

PRESS RELEASE

25 February 2010

Telephonetics Plc

Preliminary Results For the year ended 30 November 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 preliminary results for the year ended 30 November 2009.

Financial Highlights

- Revenues increased by 5.6% to £10.51m (2008: £9.95m)
- Like for like premises-based revenues up 5%
- Datadialogs revenues up 27% over pre-acquisition levels giving a first time contribution of £0.55m
- Gross margins maintained at 61% (2008: 61%)
- Improved EBITDA margin in the core Telephonetics business by 4% to 25%
- Adjusted EBITDA down 13% to £1.00m (2008: £1.15m)
- Profit before tax of £0.41m (2008: £1.07m)
- Debt free and net cash funds of £5.11m
- Earnings per share 0.33p (2008: 0.87p)

Operational Highlights

- Deployments under contract increased in the period by 5% to 525
- Successful long term contract renewal of Apollo Cinemas and migration of Empire Cinemas to MovieLINE®
- Successful acquisition of Datadialogs Limited and cross selling of Eden technology into the customer base across all sectors
- Launch of 59R and Automation Agent applications with early adopters in place in core markets
- Initial sales through new partners Lagan and ONI

Mike Neville, Chairman of Telephonetics, commented:

"Telephonetics made reassuring progress over the last twelve months despite the very tough economic climate. The business has been strengthened by the combination of Datadialogs and continues to make good progress across both the public and private sectors. Our focus on fiscal discipline, customer service and profitable growth means that we are well positioned for any sustained recovery in the market."

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Chairman's statement

I am pleased to report to shareholders that we have made reassuring progress over the last twelve months despite the very tough economic climate. The recession has created many challenges which the business has managed to overcome thanks to its robust and compelling portfolio, its focus on its customers and the commitment of its staff.

During the period Group turnover increased by 6% to £10.51m (2008 - £9.95m). The premises-based product line increased revenues by 5% which in itself is a great achievement as IT purchasing decisions were delayed by customers seeking to mitigate their own risks because of the economy. In addition, Datadialogs, our newly acquired business solutions division, made a first time contribution to the top line of £0.55m. This is approximately 27% annualised growth over the division's pre-acquisition levels, and in light of the early stage development of the business is most pleasing.

Gross margin, which is a key focus for the business, was stable at 61% (2008 – 61%). Telephonetics has held firm to its core belief in the value and quality of its product offering. It has maintained this margin in the face of the difficult economic climate, the need for customers to save money, and despite the delaying of purchasing decisions. The resilience of the margin is a testament to the quality of our products and the quality of our people.

Costs were also monitored closely during the year, and this has paid its own dividends in terms of our overall results. This discipline will be maintained and ensures the Group is well positioned for a rebound in the economic climate.

Adjusted EBITDA was slightly down at £1.00m (2008- £1.15m) largely as a result of investment in core operating functions in the Datadialogs business.

The financial position of the Group continues to be robust: we are highly cash generative, have significant cash resources and negligible debt on the balance sheet. This position of strength, with the focus on maintaining financial security underpins the Group's ability to confidently invest in its technology, its staff and its customers.

Overall, our strategy of end to end customer interaction through packaged applications and technology continues to deliver increased value to our customers and our shareholders. Our unique offering is well aligned with the drivers in government funded organisations and is targeted at helping them achieve value for money.

In terms of customers, we have signed up over 20 new customers during this financial year and we now have over 500 systems deployed.

Finally, I would like to take this opportunity to thank all of our hard working staff for their commitment and dedication to the company and its customers. They are the lifeblood of the company and without their continued support we would not be in the strong position we are in today.

The business remains a leading UK provider of compelling business solutions, strengthened further by the combination of the Datadialogs technology with our existing voice and speech automation capabilities. I therefore believe, given our fiscal discipline, our appetite for excellent customer service, and our focus on profitable growth, that we are well positioned for any sustained recovery in the market.

Financial Review

Group turnover was £10.51m, an increase of 6% (2008 - £9.95m). This improved performance was due to a combination of factors including a first time contribution from newly acquired Datadialogs of £0.55m, and an uplift in support contract revenues by £0.32m which was offset by a reduction of £0.31m in revenues for MovieLINE®.

The Group made adjusted EBITDA of £1.00m (2008 - £1.15m), margins were lower as a result of investment costs in Datadialogs, following its acquisition in February 2009, of £0.25m and an increase in corporate expenses of £0.23m. This was partially compensated by improved EBITDA margin in the core Telephonetics business from 21% to 25%. Adjusted EBITDA is a performance measure used internally to manage the operations of the business and removes the impact of one off and non-cash items (see note 1 below for definition and reconciliation).

This adjusted EBITDA result, together with lower interest income of £0.18m and an increase in the charge for the amortisation of intangible assets of £0.20m, resulted in profit before tax of £0.41m (2008 - £1.07m) and earnings per share down 0.54p at 0.33p.

The Group continues to generate healthy cash flows and has a debt free balance sheet, other than a small loan of £13,000 acquired with the Datadialogs business. Cash generated from operating activities was £1.00m which was £0.80m lower than 2008 due to a lower interest rate gained on cash deposits in the period, investment costs incurred within the Datadialogs business and less favourable working capital timing differences.

Cash spent on investing activities totalled £1.27m (2008 - £0.44m) 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 £0.28m to £5.11m from £5.39m at 30 November 2008.

Operating Review

Market & Strategy

The business remains committed to its strategy of providing a complete solution for end-to-end customer interaction. Used appropriately, smart technology, such as our SEMAP+ platform, can transform this interaction at every stage of the process, delivering very significant benefits along the way in terms of improved service levels and increased efficiency. Our customers are keen to reap these benefits and maximise retention of their own customer base as part of their business strategies. In the private sector, the economic climate serves to increase the value inherent in repeat business and loyal customers. In the public sector, authorities are under pressure to deliver more to their citizens with less resource. Effective customer interaction is therefore clearly a vital component if these strategies are to be successful.

In the previous period we spent time and resources introducing our customer interaction solutions and automation agent model into our target markets and educating them in respect of the capabilities and associated technology. This work is reaping rewards in the current period as more customers are requesting assistance with their own business cases, having accepted the automation agent model and customer self-service as a key element of their overall strategy.

In local authorities, our solutions are now recognised as an important tool in order to help those organisations achieve their goals. There is an increasing appreciation that automated self-service solutions represent "The Fourth Channel" in terms of how they interact with their customers. Furthermore, using our flexible SEMAP+ technology, we are able to blend seamlessly self-service with the use of live agents to provide superior

service at reduced cost. We have seen significant growth in the level of interest in this important market and added seven new council customers including the London Borough of Lambeth, East Dunbartonshire Council and South Staffordshire County Council.

In order to further enhance our customer interaction capabilities, we launched our new automatic call distribution (“ACD”) product, the 59R Contact Centre suite. This built on our considerable experience in ACD and has been designed in-house, from the ground up, as an integral component of our intelligent SEMAP+ platform, alongside its other existing capabilities.

For contact centre supervisors 59R provides instant, real-time reporting using a highly interactive Web 2.0 browser-based interface, along with the ability to operate agents from disparate geographical locations. Callers to an organisation with 59R and our automation agents now benefit from increased and informed choices as to how their call is handled – for example, they can be told the current wait time for a suitably skilled member of staff and given the choice of holding or using the appropriate self-service speech application. This maximises customer choice and customer satisfaction whilst at the same time improving the service level of the organisation and reducing the cost per call. The system has been successfully deployed at a number of sites including Sandwell and West Birmingham NHS Trust, New Forest District Council and Warwickshire County Council.

Our careful focus on key strategic alliances continues. In the public sector we have enhanced our relationship with Lagan, the major CRM provider for UK and North American local authorities. Not only have we become a Silver Partner but more significantly this alliance has started bearing fruit with new customer wins at East Dunbartonshire Council and South Ayrshire Council.

In the health sector we have recently completed our integration with Blithe Systems’ Lillie product line. Blithe Systems is the UK’s leading provider of clinical management systems for sexual health. This work allows us to integrate our Result application, for managing patient sexual health tests, directly with a clinic’s back office systems.

Our suite of ContactPortal® applications in the acute health sector continues to go from strength to strength. Sales of our speech-driven call steering, which can replace switchboard operators, continues to expand both in terms of the number of customer sites deploying it and the number of existing customers upgrading their internally used solution for the benefit of external callers. Our track record in successfully delivering this product has helped us replace a competitor system by Nortel in a major London teaching hospital. Our multi-application platform capability remains a key competitive advantage and making complex self-service applications accessible in a pre-packaged form has been a continued focus. Use of advanced speech–recognition technology to provide new and enhanced services is also delivering real benefits for our customers and their users.

A recent example of this is the deployment of our latest Reporting application into an existing customer, Dacorum Borough Council. This “missed bin” application uses our latest name and address capture technology to identify a caller and allows them to report missed bin collections. Driven entirely by spoken voice, the application collects all the necessary information and then immediately submits a job into the customer’s back-end system to ensure their bin gets collected. Not only is this saving money for the local authority, but it is allowing customers to report missed bins at any time of the day or night, with knowledge that action is being taken at the earliest opportunity. We are therefore providing increased customer service, increased efficiency and effectiveness, and reduced costs – which we believe is a winning formula in the growing public sector market.

Our end-to-end customer interaction capabilities do not always completely replace direct human interaction. We recognise that there is a place for live agents, yet at the same time we can optimise the caller experience by using SEMAP+ as an adjunct to streamline the interaction process. Interflora is an example of just such a successful solution deployment. Interflora prefers to use live agents throughout the sales element of the process, however once the customer has chosen their goods and are ready to pay, the agent adds little value to the remainder of the call. At this stage, the live agent is able to pass the caller over to a "secure payment service" which handles the actual collection of the money, all achieved via a suitably skilled automation agent. Our web interface technology, recently built into the SEMAP+ platform, facilitates seamless transfer of data between the Interflora back-end systems and our automation agent, such that the entire transaction completes quickly, easily and securely. Interflora's own research has found this solution to be appreciated by customers.

Not only has this saved Interflora money and improved customer satisfaction, more importantly it has enabled their agents to focus more on selling rather than the mundane task of taking credit card details.

The Eden technology acquired as part of our recent transaction with Datadialogs also forms a key part of our end-to-end customer interaction strategy. This has allowed the business to look at much larger, more complex customer requirements, where there may be a need to retain older legacy systems, yet expose the data within. Interest continues in both public and private sectors for the special capabilities we can offer with Eden. A very successful recent deployment of Eden was into a major contact centre; this involved the production of a completely new and advanced CRM system to replace the customer's multitude of older legacy applications in a very short time frame, particularly given the large size of the project. The solution has enabled the customer to become Payment Card Industry (PCI) compliant and at the same time has significantly improved the ease of use and guidance for their telephone agents thus improving customer service.

Eden has now also been purchased by one of our MovieLINE[®] customers to mine data both from MovieLINE[®] and the customers' legacy retailing systems in order to provide insight into customer behaviour and so optimise the retail offerings to their customers.

Overall, our strategy of end-to-end customer interaction through packaged applications and technology into our core markets continues to deliver increasing value to our customers and our shareholders.

Acquisition of Datadialogs

Datadialogs was acquired in February 2009. Since then it has successfully signed up several new customers including Interserve and Dee Valley Water and is continuing its successful partnership with Civica, It has generated turnover in the period to 30 November 2009 of £0.55m. We have invested a significant amount of time and new resources into sales and marketing and as a result are pleased to note that annualised revenue in the post-acquisition period is 27% higher than that recorded in Datadialogs' last financial statements.

Adjusted EBITDA for the period showed a loss of £0.25m due to necessary new investment in core business functions which will allow for future growth and is expected to pay back in the financial year ended November 2011. The outlook for Datadialogs is promising with an increasing number of customers recognising the compelling proposition of this exciting technology.

The total consideration for the acquisition is now estimated at £1.50m comprising upfront cash already paid of £0.72m, transaction expenses of £0.12m and an estimated contingent consideration of £0.67m. The contingent consideration is based on an earn out arrangement of which: £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's shares 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, a provision for contingent consideration has been made for a share issue of £0.27m (2,654,945 shares at 10p per share) and cash payments of £0.47m recorded at a present value of £0.40m.

Premises-based revenues

Premises-based revenues increased by 15% to £7.21m from £6.27m. 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 of £0.55m together with higher support contract revenues, a result of continuing product sales to new and existing customers.

The number of deployments under contract increased in the period by 5% to 525 from 500 at the start of the year. The proportion of premises-based revenues generated by support contracts is 57% (2008: 58%).

We are continuing to do well in terms of growing our sales pipeline in our key markets of health and public sector. Our pipeline of selling opportunities in these verticals has grown by 38% since the start of the financial year. 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.

Hosted revenues

Hosted revenues, which are principally derived from our MovieLINE® product and used by 83% of the UK's major multiplex cinemas, decreased by 9% to £3.30m (2008: £3.61m). This is a combination of the 2008 result incorporating fees earned for a significant one-off professional services project of approximately £0.14m, together with call volumes reducing by 18% in the period which was partially offset by a better tariff from our telecommunication providers.

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® 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® booking service with a new call-centre operation also provided by Telephonetics.

Gross margin

Gross margin was stable at 61% (2008 – 61%). The lower margin MovieLINE® call volume related revenues constituted a lower proportion of sales and was, offset by an increase in non-cash amortisation charges for product related intangible assets.

Research and development

The Group continues to invest in its product development with total development expenditure including capitalised amounts of £1.09m (2008: £0.83m).

Sales and marketing expenses

Expenditure on sales and marketing, before amortisation of acquired customer relationship intangible assets, increased by £0.12m to £3.15m due to continued investment as we build expertise within the business and maximise the revenues and opportunities from our product portfolio.

General and administrative expenses

General and administrative expenses before restructuring costs and share-based payment expenses were up by £0.30m to £1.94m representing additional overhead in managing the Datadialogs business and increased directors' remuneration.

Outlook

As a supplier of choice in the growing health and public sector market, we continue to make good progress having signed major new customers in the period. Given our resilient trading position combined with the fact we are largely debt free, have significant cash funds and are focused on cost control, we look to the future with confidence.

Audited consolidated income statement for the year ended 30 November 2009

	2009	2008
	£'000	£'000
Revenue	10,510	9,951
Cost of sales	(4,081)	(3,865)
Gross profit	6,429	6,086
Operating expenses	(5,997)	(5,220)
Profit from operations	432	866
Profit from operations analysed as:		
Profit from operations before restructuring credit	432	786
Restructuring credit	-	80
	432	866
Finance expense	(44)	(3)
Finance income	25	208
Profit before tax	413	1,071
Tax expense	(58)	(120)
Profit for the year	355	951
Earnings per share		
Basic - pence	0.33	0.87
Diluted - pence	0.31	0.80

Audited consolidated balance sheet as at 30 November 2009

	2009 £'000	2008 £'000
Assets		
Non-current assets		
Property, plant & equipment	232	269
Intangible assets	12,807	11,093
Deferred tax assets	-	33
Total non-current assets	13,039	11,395
Current assets		
Inventories	161	335
Trade & other receivables	2,152	2,536
Cash & cash equivalents	5,114	5,389
Total current assets	7,427	8,260
Total assets	20,466	19,655
Liabilities		
Current liabilities		
Trade & other payables	4,754	5,149
Borrowings	13	-
Corporation tax	88	81
Provisions	202	6
Total current liabilities	5,057	5,236
Non-current liabilities		
Provisions	304	49
Deferred tax	74	-
Total non-current liabilities	378	49
Total liabilities	5,435	5,285
Net assets	15,031	14,370
Capital & reserves		
Share capital	1,091	1,090
Share premium	6,804	6,803
Shares to be issued	266	-
Reverse acquisition reserve	506	506
Merger reserve	4,951	4,951
Retained earnings	1,413	1,020
Total equity	15,031	14,370

Audited consolidated statement of changes in equity as at 30 November 2009

	Share capital £'000	Share premium £'000	Shares to be issued £'000	Reverse acquisition reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 December 2007	1,090	6,802	-	506	4,951	46	13,395
Profit for the year	-	-	-	-	-	951	951
Total recognised income and expense	-	-	-	-	-	951	951
Share based payment credit	-	-	-	-	-	23	23
Issue of share capital	-	1	-	-	-	-	1
Balance at 30 November 2008	1,090	6,803	-	506	4,951	1,020	14,370
Balance at 1 December 2008	1,090	6,803	-	506	4,951	1,020	14,370
Profit for the year	-	-	-	-	-	355	355
Total recognised income and expense	-	-	-	-	-	355	355
Shares to be issued	-	-	266	-	-	-	266
Share based payment credit	-	-	-	-	-	38	38
Issue of share capital	1	1	-	-	-	-	2
Balance at 30 November 2009	1,091	6,804	266	506	4,951	1,413	15,031

Audited consolidated cash flow statement for year ended 30 November 2009

	2009 £'000	2008 £'000
Cash flow from operating activities		
Profit for the year	355	951
Adjustments for:		
Depreciation	138	149
Loss on disposal of property, plant & equipment	-	18
Amortisation	391	188
Finance income	(25)	(208)
Finance expense	44	3
Share-based payment expense	38	23
Income tax expense	58	120
Operating cash flows before movements in working capital & provisions	999	1,244
Decrease/ (increase) in inventories	174	(86)
Decrease/ (increase) in trade and other receivables	559	(291)
(Decrease)/increase in trade and other payables	(670)	827
Increase/ (decrease) in provisions	10	(236)
Cash generated from operations	1,072	1,564
Interest paid	(5)	(3)
Interest received	25	208
Corporation tax (paid)/ reclaimed	(85)	34
Net cash flow from operating activities	1,007	1,803
Investing activities		
Purchase of property, plant & equipment	(88)	(114)
Development expenditure	(283)	(216)
Purchase of other intangible assets	(83)	(113)
Acquisition of subsidiary, net of cash acquired	(813)	-
Net cash used in investing activities	(1,267)	(443)
Financing activities		
Repayment of bank loans	(13)	-
Repayment of finance leases	(3)	-
Issue of ordinary shares	1	1
Net cash (used in)/ from financing activities	(15)	1
Net (decrease)/ increase in cash & cash equivalents	(275)	1,361
Cash & cash equivalents at the beginning of the year	5,389	4,028
Cash & cash equivalents at the end of the year	5,114	5,389

Notes to the financial information for the year ended 30 November 2009

1. Basis of preparation

The financial information set out in these preliminary results does not constitute the company's statutory accounts for 2008 or 2009.

Statutory accounts for the years ended 30 November 2009 and 30 November 2008 have been reported on by the Independent Auditors. The Independent Auditors' Report on the Annual Report and Financial Statements for 2008 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 237(2) or 237(3) of the Companies Act 1985. The Independent Auditors' Report on the Annual Report and Financial Statements for 2009 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

Statutory accounts for the year ended 30 November 2008 have been filed with the Registrar of Companies. The statutory accounts for the year ended 30 November 2009 will be delivered to the Registrar in due course.

The financial information set out in these preliminary results has been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively Adopted IFRSs). The accounting policies adopted in this results announcement have been consistently applied to all the years presented and are consistent with the policies used in the preparation of the statutory accounts for the period ended 30 November 2009.

Copies of the Annual Report & Accounts will be posted to shareholders on 24 March 2010. Further copies of this announcement can be downloaded from the website www.telephonetics.co.uk or by applications to The Company Secretary, Telephonetics Plc, Hamilton House, Marlowes, Hemel Hempstead, HP1 1BB.

2. Segmental analysis

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

	<u>Revenue</u>		<u>Segment EBITDA</u>	
	2009	2008	2009	2008
	Audited	Audited	Audited	Audited
	£'000	£'000	£'000	£'000
Telephonetics	9,960	9,951	2,442	2,110
Datadialogs	550	-	(245)	-
Total	10,510	9,951	2,197	2,110
Central administration			(1,198)	(964)
Adjusted EBITDA			999	1,146
Depreciation			(138)	(149)
Amortisation of intangible assets			(391)	(188)
Share based payment charges			(38)	(23)
Restructuring credit			-	80
Net interest			(19)	205
Profit before tax			413	1,071

All of the segment revenue reported above is from external customers. Segment EBITDA 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 quoted 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:

	2009 Audited £'000	2008 Audited £'000
Total assets		
Telephonetics	16,441	16,728
Datadialogs	1,778	-
Head office	3,118	3,458
Inter-segment eliminations	(871)	(531)
	20,466	19,655
Total liabilities		
Telephonetics	4,753	5,192
Datadialogs	1,038	-
Head office	515	624
Inter-segment eliminations	(871)	(531)
	5,435	5,285
Net assets	15,031	14,370

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. Operating expenses

	2009 Audited £'000	2008 Audited £'000
Operating expenses are analysed as:		
Research & development	807	610
Sales & marketing	3,209	3,026
Analysed as:		
Sales & marketing before amortisation of acquired customer list	3,148	3,026
Amortisation of acquired customer list	61	-
	3,209	3,026
General & administration	1,981	1,584
Analysed as:		
General & administration before share based payment expense and restructuring credit	1,943	1,641
Share based payment expense	38	23
Restructuring credit ⁽¹⁾	-	(80)
	1,981	1,584
	5,997	5,220

⁽¹⁾ In May 2008 the Group reorganised its leasehold property and terminated various leases earlier than expected, as a result £80,000 of the vacant property provision was surplus and has been credited back to the income statement in the period ended 31 May 2008.

4. Earnings per share

Earnings per ordinary share have been calculated using the weighted average number of shares in issue during the relevant financial periods. The weighted average number of equity shares in issue is 109,055,179 (2008 – 109,010,585) and the earnings used is profit after tax being £355,000 (2008 - £951,000).

	2009 Audited Number	2008 Audited Number
Reconciliation of denominator:		
Weighted average number of shares used for the calculation of basic earnings per share	109,055,179	109,010,585
Effect of dilutive ordinary shares options being exercised	4,424,332	9,741,928
Weighted average number of shares used for the calculation of diluted earnings per share	113,479,511	118,752,513

5. Acquisition of Datadialogs

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

Analysis of assets and liabilities acquired:

	Book value £'000	Fair value adjustment £'000	Fair value on acquisition £'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	(263)	(12)	(275)
Borrowings	(18)	-	(18)
Obligations under finance leases	(3)	-	(3)
<i>Non-current liabilities</i>			
Borrowings	(8)	-	(8)
Provisions	(2)	-	(2)
Deferred tax	-	(142)	(142)
	(83)	586	503
Goodwill on acquisition			999
Consideration paid			1,502
<i>Consideration analysed as:</i>			
Cash			720
Contingent consideration – shares to be issued			266
Contingent consideration - cash			400
Transaction expenses			116
			1,502
<i>Net cash outflow on acquisition:</i>			
Total purchase consideration			1,502
Less: contingent consideration			(666)
Consideration paid in cash			836
Less: cash and cash equivalents acquired			(23)
			813

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 account 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 £207,000 credit to deferred tax has been made to record the liability arising on these intangible assets together with a £62,000 debit to recognise carried forward tax losses at the point of acquisition.

A £12,000 credit to trade & other payables has been made to record an opening holiday pay accrual in line with the Group's accounting policy together with a related £3,000 debit to deferred tax.

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 that 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 £265,495 (2,654,945 shares at 10p per share) and cash payments of £465,000 recorded at a present value of £400,000. This estimate is based on the most recent financial forecast for the business and is different to that reported in the Group's interim report issued in August 2009.

Impact of acquisition on the results of the Group

Included in the profit for the period is a loss of £0.49m attributable to Datadialogs Ltd (comprising a trading loss £0.25m, amortisation of acquired intangibles £0.19m and implied interest on contingent consideration £0.04m). Had this business combination been effected on 1 December 2008, the revenue of the Group from continuing operations attributable to Datadialogs would have been £0.61m and the loss for the period from continuing operations of Datadialogs would have been £0.56m (comprising a trading loss £0.29m, amortisation of acquired intangibles £0.23m and implied interest on contingent consideration £0.04m). The directors of the Group consider these 'pro-forma'

numbers to represent an approximate measure of performance of the combined group on an annual basis and to provide a reference point for comparison in future periods.