

## PRESS RELEASE

26 August 2009

### Telephonetics Plc

#### Unaudited interim results For the six months to 31 May 2009

Telephonetics Plc ('Telephonetics' or 'the Company' or 'the Group'), a leading provider of end-to-end customer interaction solutions employing advanced speech recognition and call handling technology, today announces its interim results for the six months ended 31 May 2009.

#### Highlights

- Revenues increase by 8% to £4.99m (2008: £4.62m)
- Adjusted EBITDA\* of £0.67m (2008: £0.65m)
- Profit before tax of £0.41m (2008: £0.60m)
- Net cash funds of £4.47m
- Earnings per share 0.30p (2008: 0.42p)
- Deployments under contract increased in the period by 7% to 537
- Successful migration of national cinema chain, Empire Cinemas, to MovieLINE®

Mike Neville, Chairman of Telephonetics, commented:

*"I am delighted with the Group's improved trading which was due to a combination of factors including a first time contribution from newly acquired Datadialogs, increased product and service revenues, and a higher contribution for Movieline. As the supplier of choice in the growing health and public sector market, we continue to make good progress having signed major new customers in the first half. Given our resilient trading position combined with the fact we are debt free, have significant cash funds and are focused on cost control, we look to the future with confidence.*

\* adjusted EBITDA is defined as profit before interest, taxation, depreciation, amortisation, one-off restructuring and share-based charges.

For further information please contact:

#### Telephonetics

James Ormondroyd (Finance Director) +44 (0) 1442 242242

#### Maitland

Neil Bennett +44 (0) 207 379 5151  
George Hudson

#### Brewin Dolphin Investment Banking

Nominated Adviser & Broker +44 (0) 845 213 4726  
Neil Baldwin  
Sean Wyndham-Quin

## **Financial Review**

During the six months to 31 May 2009, unaudited revenue increased by 8% to £4.99m. This improved performance was due to a combination of factors including a first time contribution from newly acquired Datadialogs of £0.19m, Telephonetics' product and service revenues increasing by £0.12m due to an uplift in support revenues, and higher revenues for MovieLINE® due to improved telecom rates and stable minutes linked to strong box office admissions.

Gross margin was stable at 61% (2008: 62%). The Group made adjusted EBITDA of £0.67m (2008: £0.65m) the lower margin a result of investment costs in Datadialogs of £0.07m following its acquisition and investment in sales, marketing and development. Profit before tax was £0.41m, down £0.19m from last year's £0.60m principally as a result of lower interest income of £0.10m together with a charge for amortisation of acquired intangible assets of £0.05m.

The Group remains debt free other than a small bank loan of £26,000 acquired within the Datadialogs business. Cash generated from operating activities was £0.16m which was £0.53m lower than 2008 due to a lower interest rate gained on cash deposits in the period, investment costs incurred within the Datadialogs business, and reversal of year end working capital timing differences.

Cash spent on investing activities totalled £1.09m (2008: £0.22m) principally relating to the initial consideration paid for the acquisition of Datadialogs and development expenditure. As a result, the Group's cash position decreased by £0.92m to £4.47m from £5.39m at 30 November 2008.

Basic earnings per share were down 0.12p per share at 0.30p, and at a diluted level down 0.11p at 0.27p. No dividend is payable for the period as the Group continues to invest its resources in the development of the business.

## **Operating Review**

### **Market & Strategy**

Our top-level strategy is to provide a set of applications that interact seamlessly in order to transform all (or part) of the customer interaction process within any business:

- Smart call handling allows us to accept, analyse and route incoming calls in the most efficient manner, thereby maximising customer satisfaction and live agent efficiency.
- Intelligent automation, via speech recognition, allows us to ensure that live agent resource is utilised where it can add most value whilst extending the hours of day during which customers can interact with an organisation.
- Outbound alerting technology ensures that customers are kept informed of important information via the mechanism most appropriate to them.
- Datadialogs' Eden technology integrates our customer's back office systems to deliver a single view of their data and feed our other applications, thereby providing total control of the end-to-end customer interaction.
- Media handling will add routing of email and web chat to our platform, simplifying an agent's view of the world and unifying all inbound customer interactions.

We continue to generate good organic revenue growth and as a supplier of choice in the growing health and public sector market, we have continued to make progress, with a number of new customers signed-up in the first half including Swale Borough Council and NHS Blackpool. The NHS Trusts, councils, higher education institutions and police forces that comprise our core customer base increasingly recognise that our end-to-end

customer interaction solutions can make a very real difference to their business. The integration of Datadialogs is progressing well and has been successful in signing up several new customers including Interserve and Dee Valley Water.

We have a loyal customer base who are buying more applications than this time last year. It is apparent that in the current economic climate they are willing to spend on well designed solutions that maximise customer service and provide significant internal efficiencies. The demand for our services has been demonstrated by record attendance at our regular Health and Public Sector technology days and User Group forums.

Recognising this we have continued to extend the range of applications on our SEMAP+ platform to meet customer demand, culminating in the release of seven new products to market in January. These further enable us to provide a one-stop-shop to meet the multiple challenges facing our customers. They also allow our customers to leverage their investment in our SEMAP+ platform whilst increasing our recurring revenues and providing increasing 'stickiness' through enhanced value.

Our "4<sup>th</sup> channel" customer first automated telephony offering has a similar cost to a web response. When compared to a response from a call centre member of staff at £1.25 per transaction, it can deliver significant savings. The Society of Information Technology Management estimate a web response costs 17 pence. In addition, only 55% of people have used a government or council website. In areas of multiple deprivation where the need to access public services is more critical this reduces to only 15%, leaving 85% of people who do not use the web to access information. Moreover, not everyone has access to the internet and the telephone is currently the most popular form of communication. Our technology helps councils to achieve clear value for money and compliance with the Government's National Indicator 14, and ensures high customer satisfaction levels.

A key supplier of Enterprise Case Management solutions (ECM) in local government is Lagan. As part of our focus on local government we have integrated our Automatic Call Distribution into the Lagan ECM. This exciting development has now been through Lagan's rigorous certification process resulting in the business becoming a Silver Lagan Solution Partner. This is great news for our customers who can now purchase our ACD with full assurance from their ECM supplier that this is a quality solution which is fully compatible with their ECM.

### **Acquisition of Datadialogs**

The acquisition of Datadialogs, in February 2009, and its Eden technology has greatly increased the effectiveness of our proposition by simplifying the interface to existing customer systems, business processes and data. Eden acts as a smart conduit for this data, allowing us to maximise the power and flexibility of our solutions, with no need for additional software development.

Datadialogs has been successful in signing up several new customers including Interserve and Dee Valley Water, and has generated turnover in the period of £191,000. Adjusted EBITDA for the period showed a loss of £68,000 due to a significant investment in overheads which will allow for future growth expected to pay back in year 2011. The outlook for the rest of the year is promising with an increasing number of customers recognising the compelling proposition of the technology.

The total consideration for the acquisition is estimated at £2.14m comprising upfront cash of £0.72m, transaction expenses of £0.12m and an estimated contingent consideration of £1.30m. The contingent consideration is based on an earn out arrangement: £0.20m in cash is payable on Datadialogs achieving revenues of £0.70m within the first year of acquisition; and up to a further £2.80m is payable in a mixture of

cash and shares over the two years post-acquisition on the achievement of revenue targets of between £1.56m and £10.0m over the period. Any new shares allotted as consideration will be priced based on the average mid-market price of the Company preceding the date of issue subject to a minimum of 10p per share. Based on Datadialogs' management's current expectations of revenues over the two year period post acquisition provision for contingent consideration has been made for a share issue of £0.60m (5,995,275 shares at 10p per share) and cash payments of £0.80m recorded at a present value of £0.70m.

### **Premises-based Revenues**

Premises-based revenues increased by 10% to £3.34m from £3.03m. This comprises product application licensing and hardware plus professional services and support contracts. The increase in revenues is the result of the first time contribution from Datadialogs' £0.19m together with higher support revenues a result of the compounding effect of continuing product sales to new and existing customers.

The number of deployments under contract increased in the period by 7% to 537 from 500 at the year end. The proportion of recurring revenues under support contracts is 60% (2007: 58%).

We are continuing to do well in terms of growing our sales pipeline in our key markets of health and public sector for telephony products. Since the start of the year our pipeline of selling opportunities in these verticals has grown by 23% over the first six months of the year and 44% over the twelve months to May 2009. This growth is due to a greater focus within the sales, marketing and telemarketing team in particular in engaging with prospects in the public sector. We have experienced a slightly longer purchasing cycle in the first half, as customers faced difficult budget decisions in the public sector April year end, however, these appear to be returning to normal over the summer months.

### **Hosted Revenues**

Hosted revenues, which are principally derived from our MovieLINE<sup>®</sup> product and used by 80% of the UK's major multiplex cinemas, increased by 4% to £1.65m (2008: £1.59m). Call volumes were stable in the period which was better than forecast due to stronger UK box office admissions, which in the first half of 2009 were 15% up on the first half of 2008 (source: UK Film Council Research and Statistics Unit), and a slower transition by consumers to other channels compared to previous periods. These factors combined with a better tariff from telecommunication providers contributed to the progress of the MovieLINE<sup>®</sup> revenue stream.

During the period Telephonetics signed a multi-year contract extension with Apollo Cinemas to continue supplying automatic speech recognition (ASR) ticket booking and information technology to all of their 13 UK cinema sites. Apollo has been using MovieLINE<sup>®</sup> since 2005 to provide a one-number solution for film information and ticket booking services to all its cinemas.

In addition, Telephonetics signed a multi-year contract with Empire Cinemas Ltd for all of Empire's 17 UK cinema sites. Empire will utilise Telephonetics' state-of-the-art Agent Interface software, which will enable it to seamlessly link the MovieLINE<sup>®</sup> booking service with a new call-centre operation also provided by Telephonetics.

### **Research & Development**

The Group continues to invest in its product development with total development expenditure including capitalised amounts of £0.49m in the last six months (2008: £0.32m).

A suite of new Automation Agent applications were released in January. These range from Mail-2-Me which can automate the mundane task of capturing a caller's name and address for dispatching of information/brochures, to Payments which can automate the paying of bills such as Council Tax. These applications are already proving popular with both existing and new customers and help underpin the value of our multiple-application platform, SEMAP+.

Datadialogs continue to innovate and adapt Eden to meet the market needs. A core addition to the product in the period has been the addition of comprehensive support for industry standard web services, as always with zero requirement for code. This specific functionality allows legacy systems to participate in web service interactions, thereby extending their lifespan and maximising sunk investment. In this scenario Eden consumes the legacy interfaces and presents them to the outside world as web services, breathing new life into existing solutions.

### **Sales & Marketing costs**

Expenditure on sales and marketing, before amortisation of acquired customer relationship intangible assets, increased by £0.18m to £1.44m due to continued investment as we build expertise within the business and maximise the revenues and opportunities from our product portfolio, combined with the post acquisition selling expenses of Datadialogs to the interim period end of £71,000.

### **General and administrative expenses**

General and administrative expenses before restructuring costs and share-based payment expenses were down 3% to £0.83m representing a creditable result with increased overhead to manage Datadialogs of £57,000 more than offset.

### **Outlook**

As announced on 10 August 2009 the Company has achieved a level of turnover broadly in line with expectations in the year to date and, based on anticipated order conversion, the Board expects this to continue for the remainder of the year ending 30 November 2009. In addition, the Board remains focused on cost control and has taken a more prudent approach to recruitment than originally anticipated. As a result, the Board expects adjusted earnings before interest, tax, depreciation, amortisation, one-off restructuring and share-based charges for the current year to be slightly ahead of previous market expectations.

**Unaudited consolidated income statement for the six months ended 31 May 2009**

|   | Note | 6 months<br>ended 31<br>May 2009<br>£'000 | 6 months<br>ended 31<br>May 2008<br>£'000 | Year<br>ended 30<br>Nov 2008<br>£'000 |
|---|------|---|---|---------------------------------------|
| <b>Revenue</b>  | 2    | <b>4,994</b>                              | <b>4,616</b>                              | <b>9,951</b>                          |
| Cost of sales   |      | (1,953)                                   | (1,752)                                   | (3,865)                               |
| <b>Gross profit</b>                                   |      | <b>3,041</b>                              | <b>2,864</b>                              | <b>6,086</b>                          |
| Operating expenses                                    | 3    | (2,633)                                   | (2,371)                                   | (5,220)                               |
| <b>Profit from operations</b>                         |      | <b>408</b>                                | <b>493</b>                                | <b>866</b>                            |
| Profit from operations analysed as:                   |      |   |   |                                       |
| Profit from operations before<br>restructuring credit |      | 408                                       | 414                                       | 786                                   |
| Restructuring credit                                  | 4    | -   | 79  | 80                                    |
|   |      | 408                                       | 493                                       | 866                                   |
| Finance expense                                       |      | (19)                                      | (1)                                       | (3)                                   |
| Finance income  |      | 20  | 104                                       | 208                                   |
| <b>Profit before tax</b>                              | 2    | <b>409</b>                                | <b>596</b>                                | <b>1,071</b>                          |
| Tax expense   |      | (86)                                      | (139)                                     | (120)                                 |
| <b>Profit for the period</b>                          |      | <b>323</b>                                | <b>457</b>                                | <b>951</b>                            |
| <b>Earnings per share</b>                             |      |   |   |                                       |
| Basic – pence   | 5    | 0.30                                      | 0.42                                      | 0.87                                  |
| Diluted – pence                                       | 5    | 0.27                                      | 0.38                                      | 0.80                                  |

**Unaudited consolidated balance sheet as at 31 May 2009**

|                                      | 31 May<br>2009<br>£'000 | 31 May<br>2008<br>£'000 | 30 Nov<br>2008<br>£'000 |
|--------------------------------------|-------------------------|-------------------------|-------------------------|
| <b>Assets</b>                        |                         |                         |                         |
| <b>Non-current assets</b>            |                         |                         |                         |
| Intangible assets                    | 13,512                  | 11,004                  | 11,093                  |
| Property, plant & equipment          | 276                     | 316                     | 269                     |
| Deferred tax assets                  | -                       | 70                      | 33                      |
| <b>Total non-current assets</b>      | <b>13,788</b>           | <b>11,390</b>           | <b>11,395</b>           |
| <b>Current assets</b>                |                         |                         |                         |
| Inventories                          | 252                     | 235                     | 335                     |
| Trade & other receivables            | 2,588                   | 2,340                   | 2,536                   |
| Cash & cash equivalents              | 4,466                   | 4,665                   | 5,389                   |
| <b>Total current assets</b>          | <b>7,306</b>            | <b>7,240</b>            | <b>8,260</b>            |
| <b>Total assets</b>                  | <b>21,094</b>           | <b>18,630</b>           | <b>19,655</b>           |
| <b>Liabilities</b>                   |                         |                         |                         |
| <b>Current liabilities</b>           |                         |                         |                         |
| Trade & other payables               | 4,701                   | 4,484                   | 5,149                   |
| Borrowings                           | 18                      | -                       | -                       |
| Obligations under finance leases     | 1                       | -                       | -                       |
| Corporation tax payable              | 160                     | 163                     | 81                      |
| Provisions                           | 190                     | -                       | 6                       |
| <b>Total current liabilities</b>     | <b>5,070</b>            | <b>4,647</b>            | <b>5,236</b>            |
| <b>Non-current liabilities</b>       |                         |                         |                         |
| Borrowings                           | 4                       | -                       | -                       |
| Provisions                           | 706                     | 61                      | 49                      |
| <b>Total non-current liabilities</b> | <b>710</b>              | <b>61</b>               | <b>49</b>               |
| <b>Total liabilities</b>             | <b>5,780</b>            | <b>4,708</b>            | <b>5,285</b>            |
| <b>Net assets</b>                    | <b>15,314</b>           | <b>13,922</b>           | <b>14,370</b>           |
| <b>Capital &amp; reserves</b>        |                         |                         |                         |
| Share capital                        | 1,090                   | 1,090                   | 1,090                   |
| Share premium                        | 6,803                   | 6,803                   | 6,803                   |
| Shares to be issued                  | 600                     | -                       | -                       |
| Reverse acquisition reserve          | 506                     | 506                     | 506                     |
| Merger reserve                       | 4,951                   | 4,951                   | 4,951                   |
| Retained earnings                    | 1,364                   | 572                     | 1,020                   |
| <b>Total equity</b>                  | <b>15,314</b>           | <b>13,922</b>           | <b>14,370</b>           |

**Unaudited consolidated statement of changes in equity as at 31 May 2009**

|  | Share capital<br>£'000 | Share premium<br>£'000 | Shares to be issued<br>£'000 | Reverse acquisition reserve<br>£'000 | Merger reserve<br>£'000 | Retained earnings<br>£'000 | Total<br>£'000 |
|--|------------------------|------------------------|------------------------------|--------------------------------------|-------------------------|----------------------------|----------------|
| <b>Balance at 1 December 2007</b>          | <b>1,090</b>           | <b>6,802</b>           | -                            | <b>506</b>                           | <b>4,951</b>            | <b>46</b>                  | <b>13,395</b>  |
| Profit for the period                      | -                      | -                      | -                            | -                                    | -                       | 457                        | 457            |
| <b>Total recognised income and expense</b> | -                      | -                      | -                            | -                                    | -                       | <b>457</b>                 | <b>457</b>     |
| Share based payment credit                 | -                      | -                      | -                            | -                                    | -                       | 69                         | 69             |
| Issue of share capital                     | -                      | 1                      | -                            | -                                    | -                       | -                          | 1              |
| <b>Balance at 31 May 2008</b>              | <b>1,090</b>           | <b>6,803</b>           | -                            | <b>506</b>                           | <b>4,951</b>            | <b>572</b>                 | <b>13,922</b>  |
| <b>Balance at 1 June 2008</b>              | <b>1,090</b>           | <b>6,803</b>           | -                            | <b>506</b>                           | <b>4,951</b>            | <b>572</b>                 | <b>13,922</b>  |
| Profit for the period                      | -                      | -                      | -                            | -                                    | -                       | 494                        | 494            |
| <b>Total recognised income and expense</b> | -                      | -                      | -                            | -                                    | -                       | <b>494</b>                 | <b>494</b>     |
| Share based payment debit                  | -                      | -                      | -                            | -                                    | -                       | (46)                       | (46)           |
| <b>Balance at 30 November 2008</b>         | <b>1,090</b>           | <b>6,803</b>           | -                            | <b>506</b>                           | <b>4,951</b>            | <b>1,020</b>               | <b>14,370</b>  |
| <b>Balance at 1 December 2008</b>          | <b>1,090</b>           | <b>6,803</b>           | -                            | <b>506</b>                           | <b>4,951</b>            | <b>1,020</b>               | <b>14,370</b>  |
| Profit for the period                      | -                      | -                      | -                            | -                                    | -                       | 323                        | 323            |
| <b>Total recognised income and expense</b> | -                      | -                      | -                            | -                                    | -                       | <b>323</b>                 | <b>323</b>     |
| Share based payment credit                 | -                      | -                      | -                            | -                                    | -                       | 21                         | 21             |
| Contingent consideration                   | -                      | -                      | 600                          | -                                    | -                       | -                          | 600            |
| <b>Balance at 31 May 2009</b>              | <b>1,090</b>           | <b>6,803</b>           | <b>600</b>                   | <b>506</b>                           | <b>4,951</b>            | <b>1,364</b>               | <b>15,314</b>  |

**Unaudited consolidated cash flow statement for the six months ended 31 May 2009**

|  | 6 months<br>ended 31<br>May 2009<br>£'000 | 6 months<br>ended 31<br>May 2008<br>£'000 | Year<br>ended 30<br>Nov 2008<br>£'000 |
|--|---|---|---------------------------------------|
| <b>Cash flow from operating activities</b>                                       |   |   |                                       |
| Profit for the period  | 323                                       | 457                                       | 951                                   |
| Adjustments for:   |   |   |                                       |
| Depreciation   | 69  | 81  | 149                                   |
| Loss on disposal of property, plant & equipment                                  | -   | -   | 18                                    |
| Amortisation   | 170                                       | 83  | 188                                   |
| Finance income   | (20)                                      | (104)                                     | (208)                                 |
| Finance costs  | 19  | 1   | 3                                     |
| Share-based payment expense  | 21  | 69  | 23                                    |
| Income tax expense   | 86  | 139                                       | 120                                   |
| <b>Operating cash flows before movements in working capital &amp; provisions</b> | <b>668</b>                                | <b>726</b>                                | <b>1,244</b>                          |
| Decrease/ (increase) in inventories  | 83  | 18  | (86)                                  |
| Decrease/ (increase) in trade and other receivables                              | 140                                       | (95)                                      | (291)                                 |
| (Decrease)/ increase in trade and other payables                                 | (713)                                     | 162                                       | 827                                   |
| Decrease in provisions   | (20)                                      | (123)                                     | (130)                                 |
| <b>Cash generated from operations</b>  | <b>158</b>                                | <b>688</b>                                | <b>1,564</b>                          |
| Interest paid  | (3)                                       | (1)                                       | (3)                                   |
| Interest received  | 20  | 104                                       | 208                                   |
| Corporation tax (paid)/ reclaimed  | (5)                                       | 60  | 34                                    |
| <b>Net cash flow from operating activities</b>                                   | <b>170</b>                                | <b>851</b>                                | <b>1,803</b>                          |
| <b>Investing activities</b>  |   |   |                                       |
| Purchase of property, plant & equipment  | (63)                                      | (69)                                      | (114)                                 |
| Development expenditure  | (169)                                     | (48)                                      | (216)                                 |
| Purchase of other intangible assets  | (43)                                      | (98)                                      | (113)                                 |
| Acquisition of subsidiary, net of cash acquired                                  | (813)                                     | -   | -                                     |
| <b>Net cash used in investing activities</b>                                     | <b>(1,088)</b>                            | <b>(215)</b>                              | <b>(443)</b>                          |
| <b>Financing activities</b>  |   |   |                                       |
| Repayment of bank loans  | (4)                                       | -   | -                                     |
| Repayment of finance leases  | (1)                                       | -   | -                                     |
| Issue of ordinary shares   | -   | 1   | 1                                     |
| <b>Net cash (used in)/ from financing activities</b>                             | <b>(5)</b>                                | <b>1</b>                                  | <b>1</b>                              |
| <b>Net (decrease)/ increase in cash &amp; cash equivalents</b>                   | <b>(923)</b>                              | <b>637</b>                                | <b>1,361</b>                          |
| Cash & cash equivalents at the beginning of the period                           | <b>5,389</b>                              | <b>4,028</b>                              | <b>4,028</b>                          |
| <b>Cash &amp; cash equivalents at the end of the period</b>                      | <b>4,466</b>                              | <b>4,665</b>                              | <b>5,389</b>                          |

## Notes to the financial information for the six months ended 31 May 2009

### 1. Basis of preparation

These consolidated interim financial statements ('the interim financial statements') of Telephonetics plc are for the six months ended 31 May 2009. These interim financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (August 2009). This results announcement does not constitute statutory accounts of the Group within the meaning of sections 434(3) and 435(3) of the Companies Act 2006. The balance sheet at 30 November 2008 has been derived from the full Group accounts published in the Annual Report 2008, which has been delivered to the Registrar of Companies and on which the report of the independent auditors was unqualified and did not contain a statement under either section 237(2) or section 237(3) of the Companies Act 1985.

The interim financial statements have been prepared under the historical cost convention.

The interim financial statements have been prepared in accordance with the accounting policies set out in the Group's 30 November 2008 statutory accounts, which are based on the recognition and measurement principles of IFRS in issues as adopted by the European Union ("EU"). No changes to accounting policies are expected for the year ending 30 November 2009.

The results for the six months ended 31 May 2009 were approved by the Board on 25 August 2009 and are available on the Company's web site [www.telephonetics.co.uk](http://www.telephonetics.co.uk) from 27 August 2009.

### 2. Segmental analysis

The following is an analysis of the Group's revenue and results by operating segment for the periods under review:

|                                   | Revenue                    |                            |                        | Segment profit/ (loss)     |                            |                        |
|-----------------------------------|----------------------------|----------------------------|------------------------|----------------------------|----------------------------|------------------------|
|                                   | 6 months ended 31 May 2009 | 6 months ended 31 May 2008 | Year ended 30 Nov 2008 | 6 months ended 31 May 2009 | 6 months ended 31 May 2008 | Year ended 30 Nov 2008 |
|                                   | £'000                      | £'000                      | £'000                  | £'000                      | £'000                      | £'000                  |
| Telephonetics                     | 4,803                      | 4,616                      | 9,951                  | 1,248                      | 1,175                      | 2,199                  |
| Datadialogs                       | 191                        | -                          | -                      | (68)                       | -                          | -                      |
| <b>Total</b>                      | <b>4,994</b>               | <b>4,616</b>               | <b>9,951</b>           | <b>1,180</b>               | <b>1,175</b>               | <b>2,199</b>           |
| Central administration            |                            |                            |                        | (512)                      | (528)                      | (1,053)                |
| Depreciation                      |                            |                            |                        | (69)                       | (81)                       | (149)                  |
| Amortisation of intangible assets |                            |                            |                        | (170)                      | (83)                       | (188)                  |
| Share based payment charges       |                            |                            |                        | (21)                       | (69)                       | (23)                   |
| Restructuring credit              |                            |                            |                        | -                          | 79                         | 80                     |
| Net interest                      |                            |                            |                        | 1                          | 103                        | 205                    |
| <b>Profit before tax</b>          |                            |                            |                        | <b>409</b>                 | <b>596</b>                 | <b>1,071</b>           |

All of the segment revenue reported above is from external customers. Segment profit represents the profit before interest, taxation, depreciation, amortisation, one-off restructuring and share-based charges earned by each segment without allocation of central administration costs (representing the cost of directors' remuneration, allocated overhead and fees incurred in respect of the company's AIM listed status). This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The following is an analysis of the Group's assets by operating segment:

|                            | 6 months<br>ended 31<br>May 2009<br>£'000 | 6 months<br>ended 31<br>May 2008<br>£'000 | Year<br>ended 30<br>Nov 2008<br>£'000 |
|----------------------------|---|---|---------------------------------------|
| <b>Total assets</b>        |   |   |                                       |
| Telephonetics              | 17,053                                    | 16,770                                    | 16,728                                |
| Datadialogs                | 2,597                                     | -   | -                                     |
| Head office                | 2,239                                     | 2,398                                     | 3,458                                 |
| Inter-segment eliminations | (795)                                     | (538)                                     | (531)                                 |
|                            | <b>21,094</b>                             | <b>18,630</b>                             | <b>19,655</b>                         |
| <b>Total liabilities</b>   |   |   |                                       |
| Telephonetics              | 4,902                                     | 4,742                                     | 5,192                                 |
| Datadialogs                | 1,288                                     | -   | -                                     |
| Head office                | 415                                       | 504                                       | 624                                   |
| Inter-segment eliminations | (795)                                     | (538)                                     | (531)                                 |
|                            | <b>5,810</b>                              | <b>4,708</b>                              | <b>5,285</b>                          |
| <b>Net assets</b>          | <b>15,284</b>                             | <b>13,922</b>                             | <b>14,370</b>                         |

Segmental assets and liabilities include items directly attributable to a segment and include any goodwill and provision for contingent consideration balances associated with that segment. Head office represents the operations of the parent holding company its assets and liabilities are principally cash, inter-company financing and central administration working capital balances.

### 3. Analysis of operating expenses

|  | 6 months<br>ended 31<br>May 2009<br>£'000 | 6 months<br>ended 31<br>May 2008<br>£'000 | Year<br>ended 30<br>Nov 2008<br>£'000 |
|--|---|---|---------------------------------------|
| Research & development   | 323                                       | 270                                       | 610                                   |
| Sales & marketing  | 1,466                                     | 1,259                                     | 3,026                                 |
| Analysed as:   |   |   |                                       |
| Expenses before amortisation of<br>acquired customer lists                                 | 1,442                                     | 1,259                                     | 3,026                                 |
| Amortisation of acquired customer lists  | 24  | -   | -                                     |
| General & administration   | 848                                       | 842                                       | 1,584                                 |
| Analysed as:   |   |   |                                       |
| General & administration before<br>restructuring credit and share based<br>payment expense | 827                                       | 852                                       | 1,641                                 |
| Share-based payment expense  | 21  | 69  | 23                                    |
| Restructuring credit   | -   | (79)                                      | (80)                                  |
|  | <b>2,637</b>                              | <b>2,371</b>                              | <b>5,220</b>                          |

### 4. Restructuring credit

In May 2008 the Group reorganised its leasehold property and terminated various leases earlier than expected, as a result £79,000 of the vacant property provision was surplus and has been credited back to the income statement in the period ended 31 May 2008.

### 5. Earnings per share

The table below sets out the weighted average number of shares used to calculate the earnings per share figures:

|   | 6 months<br>ended 31<br>May 2009<br>Number | 6 months<br>ended 31<br>May 2008<br>Number | Year<br>ended 30<br>Nov 2007<br>Number |
|---|--|--|--|
| Shares used for calculation of<br>basic earnings per share  | 109,025,334                                | 108,995,917                                | 109,010,585                            |
| Exercise of share options                                   | 9,774,624                                  | 9,804,119                                  | 9,741,928                              |
| Shares used in calculation of<br>diluted earnings per share | 118,799,958                                | 118,800,036                                | 118,752,513                            |

## 6. Acquisition of subsidiaries

On 6 February 2009 the Company acquired 100% of the ordinary share capital of Datadialogs Ltd (formerly known as Eden Origin Ltd). Datadialogs Ltd is a specialist provider of codeless Enterprise Application Integration, Business Process Management and Mashup Solutions.

*Analysis of assets and liabilities acquired:*

|  | Book<br>value<br>£'000 | Fair value<br>adjustment<br>£'000 | Fair value on<br>acquisition<br>£'000 |
|--|------------------------|-----------------------------------|---------------------------------------|
| <i>Non-current assets:</i>                 |                        |                                   |                                       |
| Property, plant & equipment                | 13                     | -                                 | 13                                    |
| Intangible assets – customer relationships | -                      | 294                               | 294                                   |
| Intangible assets – software               | -                      | 446                               | 446                                   |
| <i>Current assets:</i>                     |                        |                                   |                                       |
| Trade & other receivables                  | 175                    | -                                 | 175                                   |
| Cash & cash equivalents                    | 23                     | -                                 | 23                                    |
| <i>Current liabilities:</i>                |                        |                                   |                                       |
| Trade & other payables                     | (264)                  | (13)                              | (277)                                 |
| Borrowings                                 | (18)                   | -                                 | (18)                                  |
| Obligations under finance leases           | (2)                    | -                                 | (2)                                   |
| <i>Non-current liabilities</i>             |                        |                                   |                                       |
| Borrowings                                 | (8)                    | -                                 | (8)                                   |
| Provisions                                 | (2)                    | (141)                             | (143)                                 |
|  | <b>(83)</b>            | <b>586</b>                        | <b>503</b>                            |
| Goodwill on acquisition                    |                        |                                   | 1,636                                 |
| <b>Consideration paid</b>                  |                        |                                   | <b>2,139</b>                          |
| <i>Consideration analysed as:</i>          |                        |                                   |                                       |
| Cash                                       |                        |                                   | 720                                   |
| Contingent consideration                   |                        |                                   | 1,303                                 |
| Transaction expenses                       |                        |                                   | 116                                   |
|  |                        |                                   | <b>2,139</b>                          |
| <i>Net cash outflow on acquisition:</i>    |                        |                                   |                                       |
| Total purchase consideration               |                        |                                   | 2,139                                 |
| Less: contingent consideration             |                        |                                   | (1,303)                               |
| Consideration paid in cash                 |                        |                                   | 836                                   |
| Less: cash and cash equivalents acquired   |                        |                                   | (23)                                  |
|  |                        |                                   | <b>813</b>                            |

### *Fair value adjustments*

On acquisition of Datadialogs, all assets were fair valued and appropriate intangible assets recognised following the principals of IFRS 3. A deferred tax liability relating to these intangible assets was also recognised. Management identified two material intangible assets: (i) software; and (ii) customer relationships.

The software acquired with Datadialogs was valued using the multi-year period excess earnings method. This method measures the present value of the future earnings

generated over the life of the intangible asset. The future cash flows associated with the intangible asset are estimated, then contributory charges deducted from these cash flows. Contributory charges recognise the cost of the use of the assets employed to support the generation of revenue streams that relate to the asset being valued. The residual cash-flows are then discounted to present values. Contributory charges are made for working capital, fixed assets, workforce and other intangible assets. The basis of the charge is generally the product of the contributory asset's fair value and the required rate of return on the asset. The resulting cash flows are then discounted using the risk adjusted discount rate to give a net present value of the excess earnings resulting from the asset. The value of this intangible asset at acquisition, after taking accounting for any tax amortisation benefit, is £446,000. Management believe that this software has a minimum useful economic life of five years and therefore the intangible asset will be amortised over this period.

The customer relationships intangible asset acquired with Datadialogs was valued using the historical cost to recreate method. The historical creation cost considers all the expenditure that has previously been incurred on creating the intangible asset. This represents the current value of the amount spent on the asset over time to bring it to its current state. The value of this intangible asset at acquisition, after taking accounting for any tax amortisation benefit, is £294,000. Management believe that these customer relationships have a minimum useful economic life of four years and therefore the intangible asset will be amortised over this period.

A £13,000 credit to trade & other payables has been made to record an opening holiday pay accrual in line with the Group's accounting policy.

#### *Contingent consideration*

The contingent consideration is based on an earn out arrangement: £200,000 in cash is payable on Datadialogs achieving revenues of £700,000 within the first year of acquisition; and up to a further £2.80m is payable in a mixture of cash and shares over the two years post acquisition on the achievement of revenue targets of between £1.56m and £10.0m over the period. Any new shares allotted as consideration will be priced based on the average mid-market price preceding issue subject to a minimum of 10p per share. Based on Datadialogs' management's current expectations of revenues over the two year period post acquisition provision for contingent consideration has been made for a share issue of £600,000 (5,995,275 shares at 10p per share) and cash payments of £800,000 recorded at a present value of £703,000.

#### *Impact of acquisition on the results of the Group*

Included in the profit for the period is loss of £139,000 attributable to the Datadialogs Ltd. Had this business combination been effected on 1 December 2008, the revenue of the Group from continuing operations would have been £244,000, and the loss for the period from continuing operations would have been £231,000. The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of performance of the combined group on a six monthly basis and to provide a reference point for comparison in future periods.