Craneware

Craneware plc
(“Craneware” or the “Company”)
FINAL RESULTS

6 September 2010 - Craneware plc (AIM: CRW.L; OTC: CRWRY), the market leader in automated revenue integrity solutions for the US healthcare market, announces its results for the year ended 30 June 2010.

Financial Highlights

- Record levels of contracted sales in the year totalling $58.1m (2009: $43.2m), 34% up on the previous year, contributing to:
  - 23% increase in revenues to $28.4m (2009: $23.0m)
  - 49% increase in future revenues under contract to $89.8m (2009: $60.1m)
- EBITDA increased 31% to $7.6m (2009: $5.8m)
- Profit before taxation increased by 24% to $7.3m (2009: $5.9m)
- Cash position increased 13% to $29.4m after paying dividends of $3m in year (2009: $26.1m)
- Basic EPS increased to $0.22 (2009: $0.18) and diluted to $0.21 (2009: $0.17)
- Final dividend proposed of 3.3p (4.94 cents) per share giving a total dividend for the year of 8.0p (11.99 cents) per share (2009: 4.7p (7.43 cents) per share)

Operational Highlights

- Launch and first sales of fifth product, Supplies ChargeLink™.
- Significant investment in sales and marketing capacity during the year.
- Strengthened market position through signing in the year of two significant partnerships with Premier Healthcare Alliance and McKesson Corporation.
- Signing of several major multi-site contracts, including with Intermountain Healthcare, described by President Obama and other U.S. leaders as ‘a model for the rest of the nation.’

Keith Neilson, CEO of Craneware commented:

“Whilst this has been a record year for sales, perhaps more significant has been the investment we have made in the business over the year. We have increased our sales team, expanded our network of alliances and enhanced our product set and customer offering.

“The U.S. healthcare industry is starting to debate the early effects of the reforms which were outlined in January 2010 and will gradually be introduced over the next eight years, meaning the drivers for growth in coming years could be yet higher than those which we have experienced this year. Our focus on the mitigation of risk for our customers, and the delivery of financial and operational efficiencies means we are extremely well positioned to benefit from the unprecedented changes we expect to see in healthcare in the U.S., no matter the final form of healthcare reform.

“These factors, plus the $89.8m of revenues we currently have under contract for future years gives us high levels of confidence in our success in the years ahead. With industry leading product sets and an enviable customer base our focus now will be on achieving operational excellence and providing the next generation of solutions to help with the challenges of healthcare reform that face our customers.”

For further information, please contact:

Craneware plc	**KBC Peel Hunt**	**Threadneedle Communications**
+44 (0)1506 407 666	+44 (0)20 7418 8900	+44 (0) 20 7653 9850
Keith Neilson, CEO	Jonathan Marren	Caroline Evans-Jones
Craig Preston, CFO	Richard Kauffer	Fiona Conroy
	Dan Webster	

About Craneware

Founded in 1999, Craneware has headquarters in Livingston, Scotland with offices in Atlanta and Arizona, employing over 140 staff. Craneware is the leader in automated revenue integrity solutions that improve financial performance and mitigate risk for healthcare organisations. Craneware's market-driven, annuity SaaS solutions help hospitals and other healthcare providers more effectively price, charge and code for services and supplies associated with patient care. These optimise reimbursement, increase operational efficiency and minimise compliance risk. By partnering with Craneware, clients achieve the visibility required to identify, address and prevent revenue leakage. To learn more, visit craneware.com & stoptheleakage.com.

Chairman's Statement

Craneware has enjoyed another excellent year, delivering record sales and developing the foundations for continued success. With contracted sales growth of 34%, recorded revenues and profits have both grown by over 20%. Importantly we now have over $89m of contracted revenue, an increase of 48%, to be recognised in future years, providing us with excellent visibility for several years ahead. The planned investment in the infrastructure of the business continues to increase its scalability and our market position has been significantly strengthened through several key alliances with some of the world's largest healthcare organisations.

While uncertainty prevails regarding the final form of U.S. healthcare reforms, what is certain is that healthcare organisations are seeking ways to increase efficiencies whilst still providing high levels of patient care. This is at the heart of the Craneware offering and I believe our best of breed products and our commitment to supporting our customers in meeting the increasing pressures being placed upon them, is the foundation of our success.

This has been a record sales year for Craneware, however the Board believes that the full effect of healthcare reforms and the U.S. Stimulus package is yet to flow through and will have a greater impact in future years, presenting some significant new growth opportunities for the Company. For instance, tools previously developed specifically for current hospital customers who own physician practices are seeing increased demand from the wider market as a result of an anticipated trend of hospitals moving back into the ownership of physician practices.

Craneware's network in the U.S. healthcare market has been considerably strengthened during the year, with two of the largest organisations in the market, McKesson and Premier, formalising partnerships with us. Not only does this provide us with an enhanced route to market, but is also a compelling endorsement of Craneware's valuable position at the heart of our marketplace.

We have invested significantly in our direct sales teams during the year, bringing on board additional product and client managers across the U.S. We have also opened a new office in Atlanta on 1st July, giving us a presence at the hub of the U.S. healthcare industry. We are confident that we are currently well resourced and have the means to achieve significant scale in the years ahead, both organically and through acquisition.

We have been pleased with the initial response to our newly launched Supplies ChargeLink and are on course to launch our sixth product, Value-based Pricing Analyzer, at the end of the calendar year. We have a strong portfolio of both established and new products and are pleased to have seen the average number of products per customer increase during the year from 1.4 to 1.6.

The strength of our customer base, the quality of our products and the developments taking place in U.S. healthcare gives the Board confidence that we have many years of growth ahead.

I would like to thank all the Craneware team, partners and particularly customers for their continued support.

George Elliott
Chairman
3 September 2010

Operational Review

This has been an extremely positive year for Craneware. We have invested considerable efforts in developing the scalability of the business and expanding our position in the marketplace. Throughout the year we have maintained our market focus and believe both our ability to mitigate risk and drive through efficiencies continues to earn loyalty from our expanding customer base. We are confident therefore that we are in an extremely strong position in terms of products and customers and our focus in the year ahead will be on continued improvement seeking operational excellence.

We are delighted to have signed several significant deals during the year with some of the U.S.'s leading hospital systems including Intermountain Healthcare, which has been described by President Obama and other U.S. leaders as a model for the rest of the nation. We view our interaction with each customer as a long-term partnership and this year we have increased the level of training and support we offer to all our customers in order to ensure they receive high levels of value and return on investment from our products. We believe this customer focus is vital for our continued success and is an area in which we will continue to invest.

The investment in our sales and marketing capabilities and U.S. infrastructure over the year has been transformational, preparing us for the next stage of development. With these first steps now complete we are now in a position to build on our current partnership agreements, seek further alliances and enhance our go-to-market strategy through selective acquisitions.

The Market

President Obama's healthcare reforms mean that by 2014 it is estimated approximately 40 million U.S. citizens who are currently uninsured will become eligible for healthcare assistance through the state and federal Medicare and Medicaid programmes. While the final form of the legislation is yet to be decided, what is clear is that hospitals will be required to provide healthcare facilities and services to an increasing number of patients, at a lower level of reimbursement per individual. Efficiency and return on investment, two of the main business drivers behind Craneware's product families, are now therefore areas of paramount importance to management teams when making their buying decisions.

$25.8 billion of funds within the American Recovery and Reinvestment Act announced in February 2009 were allocated to the U.S. healthcare industry. However the rules by which healthcare organisations can apply for the funds are only now coming into effect. Capital expenditure by hospitals in general during the year therefore remained at a low level, impacted by the global economic conditions. The effect of this constrained expenditure on Craneware has been minimised as our software generally sits within operational budgets, however it may well prove that as more funds flow into hospitals we will see a general upswing in the market and direct benefits to our partners such as McKesson.

The introduction of Revenue Audit Contractors as of 1st January 2010 has generated some movement in our market place, but as previously stated we believe the real impetus from this will come in 2011 and 2012.

Another encouraging development during the year, a result of the healthcare reforms, has been some early evidence of a reversal of a previous trend, which saw hospitals moving away from the ownership of physician practices. The apparent shift in this trend could mean a reopening of a significant additional marketplace which Craneware would be well positioned to service through its physician based products which were developed for the large hospital owned physician practices and have been kept current for the installed customer base that despite previous wider market trends, retained their physician groups.

It is evident that the U.S. healthcare market is only at the very first stages of reform. Regardless of the various options that the reform may take, the Board believes Craneware is well-placed to meet the growing needs of its customers and become the technology vendor of choice to deliver revenue integrity to healthcare organisations.

Sales and Marketing

As planned, this year saw the continued accelerated investment into our sales and marketing capabilities. We have added new sales distribution staff, including client sales managers, assistant sales managers and additional telephone support. Our new office opened in Atlanta just following the close of the year, on 1st July and will be home to our training facilities. This is a focal centre for our U.S. operations, positioning us in the heart of the U.S. healthcare industry.

We have now substantially completed the restructuring of our sales team, which has increased by 37% since the start of the year. We have been pleased by a strong sales performance during the year delivering a record $58.1m of contracted sales (an increase of 34% on 2009: $43.2m) and have every reason to believe we can improve on this in the years ahead.

The average length of new contracts has stabilised as predicted at approximately 5 years.

We believe the opportunity for further cross-sales from our enlarged product set to be significant. With less than 40% of our current hospital base having more than two products we expect to see this momentum maintained in the coming years as we continue with our cross-sell marketing initiatives.

Internally Craneware is targeting a revenue split of no more than 50% from any one product by the start of FY14 (1 July 2013) and is confident that it is achieving the correct additional balance of non-chargemaster sales to achieve this.

Product Development

Craneware continues to invest in product development to further its position as the vendor of choice for solutions which sit in and around the point where clinical data turns into financial data.

This year saw the successful launch of Supplies ChargeLink, a new product in our Supply Management family. Early sales have met management's expectations and are in line with the early successes of the other products we have launched post-IPO. We believe the potential market for this product to be significant, with more than half of US hospitals believing they are not fully reimbursed for their supplies and over three-quarters having no automated process to attempt to do so. We have been pleased with the initial market response to the product following its launch in December 2009.

We intend for new product momentum to continue through the remainder of 2010, with the launch of our sixth product, Value-based Pricing Analyzer which is part of the Strategic Pricing family, planned for Q4 of the current calendar year.

Again, we believe the market opportunity for this product to be significant. Replacing consultants and manual processes, Value-based Pricing Analyzer helps hospitals more effectively, accurately and sustainably manage their pricing strategies for drugs and supplies, optimising their financial performance while making strategic decisions in both a transparent and defensible manner. Customers can use Value-based Pricing Analyzer to balance the reimbursement, cost and market considerations that drive pricing. The tool allows hospitals to create multiple pricing scenarios detailed down to the service level, or aggregated to the facility or care network as a whole. The product is anticipated to start contributing towards revenue by the end of calendar 2010.

Customers

Well over 1,000 hospital facilities across 48 States utilise one or more of our software products. We continue to sign up a broad range of customers in terms of size from small community hospitals to some of the largest healthcare networks such as Intermountain Healthcare and North Shore-LIJ.

In response to customer feedback we introduced a training and certification programme in our products during the year and our user groups now carry official CPE (Continuing Professional Education) certification. We also extended our online classroom tools to include branded certification in the usage and implementation of our software and the environment that it goes into, with the first accreditation certificates awarded to customers who have successfully completed courses.

We were delighted that during the year not only was our core product, Chargemaster Toolkit® once again awarded the number one position in its category by the prestigious U.S. industry research house KLAS, but we succeeded in increasing our scores year on year, reaffirming our number one position in the industry and our focus on customer commitment. We were particularly pleased to see that 97% of respondents highlighted Craneware as being part of their long-term strategy.

For customers coming to the end of their multi-year contracts, renewal rates remain in line with the high levels achieved in previous years.

Channel Partners

We have made considerable progress in the year in strengthening our partnerships; these enhance our go to market strategy and provide a strong endorsement of Craneware's central position in the U.S. Healthcare IT market.

At the start of the financial year we signed a third party agreement with McKesson the world's largest healthcare services company, to integrate Craneware's Chargemaster Toolkit® software with McKesson's next generation hospital information system (HIS), Horizon Enterprise Revenue Management™ as part of their ongoing legacy system replacement and upgrading programme. By integrating the two solutions, McKesson and Craneware are delivering a synchronised approach to achieving revenue integrity, which aids hospitals in improving their financial performance.

Early sales through the partnership have all been delivered to plan, with a healthy pipeline for the future.

Beyond the Horizon system we have developed, and are in the process of developing further, direct interfaces to the main McKesson legacy systems (Star, HealthQuest & the Series range), meaning current customers of McKesson will be able to easily implement integrated Craneware products in the future.

In April 2010 we were pleased to announce the expansion of our relationship with the Premier healthcare alliance. The new deal between Craneware and Premier is a five-year reseller agreement, with a minimum value of $15 million. Premier has begun marketing our solutions to its 2,300 not-for-profit hospital alliance members and we have been pleased by the strong commitment shown by both parties in creating a successful partnership. All the initial deliverables under the agreement have been successfully completed and we are actively seeking opportunities for further expansion of the agreement going forward.

Partnerships are an important part of the future development of Craneware and we will continue to invest time and resource into expanding this area.

Financial Review

The financial results represent a further year of strengthened financial performance. Craneware has delivered another record sales year increasing the total value of contracts signed (our sales) during the year by 34% to $58.1m (2009: $43.2m), whilst continuing to invest for further future success.

Craneware recognises revenue through its annuity revenue recognition model. This model sees software licence revenue recognised over the life of the contracts we sign (which during the year has remained stable at an average contract life of 5 years), with any associated professional services revenue recognised as we deliver the services. As a result of this revenue recognition model, the maximum value of an average contract that can be recognised as revenue in the current year is 20% plus the value of associated professional services that have been delivered.

This model has delivered the benefit of significant yet steady revenue growth during the year, whilst further building the already sizeable revenues under contract which will be recognised in future years. This highly predictable future revenue stream allows us to invest in the future of our business whilst delivering year on year increases in our operating margins.

As a result of this recognition model, against our 34% increase in total contracts signed during the year, we have increased our reported revenues by 23% to $28.4m (2009: $23.0m), the balance of these sales increasing our future revenues under contract. This now provides Craneware with visibility over $89.8m of future revenue (representing over 3 times current year reported revenues and an increase of 49% or $29.7m over fiscal 2009). Of this future revenue under contract we have already invoiced $13.9m which is recorded as deferred income in the balance sheet, the remaining $75.9m to be invoiced in subsequent years.

Of this $89.8m of future revenue, the directors consider that $25.7m will be recognised during FY11 with a further $19.7m and $15.4m respectively to be recognised in FY12 and FY13. In addition, assuming as has happened in the year, the total monetary value of renewed contracts is at least equal to the total monetary value of contracts that were due to renew, $2.7m revenues will be recognised from renewal activity during FY11, with a further $7.6m and $11.9m respectively in FY12 and FY13 relating to contracts due for renewal from 1 July 2010 through these years.

We have continued our planned investment during the year, increasing our sales and marketing spend by 16% to $7.1m (2009: 6.1m) and product development by 28% to $3.8m after capitalising $0.5m of costs relating to new products (2009: $3.0m after capitalising $0.6m of costs relating to new products). Through these investments and the full year effect of our investment in product management and marketing made in the prior year, net operating expenses have risen to $18.8m (2009: $16.3m). However, as a proportion of revenues, net operating expenses have reduced to 66% from 71% in FY09.

In regards to customers coming to the end of their multi-year contracts, the Company's renewal rate remains within the high levels achieved in previous years. This combined with increased upsell and cross selling to the renewing hospital base, has resulted in the total monetary value of the current year renewals increasing by 115% as compared to the original annuity revenue value to the Company.

As a result of all these factors, earnings before interest, taxation, share based payments, depreciation, and amortisation ("EBITDA") has increased 31% to $7.6m (2009: $5.8m) and the associated EBITDA margin has increased to 26.8% (2009: 25.3%).

We continue to measure the quality of these earnings through our ability to convert them into operating cash. We are pleased to report that for the second successive year we have collected more than 100% of our EBITDA as operating cash. This has resulted in the Group's cash balance increasing to $29.4m (2009: $26.1m) despite, during the year, having paid over $2.0m in taxation and returning $3.0m to our shareholders by way of dividend payments.

The Group maintains a strong balance sheet position, not only through our significant cash balance but with rigorous controls over working capital. At 30 June 2010 we have seen an increase in our net trade receivables balance increasing to $7.1m from $4.0m in the prior year. This has been the result of the increase in sales during the year and some significant invoice milestones having been reached on a number of the large contracts we have previously announced. This increase in trade receivables has resulted in an expected corresponding increase in our deferred income balance. As at the balance sheet date, $5.4m of the trade receivables balance was not yet due, and since the balance sheet date we have collected $4.1m of the total balance.

With the reporting currency (and cash reserves) of the Company being in US Dollars, and approximately one third of the cost base being based in the UK relating primarily to our UK employees (and therefore denominated in Sterling) we continue to closely monitor the Sterling to US Dollar exchange rate, and where appropriate consider hedging strategies. During the year, we have not seen a significant impact through exchange rate movements, with the average exchange rate throughout the year being $1.5821 as compared to $1.6142 in the prior year.

Dividend

Basic and diluted earnings per share were $0.22 (2009: $0.18) and $0.21 (2009: $0.17) respectively and the Board recommends a final dividend of 3.3p (4.94 cents) per share giving a total dividend for the year of 8.0p (11.99 cents) per share (2009: 4.7p (7.43 cents) per share). Subject to confirmation

at the Annual General Meeting, the final dividend will be paid on 8 December 2010 to shareholders on the register as at 12 November 2010.

The final dividend of 3.3p per share is capable of being paid in US dollars subject to a shareholder having registered to receive their dividend in US dollars under the Company's Dividend Currency Election, or who register to do so by the close of business on 12 November 2010. The exact amount to be paid will be calculated by reference to the exchange rate to be announced on 12 November 2010. The final dividend referred to above in US dollars of 4.94 cents is given as an example only using the balance sheet exchange rate of 1.4961/ £1 and may differ from that finally announced.

M&A

The Board has evaluated a number of M&A opportunities throughout the course of the year but to date has not concluded on an opportunity that would have been sufficiently accretive to merit investment. We continue to have a healthy pipeline of new opportunities which we are evaluating.

Outlook

Whilst this has been a record year for sales, perhaps more significant has been the investment we have made in the business over the year. We have increased our sales team, expanded our network of alliances and enhanced our product set and customer offering.

The U.S. healthcare industry is starting to debate the early effects of the reforms which were outlined in January 2010 and will gradually be introduced over the next eight years, meaning the drivers for growth in coming years could be yet higher than those which we have experienced this year. Our focus on the mitigation of risk for our customers, and the delivery of financial and operational efficiencies means we are extremely well positioned to benefit from the unprecedented changes we expect to see in healthcare in the U.S., no matter the final form of healthcare reform.

These factors, plus the $89.8m of revenues we currently have under contract for future years gives us high levels of confidence in our success in the years ahead. With industry leading product sets and an enviable customer base our focus now will be on achieving operational excellence and providing the next generation of solutions to help with the challenges of healthcare reform that face our customers.

Keith Neilson
Chief Executive Officer
3 September 2010

Craig Preston
Chief Financial Officer
3 September 2010

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2010

	Notes	2010 $'000	2009 $'000
Revenue		**28,397**	22,993
Cost of sales		**(2,553)**	(1,381)
Gross profit		**25,844**	21,612
Net operating expenses	3	**(18,781)**	(16,262)
Operating profit		**7,063**	5,350

Analysed as:			
Operating profit before share based payments, depreciation and amortisation		**7,622**	5,812
Share based payments		**(114)**	(82)
Depreciation of plant and equipment		**(192)**	(204)
Amortisation of intangible assets		**(253)**	(176)

	Notes	2010 $'000	2009 $'000
Finance income		**195**	520
Profit before taxation		**7,258**	5,870
Tax charge on profit on ordinary activities	4	**(1,733)**	(1,422)
Profit for the year		**5,525**	4,448

The results relate to continuing operations.

Earnings per share for the period attributable to equity holders

	Notes	2010	2009
Basic ($ per share)	6a	**0.218**	0.177
Diluted ($ per share)	6b	**0.210**	0.170

Statement of Changes in Equity for the year ended 30 June 2010

Group	Share Capital $'000	Share Premium Account $'000	Other Reserves $'000	Retained Earnings $'000	Total $'000
At 1 July 2008	509	9,253	3,041	3,296	16,099
Share-based payments	-	-	82	211	293
Losses	-	-	-	(248)	(248)
Options exercised	3	(3)	-	-	-
Retained profit for the year	-	-	-	4,448	4,448
Dividends (Note 5)	-	-	-	(1,917)	(1,917)
At 30 June 2009	512	9,250	3,123	5,790	18,675
Share-based payments	-	-	114	730	844
Options exercised	-	-	-	-	-
Retained profit for the year	-	-	-	5,525	5,525
Dividends (Note 5)	-	-	-	(2,992)	(2,992)
At 30 June 2010	**512**	**9,250**	**3,237**	**9,053**	**22,052**

Consolidated Balance Sheet as at 30 June 2010

	Notes	**2010 $'000**	2009 $'000
ASSETS			
Non-Current Assets			
Plant and equipment		**281**	345
Intangible assets	7	**1,474**	1,206
Deferred tax		**1,521**	718
Trade and other receivables		**-**	25
		3,276	2,294
Current Assets			
Trade and other receivables		**8,596**	5,187
Cash and cash equivalents		**29,442**	26,169
		38,038	31,356
Total Assets		**41,314**	33,650
EQUITY AND LIABILITIES			
Non-Current Liabilities			
Deferred income		**218**	124
		218	124
Current Liabilities			
Deferred income		**13,660**	10,964
Trade and other payables		**5,384**	3,887
		19,044	14,851
Total Liabilities		**19,262**	14,975
Equity			
Called up share capital	8	**512**	512
Share premium account		**9,250**	9,250
Other reserves		**3,237**	3,123
Retained earnings		**9,053**	5,790
Total Equity		**22,052**	18,675
Total Equity and Liabilities		**41,314**	33,650

Statements of Cash Flows for the year ended 30 June 2010

	Notes	Group		Company	
		2010	2009	**2010**	2009
		$'000	$'000	**$'000**	$'000
Cash flows from operating activities					
Cash generated from operations	9	**8,906**	7,378	**8,572**	6,145
Interest received		**195**	520	**195**	520
Tax paid		**(2,188)**	(202)	**(966)**	(464)
Net cash from operating activities		**6,913**	7,696	**7,801**	6,201
Cash flows from investing activities					
Purchase of plant and equipment		**(127)**	(134)	**(37)**	(78)
Capitalised intangible assets		**(521)**	(588)	**(518)**	(583)
Net cash used in investing activities		**(648)**	(722)	**(555)**	(661)
Cash flows from financing activities					
Dividends paid to company shareholders	5	**(2,992)**	(1,917)	**(2,992)**	(1,917)
Net cash used in financing activities		**(2,992)**	(1,917)	**(2,992)**	(1,917)
Net increase in cash and cash equivalents		**3,273**	5,057	**4,254**	3,623
Cash and cash equivalents at the start of the year		**26,169**	21,112	**23,959**	20,336
Cash and cash equivalents at the end of the year		**29,442**	26,169	**28,213**	23,959

Notes to the Financial Statements

General Information

Craneware plc (the Company) is a public limited company incorporated in Scotland. The Company has a primary listing on the AIM stock exchange.

Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS), IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historic cost convention. A summary of the more important accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year, if applicable.

The preliminary announcement for the year ended 30 June 2010 does not constitute statutory accounts as defined in Section 435 of the UK Companies Act 2006. PricewaterhouseCoopers LLP have audited the consolidated statutory accounts for the Group for the years ended 30 June 2009 and 30 June 2010 and the reports were unqualified and did not contain a statement under Section 498(2) or (3) of the UK Companies Act 2006. The Group's consolidated statutory accounts for the year ended 30 June 2009 have been filed with the Register of Companies. The Group's Annual Report and Accounts for the year ended 30 June 2010 will be dispatched to shareholders by the date that the final dividend is payable.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The Company and its subsidiary undertaking are referred to in this report as the Group.

1. Selected principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below. These policies have been consistently applied, unless otherwise stated.

Reporting currency

The Directors consider that as the Group's revenues are primarily denominated in US dollars the principal functional currency is the US dollar. The Group's financial statements are therefore prepared in US dollars.

Currency Translation

Transactions denominated in foreign currencies are translated into US dollars at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities expressed in foreign currencies are translated into US dollars at rates of exchange ruling at the balance sheet date $1.4961/£1 (2009 : $1.6452/£1). Exchange gains or losses arising upon subsequent settlement of the transactions and from translation at the balance sheet date, are included within the related category of expense where separately identifiable, or in general and administrative expenses.

Revenue recognition

The Group follows the principles of IAS 18, "Revenue Recognition", in determining appropriate revenue recognition policies. In principle revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow into the Group.

Revenue comprises the value of software license sales, professional services (included installation), support services and distribution agreements. Revenue is recognised when (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the sales price has been fixed and determinable; and (iv) collectability is reasonably assured.

For software arrangements with multiple elements, revenue is recognised dependent on whether vendor-specific objective evidence ("VSOE") of fair value exists for each of the elements. VSOE is determined by reference to sales to external customers made on a stand-alone basis. Where there is no VSOE revenue is recognised rateably over the full term of each contract.

Revenue from standard license products which are not modified to meet the specific requirements of each customer is recognised when the risks and rewards of ownership of the product are transferred to the customer, which generally is over the period of the underlying contract.

Revenue from professional services, including consulting, is recognised as the applicable services are provided, and from consulting engagements when all obligations under the consulting agreement have been fulfilled.

Software and distribution agreement with third parties are recognised in accordance with the underlying contractual agreements. Where separate services are delivered, revenue is recognised on delivery of the service.

The excess of amounts invoiced and future invoicing over revenue recognised is included in deferred Income. If the amount of revenue recognised exceeds the amounts invoiced the excess amount is included within accounts receivable.

Intangible Assets – Research and Development Expenditure

Expenditure associated with developing and maintaining the Group's software products are recognised as incurred. Where, however, new product development projects are technically feasible, production and sale is intended, a market exists, expenditure can be measured reliably, and sufficient resources are available to complete such projects, development expenditure is capitalised until initial commercialisation of the product, and thereafter amortised on a straight-line basis over its estimated useful life. Staff costs and specific third party costs involved with the development of the software are included within amounts capitalised.

Impairment Tests

The Group considers whether there is any indication that non-current assets are impaired on an annual basis. If there is such an indication, the Group carries out an impairment test by measuring the assets' recoverable amount, which is the higher of the assets' fair value less costs to sell and their value in use. If the recoverable amount is less than the carrying amount an impairment loss is recognised.

Taxation

The charge for taxation is based on the profit for the period and takes into account deferred taxation. Taxation is computed using the liability method. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted rates and laws that will be in effect when the differences are expected to reverse. The deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will arise against which the temporary differences will be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities arising in the same tax jurisdiction are offset.

In the UK and the US, the Group is entitled to a tax deduction for amounts treated as compensation on exercise of certain employee share options under each jurisdiction's tax rules. As explained under "Share-based payments" below, a compensation expense is recorded in the Group's statement of comprehensive income over the period from the grant date to the vesting date of the relevant options. As there is a temporary difference between the accounting and tax bases a deferred tax asset is recorded. The deferred tax asset arising is calculated by comparing the estimated amount of tax deduction to be obtained in the future (based on the Company's share price at the balance sheet date) with the cumulative amount of the compensation expense recorded in the statement of comprehensive income. If the amount of estimated future tax deduction exceeds the cumulative amount of the remuneration expense at the statutory rate, the excess is recorded directly in equity against retained earnings.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held with banks and short term highly liquid investments. For the purpose of the cash flow statement, cash and cash equivalents comprise of cash on hand, deposits held with banks and short term high liquid investments.

Share-Based Payments

The Group grants share options to certain employees. In accordance with IFRS 2, "Share-Based Payments" equity-settled share-based payments are measured at fair value at the date of grant. Fair value is measured by use of the Black-Scholes pricing model as appropriately amended. The fair value determined at the date of grant of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

The share-based payments charge is included in net operating expenses and is also included in 'Other reserves'.

2. Critical accounting estimates and judgements

The preparation of financial statements in accordance with generally accepted accounting principles requires the directors to make critical accounting estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying value of assets and liabilities within the next financial year are discussed below:-

- **Provision for impairment of trade receivables**:- the Group assesses trade receivables for impairment which requires the directors to estimate the likelihood of payment forfeiture by customers.

- **Revenue recognition**:- the Group assesses the economic benefit that will flow from future milestone payments in relation to sub-licensing partnership arrangements. This requires the directors to estimate the likelihood of the Group, its partners, and sub-licensees meeting their respective commercial milestones and commitments.

- **Capitalisation of development expenditure:-** the Group capitalises development costs provided the conditions laid out previously have been met. Consequently the directors require to continually assess the commercial potential of each product in development and its useful life following launch.

- **Provisions for income taxes:-** the Group is subject to tax in the UK and US and this requires the directors to regularly assess the applicability of its transfer pricing policy.

- **Share-based payments:-** the Group requires to make a charge to reflect the value of share-based equity-settled payments in the period. At each grant of options and balance sheet date, the directors are required to consider whether there has been a change in the fair value of share options due to factors including number of expected participants.

3. Net operating expenses

Net operating expenses are comprised of the follows:-

	2010	2009
	$'000	$'000
Sales and marketing expenses	**7,102**	6,110
Client servicing	**4,037**	4,017
Research and development	**3,785**	2,960
Administrative expenses	**3,314**	2,662
Share-based payments	**114**	82
Depreciation of plant and equipment	**192**	204
Amortisation of intangible assets	**253**	176
Exchange (loss)/gain	**(16)**	51
Net operating expenses	**18,781**	16,262

4. Tax on profit on ordinary activities

	2010	2009
	$'000	$'000
Profit on ordinary activities before tax	**7,258**	5,870
Current tax		
Corporation tax on profits of the year	**2,005**	1,620
Foreign exchange on taxation in the year	**58**	24
Adjustments for prior years	**(257)**	(543)
Total current tax charge	**1,806**	1,101
Deferred tax		
Origination & reversal of timing differences	**(73)**	122
Adjustments for prior years	**-**	199
Total deferred tax (credit)/charge	**(73)**	321
Tax on profit on ordinary activities	**1,733**	1,422

The difference between the current tax charge on ordinary activities for the year, reported in the consolidated statement of comprehensive income, and the current tax charge that would result from applying a relevant standard rate of tax to the profit on ordinary activities before tax, is explained as follows:

Profit on ordinary activities at the UK tax rate 28% (2009: 28%)	**2,032**	1,644
Effects of		
Adjustment in respect of prior years		
Current tax	**(257)**	(543)
Deferred tax	**-**	199
State tax	**49**	43
Additional US tax on profits 34% (2009: 34%)	**59**	51
Foreign Exchange	**(33)**	24
Expenses not deductible for tax purposes	**(1)**	17
Tax deduction on share plan charges	**(116)**	(13)
Total tax charge	**1,733**	1,422

5. Dividends

The dividends paid during the year were as follows:-

	2010	2009
	$'000	$'000
Final dividend, re 30 June 2009 - 4.76 cents (2.9 pence)/share	**1,220**	1,172
Interim dividend, re 30 June 2010 - 7.05 cents (4.7 pence)/share	**1,772**	745
Total dividends paid to company shareholders in the year	**2,992**	1,917

The proposed final dividend is subject to approval by the shareholders at the Annual General Meeting and has not been included as a liability in these accounts.

6. Earnings per share

a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the year.

	2010	2009
Profit attributable to equity holders of the Company ($'000)	**5,525**	4,448
Weighted average number of ordinary shares in issue (thousands)	**25,315**	25,187
Basic earnings per share ($ per share)	**0.218**	0.177

b) Diluted

For diluted earnings per share, the weighted average number of ordinary shares calculated above is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares, being those share options granted to directors and employees under the share option scheme.

	2010	2009
Profit attributable to equity holders of the Company ($'000)	**5,525**	4,448
Weighted average number of ordinary shares in issue (thousands)	**25,315**	25,187
Adjustment for: - Share options (thousands)	**1,005**	1,007
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**26,320**	26,194
Diluted earnings per share ($ per share)	**0.210**	0.170

7. Intangible assets

Research and development and computer software

	Group			Company		
	In Process R & D	Computer Software	**Total**	In Process R & D	Computer Software	**Total**
	$'000	$'000	**$'000**	$'000	$'000	**$'000**
Cost						
At 1 July 2009	1,886	271	**2,157**	1,886	208	**2,094**
Additions	499	22	**521**	499	19	**518**
At 30 June 2010	2,385	293	**2,678**	2,385	227	**2,612**
Amortisation						
At 1 July 2009	725	226	**951**	725	172	**897**
Charge for the year	219	34	**253**	219	29	**248**
At 30 June 2010	944	260	**1,204**	944	201	**1,145**
NBV at 30 June 2010	**1,441**	**33**	**1,474**	**1,441**	**26**	**1,467**
Cost						
At 1 July 2008	1,317	252	**1,569**	1,317	194	**1,511**
Additions	569	19	**588**	569	14	**583**
At 30 June 2009	1,886	271	**2,157**	1,886	208	**2,094**
Amortisation						
At 1 July 2008	599	176	**775**	599	127	**726**
Charge for the year	126	50	**176**	126	44	**170**
At 30 June 2009	725	226	**951**	725	171	**896**
NBV at 30 June 2009	**1,161**	**45**	**1,206**	**1,161**	**37**	**1,198**

8. Called up share capital

Authorised

	2010 Number	**$'000**	2009 Number	$'000
Equity share capital				
Ordinary shares of 1p each	**50,000,000**	**1,014**	50,000,000	1,014

Allotted called-up and fully paid

	2010 Number	**$'000**	2009 Number	$'000
Equity share capital				
Ordinary shares of 1p each	**25,365,850**	**512**	25,297,750	512

The movement in share capital during the year is represented as follows:

- 68,100 Ordinary Share options were exercised in the year.

9. Cash flow generated from operating activities

Reconciliation of profit before tax to net cash inflow from operating activities

	Group		Company	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Profit before tax	**7,258**	5,870	**6,280**	5,012
Finance income	**(195)**	(520)	**(195)**	(520)
Depreciation on plant and equipment	**192**	204	**129**	143
Amortisation on intangible assets	**253**	176	**248**	170
Share-based payments	**114**	82	**52**	32
Movements in working capital:				
Increase in trade and other receivables	**(3,385)**	(452)	**(1,030)**	(96)
Increase in trade and other payables	**4,669**	2,018	**3,088**	1,404
Cash generated from operations	**8,906**	7,378	**8,572**	6,145