

ALTRIS SOFTWARE INC
Form 10-K
December 29, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended September 30, 2003
OR

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

Commission file number 0-15935

ALTRIS SOFTWARE, 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)

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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 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 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.

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The aggregate market value of the voting stock on September 30, 2003, held by non-affiliates* of the Registrant, based upon the last price reported on the OTC Bulletin Board on such date was \$9,672,520.

The number of shares outstanding of the Registrant's Common Stock at the close of business on December 10, 2003 was 33,922,278.

* 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 2003 Special Shareholders Meeting - Part III.

PART I

This report 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 "Certain Factors That May Affect Future Results" under "Management's Discussion and Analysis of Financial Conditions and Results of Operations" 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. The forward-looking statements in this report are based upon management's current expectations and belief, which management believes are reasonable. The Company undertakes 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.

ITEM 1. BUSINESS

General

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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. On October 1, 2001, the Company began doing business as Spescom Software Inc.

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 both requirements, documents and items can be determined and change can be managed 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 (APIs) 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 1980s, the Company and a handful of other pioneering companies set out to provide a better alternative for managing documents electronically. In the mid 90s the Company acquired two of these, 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. (Spescom), which at the same time acquired a controlling interest in the Company. From 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, 2003 Spescom owned 67% of the outstanding shares of the Company including the shares issuable upon conversion of the shares of the Company's Series F Preferred Stock held by Spescom.

A timeline summary of equity transactions between the Company and Spescom follows:

1999

The Company sold 3,428,571 shares of its common stock to Spescom for \$2,300,000 in cash to Spescom. 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 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 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. On a diluted basis Spescom owned approximately 40% of the Company at the end of 1999.

2000

In April 2000 the Company sold 5,284,714 shares of its common stock to Spescom for \$3,700,000. Also, the Company agreed to convert its subordinated debt and Series E Preferred Stock held by Spescom 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 for no consideration. In September 2000 the Company changed its yearend from December 31 to September 30 to coincide with Spescom's yearend. At September 30, 2000 Spescom owned approximately 60% of the Company's outstanding common stock.

2001

In October 2000 Spescom 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. The issuance increased Spescom's ownership of the Company to approximately 61%.

2002

In 2002 Spescom 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 into shares of the Company's Series F Preferred Stock. The Series F Preferred Stock is 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 equates to 11,757,778 shares of common stock. As of September 30, 2003 on a diluted basis assuming conversion of the Series F Preferred Stock, Spescom owned 67% of the outstanding shares of the Company's common stock.

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 customers, suppliers, products, transactions, etc. 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, etc. Most enterprise software applications including Enterprise Resource Planning (ERP), Customer Relationship Management (CRM), Supply Chain Management (SCM), Product Lifecycle Management (PLM), etc. 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 enterprises' 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.

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.

The terrorist attacks of September 11, 2001 have again highlighted the need for enterprises 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 EDMS systems 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 include 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.

The Company's Strategic Positioning

The document/content management technology developed by the Company and integrated with the configuration management technology developed by Spescom provides an extremely powerful and unique solution to the business and information management challenges faced by enterprises that design, build, manage and operate complex products and assets.

Configuration management is the process of managing an organization's products, assets and processes by managing their requirements, including changes, and assuring that conformance is maintained between the requirements, the physical product/asset and all associated documents and data. It enables documents to be linked to physical or functional items and has the ability to manage change and assure information integrity.

The Company is strategically positioned to address the exact issue described by Gartner. The combined document and configuration management capabilities of its eB software suite enables it to provide full IDM functionality together with PDM functionality at price points that satisfy a broad range of user needs. It enables the management of all unstructured information (documents/content) as well as structured information (product/asset/process) on a single platform, thereby enabling change to be managed across both environments.

Competition

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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 EDMS/ECM vendors such as Documentum, a division of EMC, FileNet, OpenText, Cimage and Hummingbird; EAM vendors such as Indus and MRO/Maximo; and to a lesser extent PDM/PLM vendors such as Matrix I, PTC and Metaphase. 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

Challenges of Document and Change Management

Organizations operating in complex, asset intensive industries utility, transportation, government and public sector, process manufacturing, pharmaceuticals and telecommunications - are increasingly required to meet the conflicting challenges to:

Deliver more complex, innovative and customized products and services at a faster rate.

Reduce costs, improve quality, and shorten time to market, while achieving the targeted return on investment.

Establish more comprehensive, collaborative, and improved relationships with their customers, suppliers, and business partners.

Comply with strictly enforced, ever increasingly stringent regulatory and safety requirements.

In addition, these organizations are expected to manage these challenges in an environment of continuous change throughout their asset and process lifecycles.

Current Solutions

To effectively address these challenges, organizations must efficiently manage information and change within their organizations to remain competitive. Consequently, companies have invested in, and in fact, built their organizations and processes on and around enterprise software platforms. Solution providers use core functions to build functional applications to improve the process of a particular product phase or functional department. For example, Product Data Management (PDM) solutions focus on the creation of product definition information and include authoring and analysis tools for mechanical, electrical and software design (e.g., CAD/CAM, CAE, EDA, and CASE). Enterprise Resource Planning (ERP) solutions traditionally deal with the product/asset production lifecycle. Supply Chain Management (SCM), which is primarily focused on ordering and procurement logistics, begins at the front end of the product/asset lifecycle. Once products are deployed in the field, Customer Relationship Management (CRM) solutions are used to help manage the customer relationship and Enterprise Asset Management (EAM) solutions are used to maintain the product/asset throughout its operational phase. In addition Electronic Document Management Systems (EDMS) or Enterprise Content Management (ECM) systems are deployed to support these applications and manage all documents and content created and used within the enterprise. These various enterprise solutions have become a strategic business initiative and competitive necessity of most businesses.

Limitations of Enterprise Solutions

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In spite of these investments, organizations still experience major problems due to the unavailability of quality information. To achieve adequate information quality, organizations need a process that ensures that the correct information is documented and available when and where it is needed, and in the appropriate format and context for the user. The impact of poor information management on operational efficiency is clear.

This lack of quality information and its ensuing detrimental effects are caused primarily by the deployment of solutions that do not adequately relate documentation to the appropriate assets. For instance, organizations deploy document management solutions on the one hand, and product, plant, and process management solutions on the other. However, neither product effectively provides a change management system that links documents, assets, and requirements capabilities that would enable organizations to effectively manage configurations of equipment and assets in complex, regulated environments.

Existing enterprise systems fail to address the real needs of many organizations for a variety of reasons:

In general, enterprise applications are all separate, largely independent systems with their own data models and functions. With the cost of integrating and customizing these applications typically exceeding the software license costs by a factor ranging from 3 to 7 times, companies utilizing these systems often fail to achieve the full benefit of their investment.

A second major issue is that of managing change across the enterprise. Information about a product, asset or process typically resides in a number of applications and data stores. When a change is made to the product, asset or process, it is very difficult if not impossible to predict the impact of this change across all the applications and ensure that the effect of the change is implemented and reflected everywhere throughout the various systems. The result is a reduction in enterprise information integrity and a substantial reduction in resource effectiveness.

Traditional document (EDMS) and content management solutions (ECM) only address one element of this problem. They do a good job of capturing, managing, storing, distributing and presenting documents/content for enterprise use; however, they do so in isolation as they do not capture or manage requirements nor do they capture and manage data about the assets, products or processes. The context that gives meaning to information is lost as classification and indexing is usually limited to a fixed set of attributes. Also, although they securely store information and provide revision and version control, they do not effectively manage the full effects of change within an enterprise. This results in a significant reduction of information integrity as information no longer accurately reflects the status of the requirements or assets that it relates to.

Although traditional product data management (PDM) solutions capture both product/asset data and associated information contained in documents, they tend to focus on the needs of users during the product design and manufacturing phases of a product/asset with limited or no support for the operation and maintenance of the product/asset. Also, incomplete interfaces between PDM environments and other document environments may not reliably reflect changes in the other, particularly if document or product data updates must be performed.

Maintenance and enterprise asset management (EAM) solutions capture and manage assets and associated information but again do so for the specific purposes of maintenance and inventory control. They do not capture requirements nor do they effectively manage change and ensure the integrity of information. They typically only provide limited document management capabilities.

Finally, while some ERP solutions offer maintenance management and/or PDM capabilities, these tend to be add-on modules to their core financial, manufacturing and HR functions. They do not manage requirements, do not have a strong document and change management capability, and the linkage between documents and assets/products is limited or non-existent.

Market Opportunity: Information Integration and Synchronization

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As enterprise solutions are deployed within a company's process environment, information tends to become localized within the enterprise platform making it difficult for users to access, obtain and share relevant information across widely distributed functional and geographic boundaries. Ultimately, the enterprise solutions employed by a business fall short of addressing the enterprise's complete need for close coordination and communication that accurately relate the intellectual assets, physical assets, and resources.

Businesses today need to deploy rational strategies that best harness the capabilities and core functions of each enterprise platform to optimize product development, production and deployment activities. Although solution providers promote communication among the various operating enterprise solutions, their approach is neither comprehensive nor do they adequately address the critical business requirements of configuration management, change management and requirements management. This is the critical market niche that the Company fills with its eB software solution.

The eB Solution

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The Company's eB suite is a set of software technologies that support, improve and enable collaboration among legacy enterprise solutions, and enables the efficient capture, management and distribution of all types of information across an enterprise. This integrated document, configuration and records management suite breaks down information barriers inherent to enterprise solutions and provides users with:

1. **Rapid access to information**

Anytime, anywhere, anyhow throughout the collection of existing enterprise solutions

2. **Accurate information**

Ensures information integrity in a rapidly changing environment

3. **Information that is in context to what the user is working on**

Transforms information into knowledge

Differentiators Defining the Niche

Enterprises continue to struggle with the complex business problem of ensuring that conformance is maintained between:

Design requirements (what is **REQUIRED** to be there)

Actual asset configuration (what is **ACTUALLY** there), and

Asset configuration information found in documents, drawings, etc. (what the documentation **SAY** is there).

To ensure that information integrity is maintained between the requirements for an item/asset, the information about the item/asset (usually contained in a document) and the item/asset itself, it is necessary to first identify the requirements, the information/documents and the item/asset. Then a process must be implemented to ensure that a change to the requirements, the information/document or the item/asset is reflected in all three. The inability to do this using document/content management and/or maintenance management tools is increasingly being realized by leading enterprises as a major cause of operational inefficiency and is creating the opportunity for Spescom to penetrate these accounts.

The Company's Unique Solution Addresses the Niche

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The Company's integrated document, configuration and records management (iDCR) solutions enable all requirements (design, safety, environmental, etc.), all documents, structured and unstructured, within an enterprise (including office documents, emails, CAD drawings, images, voice and computer print outs), and all data on products, assets, processes, projects and people to be captured, identified and inter-linked. This results in a unified and structured view of all enterprise information and promotes rapid access to relevant information by authorized users in context to their tasks and functions. eB's collaborative workspace environment provides an automated closed-loop change management process that ensures information integrity throughout the enterprise and compliance with legal, regulatory, corporate, audit and quality requirements.

The Company's Products

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The Company's flagship product eB is the first fully integrated collaborative document, configuration and records management software suite that 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

Computer Output to Laser Disc (COLD/ERM)

Item management

Requirements management

Change management

Records management

Collaborative workspace 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 to ensure its integrity.

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

It provides all the capabilities of a document management suite but goes beyond this by also providing the capability to manage items and linking documents to items and requirements. It then applies industry standard configuration management rules to control the effects of change on both documents and items and ensure 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. Standard integrations with office, email, CAD and Geographic Information Systems (GIS) applications enable users to work from within these desktop environments, yet seamlessly access the full functionality of *eB*. 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.

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* Business Objects API toolkit.

Strategy

Business Model

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The Company is building its business strategies around two core strengths: First, the Company's software and related services solve critical and recurring problems for companies operating in complex, asset-intensive industries. Second, the Company's software solutions have clear and significant architectural advantages that enable the Company to offer high value solutions to the Company's users as well as distinguish itself from its competitors. To capitalize on these strengths, the Company has instituted the strategic initiatives listed below. Management believes that the successful implementation of these key strategic initiatives will rapidly provide the Company with significantly improved financial metrics and a defensible, leading market position within its rapidly 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 standalone, 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 Company plans to grow revenues through its direct sales force by:

- i) Adding 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 will 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 Altris software seats into eB.
- iii) Applying resources to expand horizontally or vertically to new user groups, departments or subsidiaries within existing customer sites.

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 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, 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 as well as outsourcing certain non-core software development to Spescom in South Africa. 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, and
- ii) Focus on the delivery of higher margin services and products such as system design services and Company developed iDCR products.

Opportunistic Investing in Technology. It is the Company's intention to continue to efficiently execute its plan of organic growth through fiscal 2004. However the Company believes that it may benefit greatly from opportunistic investments that extend eB's integrated functionality with video, voice and other data. In addition, the continued emergence of the Internet is increasingly pressuring companies to offer portal-based solutions. The Company believes that opportunities for technology acquisitions may speed its software development and improve its strategic market positioning.

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 plans to engage technology analysts including Gartner, Meta, and Doculabs to prepare industry reports which provide data on the Company's position in the market, establish validity of new markets and analyze the Company's solutions vis-à-vis its competitors. In addition, the Company plans to increase its attendance and participation in industry conferences, trade shows and seminars.

Customers

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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)

Telcos

Public Sector/Local Government

Process Manufacturing

Pharmaceuticals

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, telcos operate an extensive communications infra-structure for providing voice and data communications services, 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. In one example, a commercial utility was relying on more than 2,000,000 microfilm documents, 750,000 paper documents and 110,000 aperture cards (a form of microfilm technology) for its daily operations. Beginning in the engineering department, the Company added a document management solution containing its TIE-Technology, which transformed the paper system into an integrated part of the utility's existing applications, including its workflow applications. The utility purchased a license for an enterprise-wide deployment covering 2,000 individual users. The Company's solution enables all current and historic plant records, including those generated by word processors and spreadsheet programs, to be readily available throughout the utility.

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, and will continue in the future to account, for a large percentage of the Company's annual revenues. Network Rail accounted for 19% of the Company's revenue for fiscal 2003 and 2002, while Network Rail and Structural Dynamics Research Corporation customers accounted for 15% each or 30% of the Company's revenue for fiscal 2001.

Sales and Marketing

Direct sales

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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 the utility, manufacturing, transportation and other processing industries both domestically and internationally. The Company's strategy is to continue its direct sales and marketing to increase its market penetration in these industries as well as in certain other select vertical markets, including telecommunication providers, aircraft maintenance and other governmental agencies, electrical and electronic equipment manufacturers, engineering and construction firms, financial institutions, property management companies and architecture firms. As of September 30, 2003, the Company's sales and marketing organization consisted of 11 employees, 7 based in the U.S. and 4 based in the UK. The Company's field sales force regularly conducts presentations and demonstrations of the Company's suite of products to management and users at customer sites as part of the direct sales effort. 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 \$654,000 or 9% and \$749,000 or 7% of total sales for fiscal years 2002 and 2001, respectively. Sales through indirect channels for fiscal year 2003 amounted to \$214,000 or 3% of total sales.

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.

The Company is seeking to establish and/or expand its relationships with vendors that supply complimentary technologies, including EAM vendors such as Indus and MRO/Maximo, ECM vendors such as Documentum, GIS vendors such as ESRI and CAD vendors such as AutoDesk and Bentley among others.

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

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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 deployed its eSupport website during 2001 enabling 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

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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.

Warranty

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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 integrated document, configuration and records management solutions. The Company intends to do this by continuing to enhance the features and functionality of its current products, including tools to allow users to customize the GUIs, designing additional APIs to simplify tailoring by both users and application developers, administrative tools to enable systems operators to easily setup and make changes to the system and add tighter integration with other third party CAD, GIS and EAM products. Through this enhanced functionality and integration the Company's products can provide even faster deployment and greater management control of enterprise information. Through leveraging its technology, 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 2004, the Company plans to continue to add functionality to eB. The Company intends to focus its development effort on enhancing eB with extended web functionality as well as providing web services using the Microsoft .Net platform. The Company also intends to enhance its records management capabilities to fully comply with DoD5015.2 and other standards. The Company plans to develop specific applications for the vertical markets on which the Company has focused. The Company believes that the modular and open nature of eB provides an excellent platform for these market applications. The Company is a member of the Microsoft Developer Network (MSDN), which allows the Company to properly plan for support of the latest Microsoft environments.

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, 2003, the Company's contract backlog was \$2,584,000, as compared to \$2,877,000 at September 30, 2002. The Company expects the entire September 30, 2003 backlog to be substantially completed in fiscal 2004. 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, 2003, the Company had 46 full-time employees, of whom 9 were engaged in product development, 20 in customer support, implementation and application engineering activities, 11 in sales and marketing and 6 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 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.

RISK FACTORS

The Company will be controlled by Spescom Ltd. and its subsidiaries (Spescom) as long as Spescom owns a majority of the Company s common stock, and the Company s other shareholders will be unable to affect the outcome of shareholder voting during such time.

As of September 30, 2003, Spescom owned 30,550,159 shares of common stock, or approximately 67%, of the Company s outstanding common stock on a fully-diluted basis. As long as Spescom owns a majority of the Company s outstanding common stock, Spescom will continue to be able to elect the Company s entire board of directors and to remove any director, with or without cause, without calling a special meeting. Moreover, even if Spescom s percentage ownership of the Company s common stock drops below 50%, it is likely that Spescom would have sufficient votes to continue to retain control of the Company. As a result, Spescom will likely continue to control for the foreseeable future 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 Spescom;

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.

Spescom is not prohibited from selling a controlling interest in us to a third party.

The Company has borrowed funds from Spescom, which debts are secured by all of 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 September 30, 2003, the Company owed, including accrued but unpaid interest, an aggregate amount of \$504,000 to Spescom. Interest accrues on such debt at an annual interest rate of 10%, and such debt is secured by a security interest in favor of Spescom on all of the Company s assets. Spescom has agreed to extend the maturity date on such debt until October 2004. In November 2003 the Company borrowed

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an additional \$600,000 from Spescom pursuant to a promissory note which accrues interest at an annual rate of 5% and is also secured by all of the Company's assets. The note is repayable in two installments of \$300,000 due January 31, 2004 and March 31, 2004. 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 Spescom, the Company will become insolvent.

The Company may not be able to rely on Spescom to fund its future capital requirements, and financing from other sources may not be available on favorable terms or at all.

Although the Company in the past has received funding from Spescom for working capital purposes and Spescom has stated that it intends to continue to provide support to the Company if necessary, such additional financing is not assured. The Company may need financing in the future and such financing from Spescom or other sources may not be available on favorable terms or at all. In addition, if Spescom is otherwise able to provide additional loans on terms acceptable to the Company, the funding of such loans may be delayed or prevented by currency exchange regulations of the Republic of South Africa, under which Spescom is required to apply for and obtain the approval of the South African Reserve Bank before providing any funds to the Company.

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 inventory and receivables management. The Company's future liquidity will depend on 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, 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 continue on a cash flow break-even level, 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.

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. Network Rail accounted for 19% of the Company's revenue for fiscal 2003 and 2002, while Network Rail and Structural Dynamics Research Corporation customers accounted for 15% each or 30% of the Company's revenue for fiscal 2001. 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. 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.

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.

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 Documentum, FileNet, OpenText, Cimage and Hummingbird; Enterprise Asset Management vendors such as Indus and MRO/Maximo; and to a lesser extent Product Data Management/Product Lifecycle Management vendors such as Matrix I, PTC and EDS. 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. These 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 stocks are stock:

With a price of less than \$5.00 per share;

That are 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 stocks. 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.

Future sales of common stock by the Company's shareholders, including investors in future offering and Spescom, could adversely affect the Company's stock price.

The Company has agreed to register the resale of the shares issued as part of a private placement completed in September 2003. Any sales of these shares 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. In addition, Spescom holds 30,550,159 shares of the Company's common stock on a fully diluted basis as of September 30, 2003, and if it sells its shares of the Company from time to time in the future, the Company's stock price may be adversely affected. Spescom also has certain demand and piggyback registration rights relating to 11,757,778 of these shares.

The exercise of outstanding options and warrants would result in dilution of the Company's stock.

As of September 30, 2003, the Company had outstanding stock options to purchase approximately 4,555,750 shares of common stock and warrants to purchase approximately 1,108,335 shares of common stock. In addition in August, 2003, the Company's board of directors approved issuances of options to purchase an aggregate of 2,580,000 shares of its common stock to officers of the Company, subject to shareholder approval of an increase in the authorized number of shares in the Company's stock option plan. If all or a significant number of the options are exercised, shareholders could suffer significant dilution.

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 2. PROPERTIES

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The Company's headquarters are located in San Diego, California. The Company leases 12,192 square feet of a 40,000 square foot building in San Diego. The lease terminates on August 31, 2009 and carries a monthly rent starting at \$18,898 in year one, increasing 3% each year to \$21,908 in year five.

See Note 11 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

No matters were submitted to a vote of security holders during the fourth quarter of 2003.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company trades on the OTC Bulletin Board under the symbol ALTS. The following table shows, for the calendar quarters indicated, the high and low bid prices of the Common Stock:

	High	Low
Year Ended September 30, 2003		
First Quarter	\$ 0.26	\$ 0.10
Second Quarter	0.33	0.14
Third Quarter	0.25	0.15
Fourth Quarter	0.75	0.15
Year Ended September 30, 2002		
First Quarter	\$ 0.40	\$ 0.18
Second Quarter	0.37	0.11
Third Quarter	1.10	0.11
Fourth Quarter	0.14	0.07
Year Ended September 30, 2001		
First Quarter	\$ 2.00	\$ 0.78
Second Quarter	1.38	0.53
Third Quarter	0.62	0.27
Fourth Quarter	0.45	0.20

On September 30, 2003, there were approximately 900 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, 2003 was \$0.57 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

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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, 2003. The table includes the 1996 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	4,635,750(1)	\$ 0.31	150,212
Equity compensation plans not approved by security holders	2,600,000(2)(3)	\$ 0.24	
Total	7,235,750(1)	\$ 0.28	150,212

(1) These shares include 2,580,000 options approved by the Board but subject to shareholder approval of an increase in authorized number of shares under the 1996 Stock Incentive Plan.

(2) Of these option shares 2,500,000 were granted to an investment consulting firm who is assisting the Company in seeking financing. The option has an exercise price of \$0.22 per share. One million of the shares are currently vested as a result of the closing of a private placement for \$605,000 in September 2003. The remaining 1,500,000 shares of common stock will vest if the Company consummates a transaction with investors introduced by or through this investment firm that provides the Company with at least \$2,400,000 in additional investment capital. This option will expire on August 15, 2006.

(3) Of these option shares 100,000 shares were granted in 1999 under a warrant to an investment firm. The exercise price under the warrant is \$0.72 per share. The warrant expires on December 15, 2004.

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, 2003, 2002 and 2001, the nine months ended September 30, 2000 and the year ended December 31, 1999 have been derived from the audited Consolidated Financial Statements. The Company changed its fiscal year from December 31 to September 30 beginning for fiscal year 2000.

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,			Nine months ended September 30,	Year ended December 31,
	2003	2002	2001	2000	1999
(In thousands except per share data)					
Consolidated Statement of Operations Data					
Revenues					
Licenses	\$ 2,053	\$ 1,958	\$ 4,806	\$ 1,405	\$ 2,046
Services and other	5,309	5,012	6,352	3,849	5,076
Total revenues	7,362	6,970	11,158	5,254	7,122
Cost of revenues					
Licenses	690	2,041	1,371	922	1,174
Services and other	2,334	3,218	3,914	1,969	3,142
Total cost of revenues	3,024	5,259	5,285	2,891	4,316
Gross profit	4,338	1,711	5,873	2,363	2,806
Operating expenses:					
Research and development	1,494	1,828	1,963	1,362	3,137
Marketing and sales	2,452	3,479	4,100	1,144	1,818
General and administrative	1,410	1,809	1,276	584	2,582
	5,356	7,116	7,339	3,090	7,537
Loss from operations	(1,018)	(5,405)	(1,466)	(727)	(4,731)
Nonrecurring loss on conversion of debt to preferred stock					
	(1,499)				
Interest and other income	4	7	182	40	282
Interest expense	(491)	(371)	(28)	(207)	(609)
Net loss	\$ (3,004)	\$ (5,769)	\$ (1,312)	\$ (894)	\$ (5,058)

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Basic and diluted net loss per share	\$	(0.10)	\$	(0.19)	\$	(0.04)	\$	(0.05)	\$	(0.50)
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Shares used in computing basic and diluted net loss per common share		31,100		30,842		30,792		22,768		10,956
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		September 30,				December 31,				
	2003	2002	2001	2000	2000	1999				
	(In thousands)									
Consolidated Balance Sheet Data										
Working deficit	\$	(3,880)	\$	(2,972)	\$	(2,468)	\$	(2,205)	\$	(5,293)
Total assets		1,230		2,508		4,256		6,040		4,981
Long-term obligations		566		4,891		1,377				5,473
Convertible preferred stock		6,790								3,423
Shareholders (deficit) equity		(10,931)		(7,145)		(1,295)		234		(9,797)

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

Forward Looking Statements
<i>This report 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 Certain Factors That May Affect Future Results below and elsewhere in, or incorporated by reference into, this report.</i>
<i>When used in the following discussion, the words <i>believes, anticipates</i> 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.</i>
<i>The following discussion should be read in conjunction with the Selected Consolidated Financial Data and the Consolidated Financial Statements, including the Notes thereto.</i>

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

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The Company enters into contractual arrangements with end-users that may include licensing of the Company's software products, product support and maintenance services, consulting services or various combinations thereof, including the sale of such products or services separately. The Company recognizes revenue in accordance with Statement of Position (SOP) 97-2 Software Revenue Recognition and SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions and Staff Accounting Bulletin (SAB) No. 101.

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.

Allowance for Doubtful Accounts

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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. Management believes that no significant concentrations of credit risk existed at September 30, 2003. 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.

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, 2003, 2002 and 2001.

	Years ended September 30,		
	2003	2002	2001
Revenues			
Licenses	28%	28%	43%
Services and other	72%	72%	57%
Total revenues	100%	100%	100%
Cost of revenues			
Licenses	9%	29%	12%
Services and other	32%	46%	35%
	41%	75%	47%
Gross profit	59%	25%	53%
Operating expenses:			
Research and development	20%	26%	18%
Marketing and sales	33%	50%	37%
General and administrative	19%	26%	11%
	72%	102%	66%
Loss from operations	(14)%	(78)%	(13)%
Nonrecurring loss on conversion of debt to preferred stock	(20)%	(0)%	0%
Interest and other income	0%	0%	2%
Interest expense	(7)%	(5)%	0%
Net loss	(41)%	(83)%	(12)%

RevenuesLicenses Revenues

(in thousands)

	2003	Change	2002	Change	2001
License revenues	\$ 2,053	5%	\$ 1,958	(59)%	\$ 4,806
Percentage of total revenues	27.9%		28.1%		43.1%

License revenues increased by \$95,000, or 5%, in fiscal 2003 from fiscal 2002 as a result of an increase in number of licenses sold. The increase was due to higher sales of the eB product suite as a result of customers expanding their existing software systems and software orders from new customers in response to an increase in demand for a comprehensive content management solution needed for business process compliance, corporate record keeping and enterprise collaboration.

We anticipate that the demand for our products will continue to increase if overall economic conditions continue to strengthen and an increase in overall demand for enterprise document, configuration and records management software solutions. We expect license demand to increase as we see a growing trend of customers requiring a single platform to fulfill compliance requirements, which includes legislative regulations for document archiving and record keeping.

A small number of customers has typically accounted for a large percentage of the Company's annual revenues. Network Rail, formerly Railtrack, accounted for 19% of revenue for fiscal 2003 and 2002, while Network Rail and Structural Dynamics Research Corporation accounted for 15% each, or 30%, of revenues for fiscal 2001. The Company's reliance on relatively few customers could have a material adverse effect on the results of its operations on a quarterly basis.

Service and Other Revenues

(in thousands)

	2003	Change	2002	Change	2001
Service and other revenues	\$ 5,309	6%	\$ 5,012	(21)%	\$ 6,352
Percentage of total revenues	72.1%		71.9%		56.9%

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.

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Services and other revenue increased \$297,000, or 6%, in fiscal 2003 from fiscal 2002 due to sales to several new customers which require more services that typically include a design study, integration with other business systems and training. Non-maintenance service revenue increased \$572,000, or 32% in fiscal 2003. This increase was offset by a decrease of \$272,000, or 8% in maintenance revenue. The increase in non-maintenance service revenue was due to the increase in sales of eB by customers implementing new information technology projects. The decrease in maintenance revenue is the result of customers who have downsized their organizations and lowered their maintenance requirements.

While license revenues decreased \$2.8 million or 59% in fiscal 2002 from fiscal 2001, services and other revenue decreased \$1.3 million or 20% in the same period. The decrease in license revenue had the greatest impact on non-maintenance services revenue which decreased \$935,000 or 35%, from \$2.7 million in fiscal 2001 to \$1.8 million in 2002. Maintenance revenue decreased \$405,000 or 11% to \$3.2 million in fiscal 2002 from \$3.7 million in fiscal 2001 primarily due to customers who had decreased their maintenance requirements consistent with the downsizing of their organizations as a result of the poor economic environment.

The continued growth in service and other revenues depends in large part on the growth of our software license revenues, while the growth of our maintenance revenue depends on the growth of our software license revenues in addition to the renewals of maintenance agreements by our existing customer base

Cost of Revenues

Cost of Licenses Revenues

(in thousands)

	2003	Change	2002	Change	2001
Cost of license revenues	\$ 690	(66)%	\$ 2,041	49%	\$ 1,371
Percentage of license revenues	33.6%		(4.2)%		28.5%

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 by \$1,351,000, or 66%, in fiscal 2003 compared to fiscal 2002 due to a decrease in amortization of \$1,436,000 as a result of the write-down in 2002 of capitalized costs associated with certain older software products. The decrease was partially offset by an increase in third-party software costs of \$87,000 relating to an increase in license sales in fiscal 2003. The overall decrease in cost of license revenues resulted in an improvement in gross profit percentage of license revenues to 66% for fiscal 2003 as compared to 49% for fiscal 2002.

Costs of license revenues increased by \$670,000, or 49%, in fiscal 2002 compared to fiscal 2001, due to the write-down of capitalized costs associated with certain older software products of \$865,000 in fiscal 2002. The increase was partially offset by a decrease in third party software costs as a result of the decrease in license revenues. The large increase in cost of license revenue resulted in a gross profit loss of 4% for fiscal 2002 versus a gross profit percentage of 71% in fiscal 2001.

We expect the cost of license revenues to decrease in absolute dollar amount and as a percentage of overall license revenue because the fixed costs will be less than the prior year due to the significant portion of capitalized software becoming fully amortized.

Cost of Services and Other Revenues

(in thousands)

	2003	Change	2002	Change	2001
Cost of services and other revenues	\$ 2,334	(27)%	\$ 3,218	(18)%	\$ 3,914
Percentage of total revenues	44.5%		64.2%		61.6%

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 revenue decreased \$884,000, or 27%, in fiscal 2003 compared to fiscal 2002. Gross profit from services and other revenue as a percentage of services and other revenues improved to 56% in fiscal 2003 as compared to 36% in fiscal 2002. The improvement from fiscal 2002 to fiscal 2003 reflects a full year of benefits derived from the Company's restructuring implemented in March 2002. The effect of personnel reductions decreased payroll and related expenses by \$486,000 from fiscal 2002 to fiscal 2003. In addition, third party costs, including maintenance, consultants and travel decreased by \$282,000 from fiscal 2002 to fiscal 2003.

Cost of services and other revenues decreased \$696,000, or 18%, in fiscal 2002 from fiscal 2001. Approximately \$500,000 of the decrease is due to the cost savings from the restructuring the Company implemented in March 2002. The decision to restructure was in response to the decrease in orders experienced by the Company from fiscal 2001 to 2002. In addition, the Company utilized fewer services from third party consultants that resulted in a decrease of \$180,000 in third party services costs. Gross profit percentage from services and other revenue also decreased to 36% in fiscal 2002 as compared to 38% in fiscal 2001 due to the lower margins the Company experienced in the first six months of fiscal 2002 before the Company reduced costs to a level consistent with the decrease in service revenues.

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We expect the cost of service and other revenues to fluctuate in absolute dollar amount and as a percentage of overall service and other revenues consistent with fluctuations in non-maintenance services revenues.

Operating Expenses

Research and Development

(in thousands)

	2003	Change	2002	Change	2001
Research and development expenses	\$ 1,494	(18)%	\$ 1,828	(7)%	\$ 1,963
Percentage of total revenue	20.3%		26.2%		17.6%

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.

Research and development expenses decreased \$334,000, or 18%, in fiscal 2003 compared to fiscal 2002 and decreased \$135,000, or 7%, in fiscal 2002 compared to fiscal 2001. The decreases are due to the reduction of personnel and associated costs as part of the restructuring the Company implemented in March 2002. Since the restructuring was implemented in mid-year of fiscal 2002 the decrease of \$362,000 in fiscal 2003 reflects a full year effect from the reduction in personnel while the decrease of \$135,000 in fiscal 2002 reflects only an impact of six months. The reductions were implemented with a view to retaining the Company's core technological competencies and maintaining its abilities to continue to enhance its eB product suite.

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 decrease as a percentage of total revenue.

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Marketing and Sales

(in thousands)

	2003	Change	2002	Change	2001
Marketing and sales expenses	\$ 2,452	(30)%	\$ 3,479	(15)%	\$ 4,100
Percentage of total revenue	33.3%		49.9%		36.7%

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.

Marketing and sales expenses decreased \$1.0 million, or 30%, in fiscal 2003 compared to fiscal 2002 and decreased \$621,000, or 15%, in fiscal 2002 compared to fiscal 2001. The decreases are due primarily to the reduction of marketing and sales personnel and associated costs as part of the restructuring the Company implemented in March 2002. Since the restructuring was implemented in mid-year of fiscal 2002 the decrease of \$1.0 million in fiscal 2003 reflects a full year effect from the reduction in personnel while the decrease of \$621,000 in fiscal 2002 reflects only an impact of six months. We believe that the reduced sales and marketing expenditures are more in line with current revenues.

Marketing and sales expense will increase in absolute dollar amounts and as a percentage of total revenue as we expand our marketing and sales efforts and incur additional personnel costs as a result of anticipated increase in headcount for the direct sales staff.

General and Administrative

(in thousands)

	2003	Change	2002	Change	2001
General and administrative expenses	1,410	(22)%	\$ 1,809	42%	\$ 1,276
Percentage of total revenue	19.2%		26.0%		11.4%

General and administrative expenses consist primarily of personnel costs 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.

General and administrative expenses decreased by \$399,000, or 22%, in fiscal 2003 compared to fiscal 2002 primarily due to the reduction in general and administrative personnel and their associated costs of \$272,000 as a result of the personnel reductions associated with the Company's restructuring in March 2002. In addition, the general and administrative expense was reduced by the Company lower its allowance for bad debt by \$78,000 reflecting the decrease in the gross accounts receivable balance from yearend 2002 to 2003.

General and administrative expenses increased by \$533,000, or 42% in fiscal 2002 compared to fiscal 2001 was due primarily to general and administrative expense in 2001 included a benefit totaling \$485,000 from a reduction in the estimated liability for certain disputed vendor payables. The increase in fiscal 2002 was partially offset by a decrease in personnel costs of \$272,000 associated with the Company's restructuring implemented in March 2002.

General and administrative expenses will decrease in absolute dollar amount and as a percentage of total revenue due to a reduction in facility costs as a result of a move to a smaller facility.

Interest and Other Income

Interest and other income was \$4,000 for fiscal 2003 and \$7,000 for fiscal 2002, respectively. The decrease of \$182,000 in fiscal 2002 from 2001 is primarily due to fiscal 2001 results included the recognition of a deferred gain of \$125,000 on sale of the Company's interest in a subsidiary. In addition, the Company's investment balances decreased from 2001 to 2002 resulting in a decrease of \$50,000 in interest income.

Interest Expense

Interest expense totaled \$491,000 for fiscal 2003, \$371,000 for fiscal 2002, and \$28,000 for fiscal 2001. The increase for fiscal 2003 and fiscal 2002 is due to additional interest expense on the Company's higher debt balances owed to Spescom during 2003 and 2002.

Liquidity and Capital Resources

At September 30, 2003, the Company's cash and cash equivalents totaled \$333,000 as compared to \$87,000 at September 30, 2002, and its current ratio (current assets divided by current liabilities) was .19 at September 30, 2003.

In fiscal 2003, cash used in investing activities totaled \$43,000, primarily for acquisitions of computer software and equipment while cash

provided by financing activities totaled \$574,000, primarily from a private placement financing. Cash used in operating activities totaled \$233,000 primarily relating to the net operating loss for fiscal 2003.

The Company has received loans from Spescom in the past to meet its obligations. The outstanding balance of its loans from Spescom decreased from \$4,881,000 at September 30, 2002 to \$504,000 at September 30, 2003 due to the conversion of the majority of the loans to Series F Preferred Stock. Such loans are secured by all of the assets of the Company and are due in October 2004. See Related Party Transactions below.

In fiscal year 2003, Spescom has supported the Company's operations by extending the due dates of notes payable and by converting \$5.3 million in debt owed to Spescom to preferred stock. Spescom has the ability and will continue to fund the Company's operations through October 1, 2004, if necessary. In addition, if Spescom were to provide additional loans on terms acceptable to the Company, the funding of such loans may be delayed or prevented by currency exchange regulations of the Republic of South Africa, under which Spescom is required to apply for and obtain the approval of the South African Reserve Bank before providing any funds to the Company. Spescom is presently unaware of any reason why such Reserve Bank approval should not be given.

In March 2002, the Company approved and implemented a plan to focus on core activities and substantially reduce costs that were more consistent with levels of revenues being achieved at the time. The plan consisted of involuntary reductions of thirty-eight personnel in sales and marketing, research and development and general and administrative departments. The Company recorded a one-time charge of \$277,000 to general and administrative expense that was comprised of \$263,000 for severance pay and \$14,000 for repatriation travel expenses. The terminations were effective March 31, 2002 and the related severance pay and repatriation travel expenses were paid over a six month period and no adjustments were made to the original liability that was recorded. As of September 30, 2002, all amounts accrued in conjunction with the terminations had been paid and no liabilities related to the restructuring remained outstanding. In addition, the Company experienced a savings of \$1,480,000 in the first and second quarters of fiscal 2003 as a result of the reduction in personnel costs implemented in March 2002.

Although the personnel reductions in March 2002 reduced the Company's research and development, marketing and sales capabilities, management believes that the reduced levels of research and development, marketing and sales costs are consistent with the level of revenues currently being achieved. Moreover, the Company believes such reductions were implemented with a view to maximizing the Company's ability to continue to maintain and support its eB product suite, while at the same time pursuing opportunities for sales of new eB core systems to new customers. The Company's future liquidity depends on 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. The Company's financial position can be a factor in attracting new customers. In an effort to strengthen the Company's financial condition and provide capital for expanding marketing and sales capabilities, the Company will continue to explore additional equity or debt financing from third parties. There can be no assurance that additional financing will be available or that the terms of such financing will be acceptable to the Company. The Company believes that its current cash and receivables, as well as additional cash that may be generated from operations, 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 continue on a cash flow break-even level, which would be necessary to continue operations in the absence of further financing.

Net Operating Loss Tax Carryforwards

As of September 30, 2003, the Company had a net operating loss carryforward (NOL) for federal income tax purposes of \$34,950,000, which expires over the years 2003 through 2022. The Company also had a NOL carryforward for state income tax purposes of \$7,182,000, which expires over the years 2002 through 2011. In addition, the Company generated but has not used research and investment tax credits for federal

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income tax purposes of approximately \$586,000, which will substantially expire in the years 2003 through 2011. 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 issuances of shares to Spescom in the past, an additional ownership change occurred in April 2000. The Company's ability to utilize the consolidated NOL in future years will be limited pursuant to Internal Revenue Code Section 382. The annual limitation is approximately \$1,159,000.

Certain Factors that May Affect Future Results

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 2003, revenues from the United States were 58% of total revenues, and revenues from Europe and other locations were 42% of total revenues. In fiscal 2002, revenues from the United States were 46% of total revenues, and revenues from Europe and other locations in the world were 54% of total revenues. In fiscal 2001, revenues from the United States were 60% of total revenues, and revenues from Europe and other locations in the world were 40% of total revenues. The European currencies have been relatively stable against the U.S. dollar for the past several years. As a result, foreign currency fluctuations have not had a significant impact on the Company's revenues or results of operations. 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.

Related Party Transactions

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Related party liabilities consist of the following:

	September 30,	
	2003	2002
Related Party Long-term liabilities:		
Notes and accrued interest payable on demand Spescom UK	\$ 504,000	\$ 1,669,000
Note and accrued interest payable Spescom UK		1,980,000
Note and accrued interest payable Spescom		1,232,000
	\$ 504,000	\$ 4,881,000

In September 2003 \$5,291,000 of debt owed to Spescom and Spescom UK was converted into preferred stock. The debt converted was comprised of the outstanding principal balance of promissory notes plus accrued but unpaid interest as well as accounts payable due to Spescom UK in the amount of \$492,000. On September 30, 2003, the Company issued 5,291 Series F Convertible Preferred Stock which has a stated value of \$1,000 per share. The Series F preferred stock are convertible into common stock, after 45 days from the issuance date, based on a conversion price of \$0.45 per share subject to certain adjustments. The conversion is at the option of Spescom through September 30, 2008 (See Note 6 to the financial statements included herein).

At September 30, 2003, the Company had two demand notes payable to Spescom UK for \$400,000 and \$100,000, each bearing an annual interest rate of 10%. Spescom has agreed that it will not cause Spescom UK to demand repayment under the two notes prior to October 1, 2004. These notes payable are collateralized by a security interest in favor of both Spescom and Spescom UK in respect of all of the Company's assets.

During 2002 and 2001 under a royalty arrangement, Spescom resold certain of the Company's software. This arrangement was terminated effective October 1, 2002. For the year ended September 30, 2002 and 2001 the Company recognized royalty revenue of \$60,000 and \$47,000, respectively. In November 2000 Spescom purchased from the Company \$530,000 in software for its internal use. The Company billed Spescom for certain marketing services totaling \$49,000, \$52,000 and \$26,000 for the year ended September 30, 2003, 2002 and 2001, respectively.

In May 1999 the Company sold a 60% interest in its United Kingdom subsidiary, ASL, to Spescom for \$1,000,000. After the transaction, Spescom contributed to ASL some additional businesses from its other subsidiaries primarily in telecommunications industry. The Company generated a gain of \$257,000 on the sale of the ASL subsidiary interest and deferred \$125,000 to cover the estimated expense of any warranty claims arising during the two-year warranty period. Based on the fact that there had been no warranty claims since the sale in 1999, the Company under APB 20 revised its estimate regarding potential warranty claims and recognized the deferred portion of the gain in fiscal 2001.

Spescom provides certain administrative and accounting functions for the Company's United Kingdom subsidiary. The Company is billed a monthly fee by Spescom for reimbursement of certain costs in the United Kingdom including the office facilities, all accounting and human resources services, and certain corporate marketing activities. For the year ended September 30, 2003, 2002, and 2001 the administrative fees totaled \$545,000, \$710,000, and \$607,000 respectively. The office rent for the Company's United Kingdom operations included in the administrative fee totaled \$287,000, \$262,000 and \$215,000 respectively for the year ended September 30, 2003, 2002 and 2001. The Company purchased engineering consulting services totaling \$45,000 from Spescom during the year ended September 30, 2002. At September 30, 2003 and 2002 the Company had a payable to Spescom of \$46,000 and \$495,000, respectively. In 1999, as part of an agreement to sell the 60% interest in ASL to Spescom, the lease for the United Kingdom office facility was to be assigned to Spescom; however, the landlord did not grant its consent to the assignment. Since 1999 Spescom has paid the lease for the entire office directly to the landlord. The lease expires in March 2006 and has an annual rent of \$530,000. A portion of the office has been subleased to third party tenants for an annual rent of \$252,000. The sublease also expires March 2006; however the tenant has an option to terminate the lease in February 2004.

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Spescom and the Company have entered into a license agreement pursuant to which Spescom has licensed to the Company the right to use the name Spescom and to use a trademark owned by Spescom related to certain computer software. The Company will not pay any

royalties to Spescom in connection with this license. The license is for an indefinite term, but is terminable by either party upon 60 days prior written notice. Under the license agreement, Spescom has agreed to indemnify and hold harmless the Company and its directors, officers, employees and agents against liabilities arising from any claim brought against the Company that alleges that Spescom's or the Company's use of the licensed trademark infringes the rights of any third party, provided that the Company is in material compliance with the provisions of the license agreement.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following summarizes our contractual obligations and other commitments at September 30, 2003, and the effect such obligations could have on our liquidity and cash flow in future periods:

	Amount of Commitment Expiring by Period				Total
	Less Than 1 Year	1-3 Years	4-5 Years	Over 5 Years	
Notes and Accounts Payable to Spescom	\$ 46,000	\$ 504,000	\$	\$	\$ 550,000
Lease commitments	264,000	809,000	508,000		1,581,000
Total	\$ 310,000	\$ 1,313,000	\$ 508,000	\$	\$ 2,131,000

OFF-BALANCE SHEET ARRANGEMENTS

At September 30, 2003, 2002, and 2001, we did not have any other 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 we were engaged in such relationships.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET 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. The Company's investments include money market accounts as of September 30, 2003.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Certified Public Accountants

Consolidated Balance Sheets as of September 30, 2003 and 2002

Consolidated Statements of Operations for the years ended September 30, 2003, 2002 and 2001

Consolidated Statements of Changes in Shareholders' Deficit for the years ended September 30, 2003, 2002 and 2001

Consolidated Statements of Cash Flows for the years ended September 30, 2003, 2002 and 2001

Notes to the Consolidated Financial Statements

Valuation and Qualifying Accounts

Report of Independent Certified Public Accountants

The Board of Directors

Altris Software, Inc.
San Diego, California

We have audited the accompanying consolidated balance sheets of Altris Software, Inc. as of September 30, 2003 and 2002, and the related consolidated statements of operations, changes in shareholders' deficit and cash flows for each of the three years in the period ended September 30, 2003. These consolidated financial statements 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Altris Software, Inc. as of September 30, 2003 and 2002, and the consolidated results of its operations and its consolidated cash flows for each of the three years in the period ended September 2003, in conformity with accounting principles generally accepted in the United States of America.

We have also audited Schedule II of Altris Software, Inc. for each of the three years in the period ended September 30, 2003. In our opinion, this Schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ GRANT THORNTON LLP

Irvine, California

October 24, 2003 (except for Note 6 and Note 8,
as to which the date is November 19, 2003)

ALTRIS SOFTWARE, INC.
CONSOLIDATED BALANCE SHEETS

	September 30,	
	2003	2002
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 333,000	\$ 87,000
Receivables, net	423,000	1,459,000
Other current assets	169,000	244,000
Total current assets	925,000	1,790,000
Property and equipment, net		
Property and equipment, net	213,000	215,000
Computer software, net	63,000	420,000
Other assets	29,000	83,000
Total assets	\$ 1,230,000	\$ 2,508,000
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	\$ 405,000	\$ 802,000
Payable to Spescom	46,000	495,000
Accrued liabilities	1,080,000	1,288,000
Lease obligations - current portion	23,000	6,000
Deferred revenue	2,018,000	2,171,000
Fair value of equity instruments redeemable for common stock	1,233,000	
Total current liabilities	4,805,000	4,762,000
Notes and accrued interest payable to Spescom	504,000	4,881,000
Lease obligations	62,000	10,000
Total liabilities	5,371,000	9,653,000
Convertible preferred stock, \$1,000 stated value, 1,000,000 shares authorized; 5,291 shares issued and outstanding in 2003	6,790,000	
Shareholders' deficit:		
Common stock, no par value, 40,000,000 shares authorized; 33,922,278 and 30,841,590 issued and outstanding in 2003 and 2002	73,676,000	74,465,000
Common stock warrants	278,000	133,000
Accumulated other comprehensive loss	(294,000)	(156,000)
Accumulated deficit	(84,591,000)	(81,587,000)
Total shareholders' deficit	(10,931,000)	(7,145,000)
Total liabilities and shareholders' deficit	\$ 1,230,000	\$ 2,508,000

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

**ALTRIS SOFTWARE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS**

	Years ended September 30,		
	2003	2002	2001