 shares of Series I Preferred Stock along with 925,926 common stock warrants for gross proceeds of $500,000 and the exchange and cancellation of 1,950 shares of Series H Convertible Preferred Stock. In accordance with EITF 00-27 “Application of issue No 98-5 to Certain Convertible Instruments,” the Company calculated using the Black–Scholes method the intrinsic value of the convertible instruments issued and determined that there was a deemed preferred dividend equal to the gross proceeds received of $500,000.

In fiscal 2005 the Company also had a deemed dividend in connection with a financing arrangement whereby the Company issued 2,200 shares of Series G Convertible Preferred Stock along with 2,750,000 common stock warrants for gross proceeds of $2,200,000. The Company calculated using the Black–Scholes method the intrinsic value of the convertible instruments issued and determined that there was a deemed preferred dividend equal to the gross proceeds received of $2,200,000.

Cumulative Preferred Dividends
(in thousands)

	2007	Change	2006	Change	2005
Cumulative preferred dividends	$ 264	(25) %	$ 354	18%	$ 301
Percentage of total revenue	(3) %		(5) %		(5) %

The outstanding Series F Convertible Preferred Stock was entitled to receive dividends of 5% of the stated value of $1,000 per share per annum, payable on a quarterly basis in cash or common stock (valued on the basis of the average per share market value on the 30 trading days immediately prior to the date on which such dividend is declared by the Board of Directors). Cumulative preferred dividends earned in fiscal 2007 and fiscal 2006 were $264,000 and $265,000, respectively. Unpaid dividends accrue interest at the rate of 8% per annum. As of September 30, 2007, unpaid dividends and accrued interest amounted to $1,058,000 and$175,000, respectively. As of September 30, 2006, unpaid dividends and accrued interest amounted to $794,000 and $93,000, respectively.

The outstanding Series I Convertible Preferred Stock was entitled to receive dividends of 6.75% of the stated value of $1,000 per share per annum, payable on a monthly basis in cash or common stock accrued through the July 10, 2006 effective date of the registration statement filed by the Company that included the common stock issuable under the Series I Convertible Preferred Stock ("Series I Preferred Stock"). Cumulative preferred dividends earned for fiscal 2006 were $55,000 and no cumulative preferred dividends were earned for fiscal 2007. Unpaid dividends did not accrue interest. As of September 30, 2007, unpaid dividends amounted to $55,000. On October 22, 2007 a total of 358,809 shares of the Company's common stock were issued based on a $0.15 fair market price in payment of the Series I Convertible Preferred Stock dividends owed.

Prior to the exchange on March 10, 2006 of all the outstanding Series H Convertible Preferred Stock ("Series H Preferred Stock") for Series I Preferred Stock, the Series H Preferred Stock was entitled to receive dividends of 6.75% of the stated value of $1,000 per share per annum, payable monthly in arrears on the last day of each month based on the number of shares of Series H Preferred Stock outstanding as of the first day of each such month. For fiscal year 2006 dividends on the Series H Preferred Stock totaled $44,000 and there was no Series H Preferred Stock outstanding for the same periods in the prior year. A total of 325,966 shares of common stock were issued on March 31, 2006 based on a $0.13 per share fair market price in payment of Series H Preferred Stock dividends due as of March 10, 2006, when the Series H Preferred Stock was exchanged for Series I Preferred Stock.

The outstanding Series G Convertible Preferred Stock (the "Series G Preferred Stock") was entitled to receive dividends of 5% of the stated value of $1,000 per share per annum, payable monthly in arrears on the last day of each month based on the number of shares of Series G Preferred Stock outstanding as of the first day of each such month until the common shares under the Series G Preferred Stock was registered. Prior to the registration statement being declared effective in March 2005 by the Securities & Exchange Commission, the Company issued 82,050 shares of common stock with a value of $37,000 as a dividend on the Series G Preferred Stock. In connection with the Series G Preferred Stock financing in November 2004, the Company recorded a beneficial conversion of $2,200,000 as a preferred deemed dividend, as discussed above.

Liquidity and Capital Resources

At September 30, 2007, our principal sources of liquidity consisted of $553,000 of cash and cash equivalents compared to $95,000 at September 30, 2006. During fiscal 2007, we received payment of $2,000,000 relating to a large license and development fee sale in October 2006. Our liquidity could be negatively impacted by a decrease in demand for our products, which are subject to rapid technological changes, reductions in capital expenditures by our customers and intense competition, among other factors.

In past years, the Company has received loans from Spescom Ltd. to meet its obligations. The outstanding balance of its demand notes owed to Spescom Ltd. as of September 30, 2007 was $676,000 as compared to $680,000 at September 30, 2006. On October 10, 2007 the notes along with all of the Company's common stock and Series F Preferred Stock held by Spescom Ltd. were sold to ERP2 Holdings, LLC ("ERP2").

On January 14, 2008, the Company entered into a term sheet with ERP2 that provides, among other things, for the concurrent consummation (the "ERP2 Closing") of the following transactions: (i) the extension of the maturity date of the existing demand notes to the date that is two years from the date of the ERP2 Closing; (ii) the agreement of ERP2 not to call such demand notes following an event of default, prior to September 30, 2008; and (iii) the issuance of additional notes to ERP2 in the aggregate principal amount of $1,500,000 with a maturity date two years from the date of the ERP2 Closing Date. Disbursement of $300,000 of such aggregate principal amount is subject to delivery at the ERP2 Closing of definitive transaction documents pursuant to the term sheet. Disbursement of the remaining $1,200,000 of such amount is subject to completion of all actions required to be completed by the Company in order to effectuate a 1000-to-1 reverse split of the Company's common stock and the deregistration of the Company's common stock under the Securities Exchange Act of 1934. Any failure of the Company to consummate such actions by April 30, 2008 will constitute an event of default under the extended demand notes and under the additional notes contemplated by the term sheet. Additional information regarding the term sheet entered into between the Company and ERP2 is provided under Note 13 ("Subsequent Events") to the Company's consolidated financial statements.

At September 30, 2006, the Company had a payable to Spescom Ltd. of $534,000. This amount including interest was paid in full as of January 2007 with funds received from the large license and development fee sale in October 2006.

Cash provided from operating activities was $567,000 for fiscal 2007 due to the income the Company generated in the fiscal year. Net income was adjusted for non-cash activities of $575,000 comprised primarily of $179,000 in depreciation and amortization, $114,000 for FAS 123R period charge for employee stock options, $227,000 in unpaid interest on notes payable to Spescom Ltd., and $55,000 in common stock options issued to a consultant for services. On an operating basis the Company also had a $231,000 decrease in deferred revenue due primarily to one customer's prepayment in 2005 of maintenance for three years.

Cash used in operating activities was $773,000 for fiscal 2006. The $773,000 use of cash in operating activities was due to the loss the Company incurred in fiscal 2006. The operating loss was adjusted for non-cash activities of $656,000 comprised primarily of $167,000 in depreciation and amortization, $196,000 for FAS 123R period charge for employee stock options, and $253,000 in unpaid interest on notes payable to Spescom Ltd., and on an operating basis the Company also had a $346,000 decrease in deferred revenue due to one customer's prepayment in 2005 of maintenance for three years.

Cash used in investing activities was $83,000 for fiscal 2007. In fiscal 2007 the Company purchased $152,000 of property and equipment, of which $69,000 was financed through a new capital lease, in connection with the renovation of it corporate headquarters in San Diego, California.

Cash used in investing activities was $78,000 for fiscal 2006. In fiscal 2006 the Company capitalized $35,000 in software development costs associated with its release of its eB product with a new architecture. In fiscal 2006 the Company purchased $43,000 of property and equipment in connection with the move into a new office facility in the United Kingdom.

In fiscal 2007 cash used by financing activities was $33,000 primarily relating to payments of capital lease obligations. In fiscal 2006 cash provided by financing totaled $676,000 the result of $716,000 through two private placements less $40,000 in payments of capital lease obligations. The private placements were in connection with the issuance of the Series H and I Convertible Preferred Stock.

The Company believes its capital requirements will continue to vary greatly from quarter to quarter, depending on, among other things, capital expenditures, fluctuations in its operating results, financing activities, and investments and third party products and receivables management. The Company's future liquidity will depend on financing from ERP2 and its ability to generate new system sales of its eB product suite in the near term, which cannot be assured. Management believes that the Company's current cash and receivables and cash that may be generated from operations and received from ERP2 pursuant to the above-referenced term sheet, will be sufficient to meet its short-term needs for working capital for at least the next year. However, the Company may not be able to obtain sufficient orders to enable the Company to continue on a cash flow break-even level, which would be necessary to continue operations in the absence of further financing. Future equity financings, if available to the Company, would be dilutive to the existing holders of the Company's common stock. Future debt financings, if available to the Company, would likely involve restrictive covenants.

Net Operating Loss Tax Carryforwards

As of September 30, 2007, the Company had a net operating loss carryforward ("NOL") for federal income tax purposes of $31,442,000, which expires over the years 2008 through 2025. The Company also had a NOL carryforward for state income tax purposes of $4,833,000, which expires over the years 2008 through 2013. In addition, the Company generated but has not used research and investment tax credits for federal income tax purposes of approximately $274,000, which will substantially expire in the years 2008 through 2012. Under the Internal Revenue Code of 1986, as amended (the "Code"), the Company generally would be entitled to reduce its future Federal income tax liabilities by carrying unused NOL forward for a period of 20 years to offset future taxable income earned, and by carrying unused tax credits forward for a period of 20 years to offset future income taxes. As a result of the Spescom Ltd's sales of its equity interests in the Company to ERP2 Holdings, LLC on October 10, 2007 an ownership change occurred. The Company's ability to utilize the consolidated NOL in future years will be limited pursuant to Code Section 382. The annual limitation is estimated to be approximately $550,000.

Off-Balance Sheet Arrangements

At September 30, 2007 and 2006, the Company did not have any relationships with unconsolidated entities or financial partnerships, including entities often referred to as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Therefore, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if the Company were engaged in such relationships.

Foreign Currency

The Company's geographic markets are primarily in the United States and Europe, with some sales in other parts of the world. In fiscal 2007, revenues recorded in the United States were 42% of total revenue and revenues from Europe and other locations were 58% of total revenue. In fiscal 2006, revenues recorded in the United States were 65% of total revenue and revenues from Europe and other locations were 35% of total revenue. For fiscal 2005, revenues recorded in the United States were 54% of total revenues, and revenues from Europe and other locations were 46% of total revenues.

Revenues from our United Kingdom subsidiary can fluctuate from quarter to quarter based on the timing of customer orders. Revenue in fiscal 2007 and fiscal 2006 were improved by foreign currency gains of $238,000 and $10,000, respectively, in each case due to a weakened dollar value compared to the pound sterling. Changes in foreign currency rates, the condition of local economies, and the general volatility of software markets may result in a higher or lower proportion of foreign revenues in the future. Although the Company's operating and pricing strategies take into account changes in exchange rates over time, future fluctuations in the value of foreign currencies may have a material adverse effect on the Company's business, operating results and financial condition.

Inflation

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

Contractual Obligations and Commercial Commitments

The following summarizes our contractual obligations and other commitments at September 30, 2007, and the effect such obligations could have on our liquidity and cash flow in future periods:

	Total	Amount of Commitment Expiring by Period Less Than 1 Year	1-3 Years	3-5 Years	Over 5 Years
Notes and Accounts Payable to Spescom Ltd.	$ 676,000	$ 676,000	—	—	—
Lease commitments – Operating Leases	1,132,000	253,000	$ 521,000	$ 358,000	—
Lease commitments – Capital Leases	110,000	40,000	37,000	33,000	—
Total	$ 1,918,000	$ 969,000	$ 558,000	$ 391,000	—

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The Company's exposure to market rate risk for changes in interest rates relates primarily to the Company's investment portfolio. The Company does not use derivative financial instruments in its investment portfolio. The Company places its investment with high quality issuers and follows internally developed guidelines to limit the amount of credit exposure to any one issuer. Additionally, in an attempt to limit interest rate risk, the Company follows guidelines to limit the average and longest single maturity dates. The Company is adverse to principal loss and ensures the safety and preservation of its invested funds by limiting default, market and reinvestment risk. As of September 30, 2007, 2006 and 2005 the Company did not have any investments in money market accounts.

Foreign Exchange Risk

Our revenue originating outside the United States was 58%, 35% and 46% for fiscal 2007, 2006 and 2005, respectively. International sales are made mostly from our foreign sales subsidiary in the United Kingdom. The functional currency of the Company's United Kingdom subsidiary is the pound sterling. Our subsidiary incurs and settles most of its expenses in its local currency.

The assets and liabilities of our subsidiary are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense items are translated at the daily current exchange rates. Gains and losses from translation are included in stockholders' equity.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Enterprise Informatics Inc.
San Diego, California

We have audited the consolidated balance sheets of Enterprise Informatics Inc. (the "Company") as of September 30, 2007 and 2006, and the related consolidated statements of operations, comprehensive income, shareholders' deficit, and cash flows for each of the three years in the period ended September 30, 2007. Our audits also included the financial statement schedule of Enterprise Informatics Inc. listed in Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Enterprise Informatics Inc. as of September 30, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

SINGER LEWAK GREENBAUM & GOLDSTEIN LLP

Los Angeles, California
January 15, 2008

ENTERPRISE INFORMATICS INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2007	September 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 553,000	$ 95,000
Receivables, net	746,000	854,000
Other current assets	204,000	190,000
Total current assets	1,503,000	1,139,000
Property and equipment, net	211,000	131,000
Computer software, net	321,000	425,000
Other assets	27,000	28,000
Total assets	$ 2,062,000	$ 1,723,000
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 338,000	$ 792,000
Note and accrued interest payable to Spescom Ltd.	—	550,000
Preferred stock dividend payable to Spescom Ltd.	1,233,000	887,000
Accrued liabilities	1,465,000	1,446,000
Lease obligations– current portion	32,000	44,000
Deferred revenue	2,611,000	2,752,000
Series I redeemable preferred stock, par value $0.01 per share, 2,450 shares authorized; 2,450 shares issued and outstanding in 2006	—	2,450,000
Total current liabilities	5,679,000	8,921,000
Notes and accrued interest payable to Spescom Ltd.	676,000	664,000
Lease obligations	55,000	16,000
Total liabilities	6,410,000	9,601,000
Shareholders' deficit:		
Convertible preferred stock, 243,239 remaining shares authorized		
Series F - par value $1.00 per share; 5,291 shares authorized, issued and outstanding in 2007 and 2006	6,790,000	6,790,000
Series I - par value $0.01 per share; 2,450 shares authorized; 2,450 shares issued and outstanding in 2007	2,450,000	—
Common stock, no par value, 100,000,000 shares authorized; 37,503,523 and 37,144,494 shares issued and outstanding in 2007 and 2006	76,495,000	76,581,000
Common stock warrants	1,505,000	1,505,000
Accumulated other comprehensive loss	(537,000)	(441,000)
Accumulated deficit	(91,051,000)	(92,313,000)
Total shareholders' deficit	(4,348,000)	(7,878,000)
Total liabilities and shareholders' deficit	$ 2,062,000	$ 1,723,000

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

ENTERPRISE INFORMATICS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended September 30, 2007	2006	2005
Revenues:			
Licenses	$ 3,107,000	$ 1,775,000	$ 737,000
Services and other	5,867,000	5,231,000	5,088,000
Total revenues	8,974,000	7,006,000	5,825,000
Cost of revenues:			
Licenses	169,000	324,000	206,000
Services and other	2,477,000	2,370,000	2,232,000
Total cost of revenues	2,646,000	2,694,000	2,438,000
Gross profit	6,328,000	4,312,000	3,387,000
Operating expenses:			
Research and development	1,152,000	1,058,000	852,000
Marketing and sales	1,936,000	2,410,000	3,799,000
General and administrative	1,719,000	1,622,000	1,994,000
	4,807,000	5,090,000	6,645,000
Income (loss) from operations	1,521,000	(778,000)	(3,258,000)
Interest and other income	2,000	4,000	1,000
Interest and other expense	(261,000)	(248,000)	(291,000)
Net income (loss)	1,262,000	(1,022,000)	(3,548,000)
Deemed preferred dividend	—	(1,000,000)	(2,200,000)
Net income (loss) available after deemed preferred dividend	1,262,000	(2,022,000)	(5,748,000)
Cumulative preferred dividends	(264,000)	(354,000)	(301,000)
Net income (loss) available to common shareholders	$ 998,000	$ (2,376,000)	$ (6,049,000)
Earnings per share:			
Basic	$ 0.03	$ (0.06)	$ (0.17)
Diluted	$ 0.02	$ (0.06)	$ (0.17)
Weighted average shares outstanding:			
Basic	37,324,000	36,876,000	34,941,000
Diluted	49,841,000	36,876,000	34,941,000
Statement of Comprehensive Loss			
Net income (loss)	$ 1,262,000	$ (1,022,000)	$ (3,548,000)
Other Comprehensive income (loss):			
Foreign currency translation adjustment	(96,000)	(88,000)	34,000
Comprehensive income (loss)	$ 1,166,000	$ (1,110,000)	$ (3,514,000)

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

ENTERPRISE INFORMATICS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
Years Ended September 30, 2007, 2006 and 2005
(In thousands except preferred share data)

	Preferred Stock		Common Stock		Stock	Accumulated Other Comprehensive	Accumulated		Comprehensive Income
	Share	Amount	Share	Amount	Warrants	Income	Deficit	Total	(Loss)
Balance at September 30, 2004	5,291	6,790	34,143	74,726	278	(387)	(84,543)	(3,136)	