Endace Limited

Press Announcement

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# ENDACE LIMITED

## FULL YEAR RESULTS FOR THE YEAR ENDED 31 MARCH 2009

Endace Limited (LSE/AIM: EDA, "Endace" or "the Company"), a world leader in network monitoring solutions, announces full year results for the year ended 31 March 2009.

Highlights

- Year of contrasting market conditions
- Continued growth in revenues and profits
  - Revenues increased by 26% to US$30.4 million (2008: US$24.2 million)
  - Profit before tax of US$4.7 million (2008: US$4.5 million)
  - Adjusted profit before tax of US$5.3 million (2008: US$5.2 million)*
- Sales growth across all target geographic markets – EMEA (up 22%), North America (up 40%) and Asia Pacific (up 65%)
- Good level of contract wins, partnerships and agreements across all sectors
- Cost base re-aligned to reflect more challenging economic environment
- Continued investment for the future
- Confidence in prospects

Endace Chief Executive, Mike Riley, commented:

"Revenues in the early months of the current year are in line with our expectations, with the telecommunications and government sectors remaining healthy and financial services markets showing signs of recovery. We recognise the need for caution in the current world economic climate but remain confident in our prospects for 2009/2010."

*Adjusted profit before tax is before share option cost, restructuring charges and exceptional provisions

Ends

**CONTACTS:**

**Endace Limited**
Mike Riley, CEO +44 (0)20-7067-0700
Neil Hopkins, Group Finance Director +44 (0)20-7067-0700

**Weber Shandwick Financial**
Nick Oborne / Stephanie Badjonat +44 (0)20-7067-0700

**Panmure Gordon**
Edward Farmer / Ashton Clanfield +44 (0)20-7459-3600

**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

## CHAIRMAN'S STATEMENT

### Introduction

The year to 31 March 2009 saw contrasting market conditions for Endace. The first half was one of strong improvement in revenues and profits across all of our key vertical industry markets and target geographies. The more difficult economic environment in the second half saw sudden delays in purchasing decisions by some of our financial services customer base but continued good levels of activity and spending in the telecommunications and government sectors.

The management team and employees responded swiftly to these circumstances. Given tough market conditions we took action to align Endace's cost base with the relative health of our markets. We continued to invest both in the R&D necessary to underpin our technology leadership and in those markets where we are seeing new opportunities. The revenue increase of 26% is a creditable performance and it included a number of significant financial service customer wins towards the end of the year.

### Results and Finance

Revenues for the year ended 31 March 2009 increased by 26% with sales of both Data Acquisition and Generation (DAG) cards and NinjaProbe™ appliances showing good growth. Profit before tax rose to US$4.7 million (2008: US$4.5 million). We ended the year with cash balances of US$1.7 million.

### Board

On 31 March 2009 I assumed the role of Chairman, taking over from Selwyn Pellett. Selwyn has played an essential part in the development of Endace as a founder, CEO and Chairman. He remains on the Board as a Non-executive Director and I look forward to his continuing contributions to the success of Endace.

### Outlook

I resume the Chair at a time of great uncertainty in the world economy but also at a time when the Company's products have never been better received by our customers. We continue to extend our technical leadership and demand for our products overall remains healthy. This is reflected in our strong pipeline and continued new account and key design wins. We will monitor our cost base and remain able to take advantage of market opportunities as they arise. I look forward to Endace making further progress this year and have great confidence in our prospects.

### Annual General Meeting

The Annual General Meeting of the Company will be held at the offices of Panmure Gordon & Co Plc, 155 Moorgate, London EC2M 6XB on Thursday 3 September 2009 at 9.30am.

**Ian Graham**
*Chairman*
19 May 2009

## CHIEF EXECUTIVE OFFICER'S REPORT

Despite the more challenging global market Endace made strong progress in the year to 31 March 2009, with good growth in both revenues and profits.

Sales of DAG cards grew by 23%, with continuing strong sales in the government sector. Reflecting the successful development and widening of our product base, sales of NinjaBox® platforms and NinjaProbe appliances increased by a very encouraging 91%.

Our increasing number of customers and installed product base, resulted in support sales increasing by 44%. Over 30% of revenue during the year came from new customers.

*Strategy for growth*

Two years ago we outlined a strategy focussed on:

- The three core worldwide vertical markets of government, telecommunications and financial services;
- Continued enhancement of our products to increase their value to our customers; and
- Committing the resources necessary to market and support our products across the globe.

This strategy has proved successful and we are confident that it will support our continued success.

*Markets*

We saw good demand throughout the year from our government and telecommunications markets. The increasing pressures of regulation, national security needs of governments around the world and the heightening complexity and use of telecommunication service provider networks all provide opportunities for our product portfolio.

Despite a slowdown in the financial services market during Q4 we are pleased to report a good level of contract wins towards the end of the year including a number of contracts with financial services clients. This remains an important market for us, and our products are playing a critical role in many institutions' measurement of network performance and trade latency.

We achieved strong growth in all our target geographies, with business in the Americas increasing by 40%, EMEA (Europe, Middle East and Africa) 22% and Asia Pacific 65%.

*Product portfolio development*

We continued the development of our product portfolio to meet the needs of our current and target customers and responded to identified opportunities in our marketplace. Investment was spread evenly between our DAG card and NinjaProbe product ranges. We introduced our second generation 40Gb/sec monitoring platform. We completed the full integration of the Applied Watch® technology (following its acquisition in October 2007) adding the Snort® IDS Applied Watch Command Center agent and data mining features. These further enhance our NinjaProbes' passive capture capabilities and the ability to allow the platform to capture, store and replay network traffic at speeds approaching 10Gb/sec. We introduced the IEEE1588 (known also as Precision Time Protocol, PTP) an industry-standard protocol that provides additional, highly accurate time-stamping and synchronization capabilities for our latency measurement and network monitoring solutions. We introduced CACE Pilot, a comprehensive and intuitive visualisation and analytics application which enables operators to view and interpret easily the information captured on the network. Finally we introduced a complete monitoring solution for InfiniBand™DDR (Dual Data Rate), the first solution for monitoring InfiniBand without impacting network performance.

*Partnerships and collaborative agreements*

We entered into partnerships and collaborative agreements to expand our reach into the market and extend the capabilities of our products.

During the year agreements included those with Mellanox® Technologies to co-market a passive monitoring solution for InfiniBand clusters. We also signed a collaborative agreement with Voltaire to deliver passive monitoring capabilities for InfiniBand-based interconnect solutions in High Performance Computing (HPC) environments. These typically support the ultra high-speed and low-latency requirements of next generation financial services electronic and algorithmic trading platforms.

Towards the end of the year we also entered into a technology partnership with Spirent Communications to help develop the next generation of Ethernet Assurance probes. In addition we signed an extension to our agreement with Correlix to offer the first integrated network monitoring and latency intelligence platform for the capital markets industry.

Finally we also entered into a software licensing agreement with CACE Technologies to enhance Endace's NinjaProbe with traffic analysis and visualisation capabilities.

*Resource development*

We have restructured our cost base, weighting our sales and marketing resource towards the telecommunications and government markets, which have shown continued strength, and towards Asia Pacific, where we are seeing greatest near term opportunity. We have also taken the opportunity to re-allocate those activities which are easily transferable to New Zealand, where costs for many disciplines are lower than elsewhere. We maintained investment in our engineering team, which resulted in the highly successful product developments noted earlier.

*Gratitude to staff*

The changes in market conditions during the year have been unprecedented. I am very grateful to the senior management team and all employees for their positive and decisive response to the challenges we faced.

*Prospects*

Revenues in the early months of the current year are in line with our expectations, with the telecommunications and government sectors remaining healthy and financial services markets showing signs of recovery. We recognise the need for caution in the current world economic climate but remain confident in our prospects for 2009/2010.

**Mike Riley**
*Chief Executive Officer*
19 May 2009

## Finance Director's Report

### Revenue

Group revenue for the year ended 31 March 2009 increased by 26% to US$30.4 million (2008: US$24.2 million). Growth was achieved in each geographic area but with a particularly strong performance in the Americas and Asia Pacific. In the Americas, revenues increased by 40% to US$18.8 million (2008: US$13.4 million) while in Asia Pacific revenues increased by 65% to US$2.8 million (2008: US$1.7 million), with strong sales in Australia.

The revenues in Asia Pacific differ from those shown in the overall segmental analysis as they exclude revenue from the provision of legacy supply chain services, which were terminated at the end of the last financial year and contributed US$1.9 million in 2008. If we exclude the impact of this non-core business, year-on-year group revenues grew by 36%.

Recurring support income grew by 44% over the previous year. The balance sheet shows deferred income of US$1.8 million (2008: US$1.6 million), being the contracted support income which is carried forward to the new financial year.

### Investment and costs

The company continued its investment plan to build a business capable of sustaining high growth. Particular emphasis was placed on investment in sales, engineering, product management and marketing resources. Over the period the Group's employee headcount increased by 35% to 127.

This investment is reflected in the increased sales and administration expenses which increased to US$12.7 million (2008: US$9.4 million), while spend on R&D increased to US$6.6 million (2008: US$5.4 million). Of this, US$4.4 million (2008: US$3.8 million) has been expensed during the year and US$2.2 million (2008: US$1.6 million) has been capitalised in accordance with Group policy. The capitalised R&D costs relate to products which are planned for future release and will be amortised over two to three year periods. The amortisation cost of intangible assets during the year was US$0.6 million (2008: US$0.3 million).

During the fourth quarter we took action to reduce expenditure and to restructure, reducing our sales force costs and relocating certain marketing functions to New Zealand (where our cost base is lower than in other territories in which we operate). This took place at the end of the quarter so the impact of this change will not be fully recognised until next year. A provision of US$0.14 million was made at year-end to cover redundancy costs.

### Working capital

Trade receivables were higher at the end of the year, at US$11.1m (2008: US$7.7m). Delays in receiving orders meant that substantial revenues were recognised late in Q4. Our receivables ageing has improved this year with only 7% of the balance overdue (2008:15%).

Cash balances were US$1.7 million at 31 March 2009 (2008: US$3.5 million). The fall in cash balances year-on-year reflects the increase in trade receivables and inventory, and investment in the business. Details of this investment are shown in the Cash Flow Statement below.

To assist with its working capital requirements, the Company has a US$4 million overdraft facility in place with its Group bankers, The Hong Kong and Shanghai Banking Corporation Limited.

### Taxation

Total income tax expense for the year was US$2.0 million (2008: US$1.1 million), representing an effective tax rate of 41.9% (2008: 23.6%). These effective tax rates vary from the standard New Zealand corporate tax rate of 30% (2008: 33%) due to foreign exchange differences that arise as a result of translating the tax liability for the New Zealand Group entities into New Zealand dollars. The fall in the value of the New Zealand dollar against the US dollar during the year created a foreign exchange gain, subject to tax in the New Zealand tax accounts, in contrast to a tax deductible loss recognised in the previous year when the NZ dollar strengthened.

**Adjusted earnings per share**

The adjusted earnings per share eliminates distortions from one off factors that impact on the annual earnings of the Group**.**

| | 2009 US$'000 | 2008 US$'000 |
|---|---|---|
| Adjusted earnings per share has been calculated as follows: | | |
| **Profit for the year** | 2,749 | 3,437 |
| **Add back:** | | |
| Provision for restructuring | 135 | - |
| Write-off of loan and receivable from former Chinese distributor | - | 417 |
| Share option compensation charge | 462 | 313 |
| Tax loss from foreign exchange gain arising on calculation of NZ tax liability | 1,178 | - |
| **Less:** | | |
| Tax benefit from Foreign exchange loss arising on calculation of NZ tax liability | - | (500) |
| **Adjusted profit for the year** | 4,524 | 3,667 |
| Diluted number of shares in issue | 16,890 | 16,611 |
| Adjusted fully diluted EPS (US cents) | 26.8 | 22.1 |

**Neil Hopkins**
*Finance Director*
19 May 2009

# CONSOLIDATED INCOME STATEMENT
# For the year ended 31 March 2009

| | Note | 2009<br>US$'000 | 2008<br>US$'000 |
|---|---|---|---|
| **Revenue** | 2 | 30,384 | 24,211 |
| Cost of sales | | (8,784) | (7,077) |
| **Gross profit** | | 21,600 | 17,134 |
| | | | |
| Other income | | 300 | 531 |
| Selling and administrative expenses | | (12,692) | (9,393) |
| Research and development expenses | | (4,441) | (3,765) |
| Finance cost | | (33) | (11) |
| | | | |
| **Profit before taxation** | | 4,734 | 4,496 |
| Income tax expense | 3 | (1,985) | (1,059) |
| **Profit for the year** | | 2,749 | 3,437 |
| | | | |
| **Earnings per share** | 4 | **US cents** | **US cents** |
| - basic | | 18.36 | 23.05 |
| - diluted | | 16.28 | 20.69 |

## CONSOLIDATED BALANCE SHEET
## As at 31 March 2009

| | 2009<br>US$'000 | 2008<br>US$'000 |
|---|---|---|
| **Current assets** | | |
| Inventories | 4,485 | 2,813 |
| Trade and other receivables | 11,790 | 8,909 |
| Deferred tax asset | 97 | 461 |
| Cash and cash equivalents | 1,777 | 3,513 |
| **Total current assets** | 18,149 | 15,696 |
| | | |
| **Non-current assets** | | |
| Property, plant and equipment | 3,699 | 2,389 |
| Intangible assets | 11,196 | 9,879 |
| **Total non-current assets** | 14,895 | 12,268 |
| | | |
| **Total assets** | 33,044 | 27,964 |
| | | |
| **Current liabilities** | | |
| Trade and other payables | 4,625 | 4,656 |
| Current income tax liabilities | 1,571 | 46 |
| Deferred income | 1,833 | 1,581 |
| **Total current liabilities** | 8,029 | 6,283 |
| | | |
| **Total liabilities** | 8,029 | 6,283 |
| | | |
| **Equity** | | |
| Share capital | 15,254 | 15,092 |
| Foreign currency translation reserve | (147) | (147) |
| Share option reserve | 845 | 422 |
| Retained earnings | 9,063 | 6,314 |
| **Total equity** | 25,015 | 21,681 |
| | | |
| **Total equity and liabilities** | 33,044 | 27,964 |

# CONSOLIDATED CASH FLOW STATEMENTS
## For the year ended 31 March 2009

| | Note | 2009 US$'000 | 2008 US$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | 27,755 | 25,947 |
| Cash paid to suppliers and employees | | (24,111) | (17,277) |
| **Cash generated from operations** | | 3,644 | 8,670 |
| Interest paid | | (33) | (11) |
| Income tax refund/(payment) | | 84 | (1,474) |
| Net cash flows from operating activities | 5 | 3,695 | 7,185 |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | (2,475) | (1,691) |
| Purchases of intangible assets | | (287) | (167) |
| Investment in product development | | (2,147) | (1,571) |
| Outflow on acquisition of Applied Watch Technologies LLC | | (650) | (3,984) |
| Repayment of Applied Watch pre-acquisition loan | | - | (595) |
| Proceeds from disposal of property, plant and equipment | | - | 60 |
| Interest received | | 120 | 187 |
| Net cash used in investing activities | | (5,439) | (7,761) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from exercise of share options | | 123 | 435 |
| Net cash flows from financing activities | | 123 | 435 |
| | | | |
| Net decrease in cash and cash equivalents | | (1,621) | (141) |
| Cash and cash equivalents at beginning of period | | 3,513 | 3,549 |
| Exchange (losses)/gains on cash and cash equivalents | | (115) | 56 |
| Cash acquired in acquisition | | - | 49 |
| Cash and cash equivalents at end of period | | 1,777 | 3,513 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## For the year ended 31 March 2009

| | Share capital US$'000 | Foreign currency translation reserve US$'000 | Share Option Reserve US$'000 | Retained earnings US$'000 | Total equity US$'000 |
|---|---|---|---|---|---|
| **Balance as at 1 April 2007** | 14,519 | (147) | 192 | 2,877 | 17,441 |
| | | | | | |
| Retained profit for the period | - | - | | 3,437 | 3,437 |
| Capital raised on employee options | 437 | - | | - | 437 |
| Share options exercised | 81 | - | (81) | | - |
| Shares issued in partial consideration of nCap license | 55 | - | - | | 55 |
| Share option compensation expense | - | - | 311 | | 311 |
| **Balance as at 31 March 2008** | 15,092 | (147) | 422 | 6,314 | 21,681 |
| | | | | | |
| Retained profit for the period | - | - | | 2,749 | 2,749 |
| Capital raised on employee options | 123 | - | | - | 123 |
| Share options exercised | 39 | - | (39) | - | - |
| Share option compensation expense | - | - | 462 | - | 462 |
| **Balance as at 31 March 2009** | 15,254 | (147) | 845 | 9,063 | 25,015 |

## Notes

### 1. Basis of reporting

The consolidated financial statements contained herein are prepared in accordance with the New Zealand equivalent of the International Financial Reporting Standards (NZ IFRS). The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 31 March 2009 and the results of all subsidiaries of the Group for the year ended 31 March 2009. Endace Limited (the "Company") and its subsidiaries together are referred to in these financial statements as the Group and are designated as profit oriented entities for financial reporting purposes.

The consolidated financial information contained herein are preliminary results subject to final audit. These results are an abridged version of the Group's Financial Statements which will be included in the statutory Annual Report and Accounts for the year ended 31 March 2009. The Annual Report and Accounts will be dispatched to the shareholders and filed with the New Zealand Registrar of Companies in August 2009.

### 2. Segment reporting

The Group's revenue is attributable to the principal activities being sales, marketing and distribution of the products developed by the Group. The Group's primary format for reporting segment information is geographical segments that are based on the location of customers.

| **31 March 2009** | **North America 2009 US$'000** | **Europe, Middle East, Africa 2009 US$'000** | **Asia Pacific 2009 US$'000** | **Unallocated 2009 US$'000** | **Consolidated 2009 US$'000** |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Segment 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 |
| Segment assets | 9,377 | 4,429 | 10,784 | 8,454 | 33,044 |
| Segment liabilities | 2,486 | 1,137 | 4,406 | - | 8,029 |
| Capital expenditure | 211 | 103 | 2,431 | - | 2,745 |
| Depreciation of PPE | 88 | 45 | 927 | - | 1,060 |
| Amortisation of intangibles | 243 | 2 | 872 | - | 1,117 |

**2. Segment reporting (continued)**

| 31 March 2008 | North America 2008 US$'000 | Europe, Middle East, Africa 2008 US$'000 | Asia Pacific 2008 US$'000 | Unallocated 2008 US$'000 | Consolidated 2008 US$'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Segment sales | 13,450 | 7,168 | 15,874 | - | 36,492 |
| Inter-segment sales | - | - | (12,281) | - | (12,281) |
| **Total revenue** | 13,450 | 7,168 | 3,593 | - | 24,211 |
| Results | | | | | |
| Operating profit | 337 | 282 | 3,700 | - | 4,319 |
| Finance income - net | - | - | - | 177 | 177 |
| **Profit before taxation** | 337 | 282 | 3,700 | 177 | 4,496 |
| Segment assets | 5,903 | 3,298 | 10,940 | 7,823 | 27,964 |
| Segment liabilities | 1,868 | 1,266 | 3,149 | - | 6,283 |
| Capital expenditure | 233 | 21 | 1,437 | - | 1,691 |
| Depreciation of PPE | 40 | 14 | 605 | - | 659 |
| Amortisation of intangibles | 111 | 2 | 682 | - | 795 |

**3. Income tax expense**

| | 2009 US$'000 | 2008 US$'000 |
|---|---|---|
| **Current Tax** | | |
| New Zealand: Income tax | 1,960 | 1,458 |
| New Zealand: Adjustment to tax in respect of prior year | (678) | (507) |
| Foreign corporation taxes | 287 | 199 |
| Foreign corporation taxes: Adjustment to tax in respect of the prior year | 52 | 68 |
| **Total current tax** | 1,621 | 1,218 |
| **Deferred tax** | | |
| Origination and reversal of timing differences | 364 | (159) |
| Representing | | |
| New Zealand deferred tax | 348 | (159) |
| Foreign deferred tax | 16 | - |
| **Total deferred tax** | 364 | (159) |
| **Income tax expense** | 1,985 | 1,059 |

## 4. Earnings per share

| | As at 31 March 2009 | | | As at 31 March 2008 | | |
|---|---|---|---|---|---|---|
| | **Earnings US$'000** | **Number of shares '000** | **Per share amount US cents** | **Earnings US$'000** | **Number of shares '000** | **Per share amount US cents** |
| Profit attributable to shareholders | 2,749 | | | 3,437 | | |
| **Basic EPS** | | | | | | |
| Earnings attributable to ordinary shareholders | 2,749 | 14,976 | 18.36 | 3,437 | 14,909 | 23.05 |
| **Effect of dilutive securities** | | | | | | |
| Options | - | 1,914 | - | - | 1,702 | - |
| **Diluted EPS adjusted earnings** | 2,749 | 16,890 | 16.28 | 3,437 | 16,611 | 20.69 |

## 5. Cash flow from operating activities

| | **2009 US$'000** | **2008 US$'000** |
|---|---|---|
| Profit/(loss) after tax | 2,749 | 3,437 |
| Less | - | - |
| Depreciation and amortisation | 2,177 | 1,454 |
| Current share option compensation charge | 462 | 313 |
| Loss/(Gain) on disposal | 9 | (48) |
| Intercompany recharges | - | - |
| Interest income | (120) | (187) |
| Foreign exchange loss/(gain) | 115 | (56) |
| Impact on working capital from acquisition | - | (783) |
| Deferred consideration for Applied Watch Technologies acquisition | 650 | (584) |
| Non-cash movement in working capital | 96 | 142 |
| Changes in working capital excluding the effects of acquisition | - | - |
| Inventories | (1,672) | 227 |
| Trade and other receivables | (2,517) | 457 |
| Trade and other payables | 1,746 | 2,813 |
| **Total net cash inflow from operating activities** | 3,695 | 7,185 |

## 6. Contingent liabilities and contingent assets

The Company and Group had no contingent liabilities or contingent assets as at 31 March 2009 (March 2008: Nil).