

Endace Limited

Press Announcement



FOR IMMEDIATE RELEASE

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ENDACE LIMITED

HALF YEARLY RESULTS FOR THE SIX MONTHS PERIOD ENDING 30 SEPTEMBER 2009

Endace Limited (LSE/AIM: EDA, “Endace” or “the Company”), a world leader in network monitoring solutions, announces interim results for the half year ended 30 September 2009.

Highlights

- Period of good progress given difficult economic conditions
- Significant and positive milestone achieved as system sales exceed sales of DAG cards for the first time
- Encouraging progress in US financial services and in European government markets
- Investment in R & D maintained
- Continued strong cost control, although benefits diluted by translation effect of strong NZ dollar
- Revenues slightly ahead of corresponding period last year at \$13.8m. Profit before tax and share option costs was in line with expectations at \$0.5 million; statutory reported loss before tax of \$11,000
- Customers continue to show caution over investment decisions but healthy order backlog and strong pipeline of opportunities

Endace Chief Executive, Mike Riley, commented:

“Given difficult economic conditions, Endace made good progress in the first half of the year. Revenues increased slightly over the corresponding period last year and, for the first time, sales of our NinjaBox and NinjaProbe systems exceeded sales of DAG cards. This is a significant and positive milestone in our evolution, given the size of the addressable market for our systems.

Our target markets continue to offer Endace exciting opportunities for long term growth. While customers are still showing caution over investment decisions, we enter the second half with a healthy order backlog, a strong pipeline of opportunities and continued confidence in the Group’s future performance.”

Ends

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About Endace

For organisations that rely on their IP networks to do business, Endace provides high performance traffic analysis, latency measurement, network security and application acceleration solutions that capture, inspect and report on every single data packet. Our product portfolio includes high-speed packet capture technology, open development environments, multi-function network monitoring appliances and a comprehensive range of powerful yet intuitive management, measurement, alerting and analysis applications. We enable our customers to be confident in their service performance, traffic monitoring, information security, and regulatory compliance. Based in Auckland, New Zealand, Endace also has offices in the UK, USA and Singapore. Quoted on AIM, the stock code is LSE: EDA. For further information: <http://www.endace.com>

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HALF YEARLY STATEMENT

Introduction

Given difficult economic conditions, Endace made good progress in the first half of the year. Revenues increased slightly over the corresponding period last year and, for the first time, sales of our NinjaBox and NinjaProbe systems exceeded sales of DAG cards. This is a significant and positive milestone in our evolution, given the size of the addressable market for our systems. We have maintained our Research and Development spending, and continue to keep tight control over other costs.

Financial results

Total revenue for the 6 months to 30 September was \$13.8m (2008:\$13.5m). Revenue from systems grew by 75.3% over the same period last year and, at 39.7% of total revenue, for the first time exceeded sales from DAG cards, which represented 37.1% of total revenue. This is clear evidence of the success of our strategy to generate an increasing proportion of our sales from more lucrative systems, the market for which represents a very significant opportunity for the Group. Revenue from accessories and software contributed 13.3% of total revenue while support revenues represented 9.9%, growing 13% against the same period last year; growth in support revenues has come principally from systems revenue.

Revenues in The Americas accounted for 60.5% (2008:62.5%) of total group revenue, revenues in Europe, Middle East and Africa (EMEA) accounted for 31.1% (2008:28.9%), and revenues in Asia Pacific 8.4% (2008:8.5%).

Product margins remain strong. The mix of revenue now weighted more to systems than DAG cards has resulted in a lower overall gross margin of 67.5% (2008: 71.9%), but this is in line with expectations.

At the beginning of the financial year we reduced our expenditure through staff restructuring and relocation of marketing functions to New Zealand. We are maintaining an aggressive focus on cost control particularly in the major cost area of salaries and travel. Operating expenditure has however come under pressure from the translation effects of a stronger New Zealand dollar.

Overall expenditure compared to the same period last year has increased in a number of discrete areas. Depreciation and amortisation costs have increased to \$1.7m (2008: \$1.0m) in line with expectations, reflecting the investment the business has made in assets and new products over recent years. Inventory provisions have been increased by \$0.6m to cover obsolescence on older cards which, as a result of the industry migration to new bus technology, are gradually being superseded.

Profit before tax and share option costs was \$0.5m, which was in line with our expectations.

Cash has decreased over the period. This is primarily due to the high proportion of shipments occurring in September plus delays in receipts from a reseller and systems integrator whose principal customer is the US Government. See Note 10 of the financial accounts for details.

Operational review

We continue to make good progress against the Group's strategic and operational objectives.

Product portfolio

Despite the focus on cost control we continued our investment in R & D, adding functionality to our DAG cards and further developing the software for the NinjaProbe appliance systems. Our products continue to move up the value chain, leveraging the 100% packet capture technology intrinsic to our DAG cards integrated into ever more feature rich appliances. We are making good progress in moving from a niche technology company to a leading provider of substantial platforms and systems, designed to take a share of the large global marketplaces for network monitoring, analytics and intrusion detection systems.

Partnerships and collaborative agreements

We continue to enter into partnerships and collaborative agreements where these expand our reach into our markets or extend the capabilities of our products.

Partnerships entered into during the period included a technology partnership with Kapsch CarrierCom AG, a leading provider of communications services to major European network operators, to deliver next generation monitoring solutions for major telcos, and with Vixtel, a specialist in network monitoring, lawful intercept and mobile network analysis and optimisation, under which Vixtel will deploy Endace DAG cards and Ninjabox platforms on its solutions.

In particular we are pleased to report strong customer wins in conjunction with CACE Technologies. CACE Pilot analytics and visualisation tools have now been fully integrated into the NinjaProbe family and helped to drive significant competitive wins in the first half year.

Contract wins

Despite the more testing market conditions we enjoyed a good number of competitive wins. Our average deal size is increasing, partly a reflection of the successful migration to platform and appliance sales. First half successes included the largest order Endace has ever received, displacing a market-leading incumbent in a US\$2.5 million contract in the US financial services market, underpinning the strength of our rapidly maturing NinjaProbe product family of probes, software and management systems.

Markets

Following a difficult end to the 2008 calendar year, our target telecommunications, government and financial services markets have stabilised, though it is clear that customers are taking longer to finalise capital expenditure commitments, which now need higher levels of management authorisation than before.

The financial services markets in the United States and government markets in Europe are showing most progress. Our Asia markets were weaker in the first half, partly a reflection of the very strong close to last year, although we are seeing good levels of opportunity in the government sector in that region.

Strategy for growth

Our strategy remains unchanged. We continue to focus our product and service offerings towards our three vertical markets worldwide, and to enhance our products through ongoing internal research and development activities complemented by technology partnerships. We strive to increase our products value to customers and as we see our NinjaProbe family gaining strong acceptance in our target markets, it gives us confidence to focus on building channel relationships in order to increase our geographical and vertical market penetration for future more leveraged sales growth.

Outlook

Our markets continue to offer Endace exciting opportunities for long term growth. While customers are still showing caution over investment decisions, we enter the second half with a healthy order backlog, a strong pipeline of opportunities and continued confidence in the Group's future performance.

**CONSOLIDATED INCOME STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009**

		6 Months Ended 30 September 2009 (unaudited) US\$'000	6 Months Ended 30 September 2008 (unaudited) US\$'000	12 Months Ended 31 March 2009 (audited) US\$'000
	Notes			
Revenue	3	13,786	13,539	30,384
Cost of sales		(4,485)	(3,798)	(8,784)
Gross profit		9,301	9,741	21,600
Other income		36	206	300
Selling and administrative expenses		(6,522)	(6,123)	(12,692)
Research and development expenses		(2,775)	(2,018)	(4,441)
Finance costs		(51)	(2)	(33)
(Loss) / Profit before taxation	4	(11)	1,804	4,734
Income tax expense	5	(5)	(596)	(1,985)
(Loss) / Profit for the period		(16)	1,208	2,749
Earnings per share	6	US cents	US cents	US cents
- basic		(0.11)	8.07	18.36
- diluted		(0.09)	7.26	16.28

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009**

	6 Months Ended 30 September 2009 (unaudited) US\$'000	6 Months Ended 30 September 2008 (unaudited) US\$'000	12 Months Ended 31 March 2009 (audited) US\$'000
(Loss) / Profit after tax	(16)	1,208	2,749
Other comprehensive income			
Cashflow hedges, net of tax	33	-	-
Total comprehensive income for the period	17	1,208	2,749

The notes which follow are an integral part of these interim financial statements.

**CONSOLIDATED BALANCE SHEETS
AS AT 30 SEPTEMBER 2009**

		As at 30 September 2009 (unaudited) US\$'000	As at 30 September 2008 (unaudited) US\$'000	As at 31 March 2009 (audited) US\$'000
	Notes			
Non-current assets				
Property, plant and equipment		4,273	2,860	3,699
Intangible assets	7	11,449	10,820	11,196
Total non-current assets		15,722	13,680	14,895
Current assets				
Inventories		3,975	3,569	4,485
Trade and other receivables	8	12,918	10,262	11,790
Deferred income tax assets		-	461	97
Cash and cash equivalents		-	2,098	1,777
Total current assets		16,893	16,390	18,149
Total assets		32,615	30,070	33,044
Current Liabilities				
Bank overdraft		848	-	-
Trade and other payables		3,756	4,118	4,625
Current income tax liabilities		638	969	1,571
Deferred income tax liabilities		56	-	-
Deferred income		1,765	1,741	1,833
Total current liabilities		7,063	6,828	8,029
Total liabilities		7,063	6,828	8,029
Equity				
Share capital		15,254	15,254	15,254
Foreign currency translation reserve		(147)	(147)	(147)
Cash flow hedge reserve		33	-	-
Share option reserve		1,365	613	845
Retained earnings		9,047	7,522	9,063
Total equity		25,552	23,242	25,015
Total equity and liabilities		32,615	30,070	33,044

The notes which follow are an integral part of these interim financial statements.

**CONSOLIDATED CASH FLOW STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009**

	6 Months Ended 30 September 2009 (unaudited) US\$'000	6 Months Ended 30 September 2008 (unaudited) US\$'000	12 Months Ended 31 March 2009 (audited) US\$'000
Cash flows from operating activities			
Cash receipts from customers	12,609	12,532	27,755
Cash paid to suppliers and employees	(11,893)	(11,297)	(24,111)
Cash generated from operations	716	1,235	3,644
Interest paid	(51)	(2)	(33)
Income tax (payment) / refund	(785)	327	84
Net cash flows from operating activities	9 (120)	1,560	3,695
Cash flows from investing activities			
Purchases of property, plant and equipment	(1,303)	(934)	(2,475)
Purchases of software	7 (49)	(236)	(287)
Investment in product development	7 (1,225)	(1,208)	(2,147)
Acquisition of Applied Watch Technologies LLC	-	(650)	(650)
Interest received	29	20	120
Net cash flows from investing activities	(2,548)	(3,008)	(5,439)
Cash flows from financing activities			
Proceeds from exercise of share options	-	123	123
Net cash flows from financing activities	-	123	123
Net decrease in cash and cash equivalents	(2,668)	(1,325)	(1,621)
Cash and cash equivalents at beginning of period	1,777	3,513	3,513
Exchange gains / (losses) on cash and cash equivalents	43	(90)	(115)
(Bank overdraft) / cash and cash equivalents at end of period	(848)	2,098	1,777

The notes which follow are an integral part of these interim financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009**

	Share capital	Foreign currency translation reserve	Cash flow hedge reserve	Share option reserve	Retained earnings	Total equity
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance as at 1 April 2008 (audited)	15,092	(147)	-	422	6,314	21,681
Capital raised from exercise of share options	162	-	-	-	-	162
Share option compensation expense	-	-	-	230	-	230
Share options exercised	-	-	-	(39)	-	(39)
Retained profit for the period	-	-	-	-	1,208	1,208
Balance as at 30 September 2008 (unaudited)	15,254	(147)	-	613	7,522	23,242
Share option compensation expense	-	-	-	232	-	232
Retained profit for the period	-	-	-	-	1,541	1,541
Balance as at 31 March 2009 (audited)	15,254	(147)	-	845	9,063	25,015
Other comprehensive income	-	-	33	-	-	33
Retained loss for the period	-	-	-	-	(16)	(16)
Total comprehensive income	-	-	33	-	(16)	17
Share option compensation expense	-	-	-	520	-	520
Balance as at 30 September 2009 (unaudited)	15,254	(147)	33	1,365	9,047	25,552

The notes which follow are an integral part of these interim financial statements.

NOTES TO THE HALF YEAR FINANCIAL STATEMENTS

1. General information

The Group operates in the network security and monitoring market sectors.

The Group has operations in New Zealand, the US, the UK, Australia and Singapore. Endace Limited (referred to as the "Company") is a limited liability company incorporated and domiciled in New Zealand with its registered office at Level 2, Building A, The Millennium Building Phase 2, 600 Great South Road, Ellerslie, Auckland 1051, New Zealand. The Company has its primary listing on the Alternative Investment Market (AIM) of the London Stock Exchange. These consolidated interim financial statements have been approved for issue by the Board of Directors on 2 October 2009.

2. Significant accounting policies

These consolidated interim financial statements for the six months ended 30 September 2009 have been prepared in accordance with IAS 34 Interim Financial Statements. These consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2009 which have been prepared in accordance with NZ IFRS.

Except for operating segments as described below, the accounting policies applied in these consolidated interim financial statements are the same as those used and described in the annual financial statements for the year ended 31 March 2009.

The following new standards and amendments are mandatory for the first time for the financial year beginning 1 January 2009:

- IAS 1 (revised), 'Presentation of financial statements'. Recognised income and expenses are required to be presented separately from owner changes in equity, either in a single statement (a statement of comprehensive income) or two statements (an income statement and a statement of comprehensive income).

The Group has elected to present two statements: an income statement and a statement of comprehensive income. The consolidated interim financial statements have been prepared under the revised disclosure requirements.

- IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. This has had no impact on the number of reportable segments presented.

3. Segment reporting

The chief operating decision-maker has been identified as the Leadership Team. This team reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Group's revenue is attributable to the principal activities being sales, marketing and distribution of the products developed by the Group. The Leadership Team considers the business from a geographical perspective based on the location of customers.

a) Description of segments

The Group is organised into three main business segments.

Americas

Comprises sales, support and distribution operations based in Chantilly, Virginia, U.S. servicing customers throughout the Americas.

Europe, Middle East, Africa

Comprises sales, support and distribution operations in Reading, U.K., servicing customers throughout Europe, Middle East and Africa.

Asia Pacific

Comprises sales, support and distribution operations in New Zealand and Singapore; servicing customers throughout the Asia Pacific region.

The functions of group R&D, product management, marketing and operations are also based in New Zealand, as is the corporate head office.

Unallocated

These items are unable to be allocated to a specific segment within the Group.

b) Reporting measures

The Leadership Team assesses the performance of the segments based on a measure of profit before tax. The information is measured in a manner consistent with that in the consolidated interim financial statements.

c) Segment results**6 Months ended 30 September 2009 (unaudited)**

	Americas	Europe, Middle East, Africa	Asia Pacific	Unallocated	Consolidated
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenue:					
External sales	8,348	4,283	11,348	-	23,979
Inter-segment sales	-	-	(10,193)	-	(10,193)
Total revenue	8,348	4,283	1,155	-	13,786
Results:					
Operating profit	334	171	(538)	-	(33)
Finance income - net	-	-	-	22	22
Profit / (Loss) before taxation	334	171	(538)	22	(11)

**6 Months ended 30
September 2008
(unaudited)**

	Americas US\$'000	Europe, Middle East, Africa US\$'000	Asia Pacific US\$'000	Unallocated US\$'000	Consolidated US\$'000
Revenue:					
External sales	8,468	3,914	10,088	-	22,470
Inter-segment sales	-	-	(8,931)	-	(8,931)
Total revenue	8,468	3,914	1,157	-	13,539
Results:					
Operating profit	339	157	1,290	-	1,786
Finance income - net	-	-	-	18	18
Profit before taxation	339	157	1,290	18	1,804

**12 Months ended
31 March 2009
(audited)**

	Americas US\$'000	Europe, Middle East, Africa US\$'000	Asia Pacific US\$'000	Unallocated US\$'000	Consolidated US\$'000
Revenue:					
External sales	18,767	8,713	25,424	-	52,904
Inter-segment sales	-	-	(22,520)	-	(22,520)
Total revenue	18,767	8,713	2,904	-	30,384
Results:					
Operating profit	1,037	343	3,365	-	4,745
Finance income - net	-	-	-	(11)	(11)
Profit before taxation	1,037	343	3,365	(11)	4,734

4. Expenses

	6 Months Ended 30 September 2009 (unaudited) US\$'000	6 Months Ended 30 September 2008 (unaudited) US\$'000	12 Months Ended 31 March 2009 (audited) US\$'000
All from continuing operations			
(Loss) / Profit before taxation is stated after charging / (crediting):			
Wages and salaries expense	4,002	4,118	8,088
Depreciation of property, plant and equipment	682	448	1,060
Amortisation of intangible assets	1,021	503	1,117
Bad and doubtful debt expense	60	(1)	145
Operating lease rentals	351	263	635
Directors' fees	104	113	189
Share option compensation charge	520	229	462
Unrealised foreign exchange (gains)/losses	(42)	124	114
Realised foreign exchange (gains)/losses	(61)	(14)	(13)

5. Income tax expense

	6 Months Ended 30 September 2009 (unaudited) US\$'000	6 Months Ended 30 September 2008 (unaudited) US\$'000	12 Months Ended 31 March 2009 (audited) US\$'000
(Loss) / Profit before taxation	(11)	1,804	4,734
(Loss) / Profit before taxation multiplied by standard rate of corporation tax in New Zealand: 30% (September 2008: 30%) (March 2009:30%)	(3)	541	1,420
Effects of:			
Foreign tax differences	8	(4)	(138)
Adjustment to tax in respect of the prior year	-	(255)	(625)
Non assessable expenses	-	314	1,328
Income tax expense	5	596	1,985

6. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

	As at 30 September 2009			As at 30 September 2008			As at 31 March 2009		
	(unaudited)			(unaudited)			(audited)		
	Earnings	Number of shares	Per share amount	Earnings	Number of shares	Per share amount	Earnings	Number of shares	Per share amount
	US\$'000	'000	US cents	US\$'000	'000	US cents	US\$'000	'000	US cents
(Loss) / Profit attributable to shareholders	(16)			1,208			2,749		
Basic EPS									
Earnings attributable to ordinary shareholders	(16)	14,976	(0.11)	1,208	14,976	8.07	2,749	14,976	18.36
Effect of dilutive securities									
Options ⁽¹⁾	-	1,884	-	-	1,666	-	-	1,914	-
Diluted EPS adjusted earnings	(16)	16,860	(0.09)	1,208	16,642	7.26	2,749	16,890	16.28

(1) Includes the option entitlements held by non-executive Directors John Scott and Mark Rowan

7. Intangible assets

	Goodwill US\$'000	Software US\$'000	Development costs US\$'000	Intellectual property US\$'000	Total US\$'000
Cost					
At 1 April 2008 (audited)	7,057	1,173	1,842	1,211	11,283
Additions	-	236	1,208	-	1,444
At 30 September 2008 (unaudited)	7,057	1,409	3,050	1,211	12,727
Additions	-	51	939	-	990
At 31 March 2009 (audited)	7,057	1,460	3,989	1,211	13,717
Additions	-	49	1,225	-	1,274
Disposal	-	(96)	-	-	(96)
At 30 September 2009 (unaudited)	7,057	1,413	5,214	1,211	14,895
Amortisation					
At 1 April 2008 (audited)	40	632	255	477	1,404
Charge for the period	-	146	227	130	503
At 30 September 2008 (unaudited)	40	778	482	607	1,907
Charge for the period	-	138	347	129	614
At 31 March 2009 (audited)	40	916	829	736	2,521
Charge for the period	-	138	730	153	1,021
Disposal	-	(96)	-	-	(96)
At 30 September 2009 (unaudited)	40	958	1,559	889	3,446
Net book amount					
At 30 September 2009 (unaudited)	7,017	455	3,655	322	11,449
At 30 September 2008 (unaudited)	7,017	631	2,568	604	10,820
At 31 March 2009 (audited)	7,017	544	3,160	475	11,196

8. Trade and other receivables

	Note	As at 30 September 2009 (unaudited) US\$'000	As at 30 September 2008 (unaudited) US\$'000	As at 31 March 2009 (audited) US\$'000
Trade receivables	10	12,258	9,018	11,132
Less: provision for impairment of receivables		(92)	-	(22)
		12,166	9,018	11,110
Other receivables		158	713	184
Prepayments		594	531	496
		12,918	10,262	11,790

9. Net cash flow from operating activities

	6 Months Ended 30 September 2009 (unaudited) US\$'000	6 Months Ended 30 September 2008 (unaudited) US\$'000	12 Months Ended 31 March 2009 (audited) US\$'000
Continuing operations			
(Loss) / Profit after tax	(16)	1,208	2,749
Less			
Depreciation and amortisation	1,703	966	2,177
Current share option compensation charge	520	230	462
Loss on disposal	-	-	9
Interest income	(29)	(20)	(120)
Foreign exchange (gain)/loss	(43)	90	115
Deferred consideration for Applied Watch Technologies acquisition	-	650	650
Non-cash movement in working capital	48	-	96
Changes in working capital excluding the effects of acquisition			
Inventories	510	(756)	(1,672)
Trade and other receivables	(998)	(1,353)	(2,517)
Trade and other payables	(1,815)	545	1,746
Total net cash (outflow) / inflow from operating activities	(120)	1,560	3,695

10. Contingent liabilities and contingent assets

Included in trade receivables is a \$3,489,338 debt predominantly overdue from a reseller and systems integrator supplying the US Government. This reseller has been a significant customer of the group for four years.

The ageing of the overdue portion of the receivable is as follows:

	As at 30-Sep 2009 (unaudited) US\$'000
Up to 3 months overdue	137,238
3-6 months overdue	3,041,300
Over 6 months overdue.	280,532
Total portion overdue	3,459,070

While concerned over the age and quantum of the debt, management is continuing to work with the customer to seek full recoverability of the debt and believes it will be fully recovered. Therefore no provision for impairment has been made in the half year accounts.

The Group had no other contingent liabilities or contingent assets as at 30 September 2009 (September 2008: Nil, March 2009: Nil).