

Espre Solutions Inc
Form 10-Q
August 19, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2008

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

Commission File Number: 000-51577

ESPRE SOLUTIONS INC.
(Exact name of registrant as specified in its charter)

NEVADA
(State or other jurisdiction of incorporation or organization)

68-0576847
(I.R.S. Employer Identification No.)

5700 W. Plano Parkway, Suite 2600, Plano,
Texas
(Address of principal executive offices)

75093
(Zip Code)

(214) 254-3708
(Registrant's telephone number, including area code)

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

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

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

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

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

FORM 10-Q

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PART I — FINANCIAL INFORMATION

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

Item 1 — Financial Statements

ESPRE SOLUTIONS INC. AND SUBSIDIARY
Consolidated Balance Sheets

| | June 30, 2008 (unaudited) | September 30, 2007 |
|---|---------------------------------|--------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 703,033 | \$ 3,850,666 |
| Accounts receivable | 52,750 | 251,050 |
| Prepaid expenses and advances | 50,373 | 34,564 |
| Total current assets | 806,156 | 4,136,280 |
| Equipment, net | 348,429 | 296,758 |
| Intangible assets, net | 77,121 | 73,191 |
| Loans to related parties | 60,432 | 69,432 |
| Other assets | 123,974 | 97,292 |
| Total assets | \$ 1,416,113 | \$ 4,672,953 |
| LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY | | |
| Current liabilities: | | |
| Notes payable to related parties | \$ 25,000 | \$ 1,667,944 |
| Accounts payable and accrued expenses | 1,303,988 | 1,449,399 |
| Total current liabilities | 1,328,988 | 3,117,343 |
| Deferred revenue — related party | - | 1,000,000 |
| Minority interest | 959,334 | 348,093 |
| Stockholders' (deficit) equity | | |
| Common shares — \$0.001 par value; authorized 500,000,000 shares; and 340,690,490 and 318,522,499 shares issued and outstanding, respectively | 354,232 | 318,522 |
| Additional paid-in capital | 78,712,970 | 71,110,086 |
| Stock subscription receivable | (18,500) | \$ (190,000) |
| Retained (deficit) | (79,920,911) | \$(71,031,091) |
| Total stockholders' equity | (872,209) | 207,517 |
| Total liabilities and stockholders' (deficit) equity | \$ 1,416,113 | \$ 4,672,953 |

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

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

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|--------------------------------|----------------|-------------------------------|----------------|
| | 2008 | 2007 | 2008 | 2007 |
| Revenue: | | | | |
| Software licensing fees | \$ 1,000,000 | \$ 150,000 | \$ 2,000,000 | \$ 1,390,000 |
| Custom engineering fees | 1,750 | 92,500 | 512,742 | 497,700 |
| Other | 0 | 20,656 | 27,554 | 126,764 |
| Total revenue | 1,001,750 | 263,156 | 2,540,296 | 2,014,464 |
| Expenses: | | | | |
| General, administrative and selling expenses | 3,111,177 | 1,535,665 | 8,645,670 | 3,990,052 |
| General, administrative and selling expenses stock based compensation | - | 2,646,051 | 1,891,532 | 5,656,459 |
| Research and development | 664,079 | 692,995 | 2,487,192 | 878,595 |
| Amortization and depreciation | 32,719 | 31,615 | 115,443 | 78,361 |
| Total operating expenses | 3,807,974 | 4,906,326 | 13,139,836 | 10,603,467 |
| Loss from operations | (2,806,224) | (4,643,170) | (10,599,540) | (8,589,002) |
| Interest income | 2,661 | 1,342 | 42,738 | 311 |
| Interest expense | 1,254 | 1,956 | 1,928 | 11,640 |
| Net loss before minority interest | (2,802,310) | (4,639,872) | (10,554,874) | (8,577,052) |
| Minority interest | 754,376 | 68,693 | 1,665,054 | 129,354 |
| Net income (loss) | \$ (2,047,934) | \$ (4,571,179) | \$ (8,889,820) | \$ (8,447,698) |
| Basic and diluted net loss per share | \$ (0.01) | \$ (0.02) | \$ (0.03) | \$ (0.04) |
| Weighted average shares outstanding, basic and diluted | 342,487,914 | 232,546,146 | 331,337,944 | 216,455,124 |

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

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

| | 2008 | 2007 |
|---|----------------|----------------|
| Cash flows from operating activities: | | |
| Net income (loss) for period | \$ (8,889,820) | \$ (8,447,698) |
| Adjustments to reconcile net loss to cash used in operating activities: | | |
| Stock and options issued for services | 1,356,685 | - |
| Stock based compensation | 1,891,532 | 5,656,459 |
| Amortization and depreciation | 115,443 | 78,361 |
| Minority interest | (1,665,054) | (129,354) |
| Changes in assets and liabilities: | | |
| Deferred revenue | (1,000,000) | 1,150,000 |
| Accounts receivable | 198,300 | (390,020) |
| Prepaid expenses | (15,809) | 4,399 |
| Other assets | (26,682) | (36,120) |
| Accounts payable and accrued expenses | (145,410) | 155,286 |
| Total cash used in operating activities | (8,180,816) | (1,958,688) |
| Net cash used in investing activities: | | |
| Purchase of equipment | (115,213) | (54,035) |
| Purchase of intangible assets | (55,832) | (197,230) |
| Loan to affiliate | 9,000 | (50,000) |
| Net cash used in investing activities | (162,045) | (301,265) |
| Cash flows provided by financing activities: | | |
| Payments on notes payable to related parties | (100,000) | 32,956 |
| Proceeds from sale of stock | 3,018,933 | 2,455,050 |
| Minority capital raised | 2,276,295 | 376,721 |
| Net cash provided (used in) by financing activities | 5,195,228 | 2,864,727 |
| Net decrease in cash | (3,147,633) | 604,775 |
| Cash, beginning of period | \$ 3,850,666 | \$ 291,426 |
| Cash, end of period | 703,033 | 896,201 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | - | - |
| Non-cash transactions: | | |
| Issuance of common stock to retire debt | \$ 1,542,943 | \$ 619,000 |

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

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ESPRE SOLUTIONS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND CONTROLLED SUBSIDIARY

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

It is suggested that the financial statements be read in conjunction with the financial statements and notes thereto included in the Company's Form 10/A for the year ended September 30, 2007.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

Reclassifications

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

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Stock Based Compensation

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

The Company has adopted SFAS No. 123R using the “modified prospective application” and therefore, financial statements from periods ending prior to October 1, 2005 have not been restated. The Company’s net loss for the three months ended June 30, 2008 and 2007 was \$2,047,934 and \$4,571,179, respectively higher than if it had continued to account for share-based compensation under APB No. 25. The Company’s net loss for the nine months ended June 30, 2008 and 2007 was \$8,889,820 and \$8,447,698, respectively higher than if it had continued to account for share-based compensation under APB No. 25.

Recent pronouncements

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS No. 159”). SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company will adopt SFAS No. 159 on October 1, 2009, and is currently evaluating the impact of such adoption on its financial statements.

In December 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 141 (revised 2007), Business Combinations, which replaces SFAS No 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective for us beginning July 1, 2009 and will apply prospectively to business combinations completed on or after that date.

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

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

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

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3. GOING CONCERN AND MANAGEMENT'S PLAN

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

Management's plan is as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

4. CASH

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

5. INVESTMENT IN AND LOANS TO RELATED PARTIES

Blideo Inc.

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

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

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

6. NOTES PAYABLE TO RELATED PARTIES

Notes payable —consisted of the following:

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

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at:

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

8. OTHER RELATED PARTY TRANSACTIONS

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

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

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9. STOCKHOLDERS' EQUITY

Common stock

Payments for Services

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

Capital Raises

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

10. STOCK OPTIONS

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

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

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

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

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

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

As of June 30, 2008, there was approximately \$6.8 million of unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Stock Option Plan. This expense will be recognized on a straight-line basis over the remaining requisite service period, currently through December 2010.

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11. WARRANTS

Transactions and other information relating to warrants are summarized as follows:

| | Outstanding Warrants | | Exercisable Warrants | |
|--------------------------------|----------------------|---------------------------------|----------------------|---------------------------------|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding at October 1, 2007 | 44,019,716 | \$ 0.10 | 44,019,716 | 0.10 |
| Granted during period | 6,938,272 | 0.10 | 6,938,272 | 0.10 |
| Exercised during the period | (2,892,858) | 0.10 | (2,892,858) | 0.10 |
| Outstanding at June 30, 2008 | 48,065,130 | \$ 0.10 | 48,065,130 | \$ 0.10 |

12. CONCENTRATION OF CREDIT RISK AND DEPENDENCY

For the nine months ended June 30, 2008 the Company had one sale to a customer that individually accounted for more than 79% of the total gross sales for that period. For the nine months ended June 30, 2007, the Company had sales to one customer that accounted for more than 57% of the Company's total gross sales for that period.

For the nine months ended June 30, 2008 the Company purchased services from one supplier that individually accounted for 17% percent of the Company's total product and development and consulting fees for the period.

The Company maintains deposits in a financial institution that at times exceed amounts covered by the insurance provided by the U.S. Federal Deposit Insurance Corporation. The Company believes that there is no significant risk with respect to these deposits.

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13. DEFERRED INCOME TAXES

The Company reduced the deferred tax asset resulting from its tax loss carry forwards by a valuation allowance of an equal amount to the deferred asset as the realization of the deferred tax asset is uncertain. Deferred tax assets are as follows:

| | 2007 | 2006 |
|--------------------------------------|---------------|---------------|
| Net operating losses | \$ 19,624,000 | \$ 19,239,000 |
| In- process research and development | 1,329,000 | 1,528,000 |
| Stock based compensation | 587,000 | 1,386,000 |
| Transition adjustment | 217,000 | 217,000 |
| | 21,757,000 | 22,370,000 |
| Less valuation | (21,757,000) | (22,370,000) |
| Net deferred tax assets | \$ - | \$ - |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Results of Operations for the nine months ended June 30, 2008

During the nine months ended June 30, 2008, we generated revenues of \$2,540,296 (compared with \$2,014,464 in the same period last year, or an increase of 26%). The major components of revenue were:

Revenues were \$1,001,750 for the three months ended June 30, 2008 (compared with \$263,156 for the same period last year, or an increase of 280%).

In April 2007 we entered into a license agreement for the exclusive right to use our technology license for the entertainment market for an initial amount of \$1,000,000 and a further \$450,000 contingent on our delivering certain design proofs of concept. The license agreement granted the license holder a put option which could have required us to repurchase the license for \$2,000,000 at any time after January 31, 2008, and before April 31, 2010. The revenue from this license was deferred and is included on our balance sheet as deferred revenue at September 30, 2007. In December 2007, we concluded an agreement with the licensee to waive the put option in return for a waiver of the balance due under the license of \$450,000, and accordingly we recorded the full license fee of \$1,000,000 in the quarter ended December 31, 2007.

\$453,000 for the design of our customers' applications, including a major US telecommunications carrier. We expect continued engineering revenues if and when these customers successfully deploy their product and/or service offerings.

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For the nine months ended June 30, 2008, our total operating expenses were \$13,139,836 (compared to \$10,603,467 the same period last year). Product development and consulting expenses amounted to \$2,487,192 (compared to \$878,595 in the comparable period in 2007 last year, or an increase of 183%). This substantial increase is primarily attributable to an increase in outsource engineering costs incurred in the development of ESPRE Live, the design of Blideo's application and the provision of engineering services to third parties. For the nine months ended June 30, 2008, our general, administrative and selling expenses were \$8,645,670 (compared to \$3,990,052 in the comparable period last year, or an increase of 116%). General, administrative and selling expenses incurred for the nine months ended June 30, 2008, attributable to the non-cash expenses from the Company's incentive stock option plan were \$1,891,532 (compared to \$5,656,459 in the comparable period last year, or a decrease of 66%). We incurred increased salary expenses related to our sales and marketing program and legal and accounting expenses relating to our becoming a fully reporting company.

Liquidity and Capital Resources

The accompanying consolidated financial statements have been prepared assuming we will continue as a going concern. We sustained substantial and recurring losses for the period December 22, 2003 (inception), through June 30, 2008. At June 30, 2008, we had \$280,500 in cash (excluding Blideo's cash of \$422,533, over which we exercise no control) compared with \$3,352,414 (excluding Blideo's cash of \$498,251) at September 30, 2007. However, our continued existence is dependent upon our ability to achieve profitability and to generate cash either from operations or financing.

Management's financial plan is as follows:

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

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

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

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

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

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

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

- Panel Broadcasts (up to 3 panelists): a broadcast is enhanced by a "panel" of commentators or guests

Selective Broadcasts: the ability to broadcast live or pre-recorded content to a selected, limited number of subscribers.

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- User Generated Broadcasts: the ability for a subscriber to broadcast their own live or pre-recorded content

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

Engage in partnerships with firms in key vertical markets. These partners will be market experts and have well-defined application strategies that require VueLive to deliver them. Potential customers have been identified and we are in active negotiations with them. No assurance can be given however that we will be successful in entering into satisfactory commercial arrangements with these or other customers.

Establish independent sales agreements with representatives to sell our VueLive services into the enterprise market. We will actively pursue the engagement of additional independent sales representatives that can distribute the Company's existing video products and services both domestically and internationally. Potential partners have been identified and we are in active negotiations with them. No assurance can be given however that we will be successful in entering into satisfactory commercial arrangements with these or other partners.

Foster and build relationship with technology partners that want to add live video to their product portfolio thereby leveraging their existing customer bases. Potential partners have been identified and we are in active negotiations with them. No assurance can be given however that we will be successful in entering into satisfactory commercial arrangements with these or other partners.

Obtain additional debt and equity financing.

For the nine months ended June 30, 2008 and June 30, 2007, we used net cash of \$8,180,816 and \$1,958,688, respectively, for operations, we used net cash of \$162,045 and \$301,265, respectively, for investing, and realized net cash of \$5,195,228 and \$2,864,727, respectively from financing activities, primarily from the sale of our common stock and receipts of stock subscription receivables. The achievement of profitability and the ability to generate cash flows from operations will depend on, among other things, the acceptance of our products and services, competition, and the deployment of video applications by our customers. These matters by their nature contain uncertainties and our financial statements do not include any adjustments that might occur from future efforts. There is therefore substantial doubt about our ability to continue as a going concern.

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Our current cash requirements are approximately \$1,150,000 per month, principally for salaries, professional services and office expenses. Included in these expenditures is approximately \$400,000 of development expense for the design and deployment of Blideo's application, VUELIVE and other customers. As Blideo's application and VUELIVE design and development near completion we project our cash requirements per month to decrease and approach \$500,000. Our capital expenditures (depending on our hiring program), which principally consist of computer equipment, test equipment and office requirements, are approximately \$15,000 per month. Based on our cash flow projections, we expect that while our cash requirements will continue at their current rate for the foreseeable future, we will be able to meet a portion of our cash requirements from the proceeds of agreements for our services and the sale of our products. We have been and expect to remain cash flow negative for calendar year 2008, and will therefore be dependent on the proceeds of the sale of our equity securities.

As with any company engaged in the development of new technology, we have constantly been challenged by the need to find continuing and new sources of capital to meet our operating expenses. There can be no assurance that we will continue to be successful in obtaining financing, or that we will, as we now anticipate, be able to generate significant revenues from operations in calendar 2008, in which event we may be unable to proceed with our business operations. Substantial doubt exists about our ability to continue as a going concern if we do not generate significant revenues from operations.

Critical Accounting Policies and Recent Accounting Pronouncements

The Company's significant accounting policies are set forth in Note 1 of Notes to Consolidated Financial Statements in the company's report on Form 10/A dated February 4, 2008. A discussion of those policies that require management judgment and estimates and are most important in determining the Company's operating results and financial condition appears in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the company's report on Form 10/A dated February 4, 2008. The Financial Accounting Standards Board issues, from time to time, new financial accounting standards, staff positions and emerging issues task force consensus. See Note 2 of Notes to Condensed Consolidated Financial Statements for a discussion of these matters.

Forward-Looking Statements

All statements other than statements of historical fact included in this report, including without limitation statements regarding the Company's financial position, business strategy, and the plans and objectives of the Company's management for future operations, are forward-looking statements. When used in this report, words such as "anticipate," "believe," "estimate," "expect," "intend" and similar expressions, as they relate to the Company or its management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of the Company's management, as well as assumptions made by and information currently available to the Company's management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, including, but not limited to, general business and economic conditions, including, results of integrating acquired businesses into existing operations, competitive factors and pricing pressures in the technology and development of video delivery over internet protocol. Such statements reflect the views of the Company with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the operations, results of operations, growth strategy and liquidity of the Company as previously disclosed in the Company's report on Form 10/A dated March 31, 2008. Readers are cautioned not to place undue reliance on these forward-looking statements. The Company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect future events or circumstances or to reflect the occurrence of unanticipated events.

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Item 3. Quantitative and Qualitative Disclosure About Market Risk

Management does not believe that there is any material market risk exposure with respect to derivative or other financial instruments that is required to be disclosed

Item 4. Controls and Procedures

The Company has carried out an evaluation under the supervision and with the participation of its management as to the effectiveness of the design and operation of its disclosure controls and procedures. The evaluation examined the Company's disclosure controls and procedures as of June 30, 2008, the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended. Based on that evaluation, such officers have concluded that, as of June 30, 2008, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time period specified in the rules and forms of the Securities and Exchange Commission, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

During the period covered by this report, there were no changes in the company's internal control over financial reporting which materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls

The Company believes that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all controls issues and instances of fraud, if any, within a company have been detected. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and the company's President and CFO have concluded that such controls and procedures are effective at the "reasonable assurance" level.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Item 1A to Part I in the Company's Report on Form 10/A dated March 31, 2008, for the year ended September 30, 2007.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In the nine months ended June 30, 2008, the Company issued 27,385,412 shares of restricted common stock to accredited investors for cash with no demand or piggy-back registration rights. These securities were sold pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933 and Regulation D, Rule 506, promulgated thereunder.

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

Exhibit 31.1 — Section 302 Certificate of Chief Executive Officer

Exhibit 31.2 — Section 302 Certificate of Chief Financial Officer

Exhibit 32.1 — Section 906 Certificate of Chief Executive Officer

Exhibit 32.2 — Section 906 Certificate of Chief Financial Officer

SIGNATURE

Pursuant to the requirements of the securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

ESPRE SOLUTIONS, INC.

Registrant

/s/ Peter Leighton

Date
August 14,
2008

/s/ BG Moore

Date
August 14,
2008

Peter Leighton

BG Moore

President

Chief Financial Officer

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