

Endace Limited

Press Announcement



FOR IMMEDIATE RELEASE

25 May 2010

ENDACE LIMITED

FULL YEAR RESULTS FOR THE YEAR ENDED 31 MARCH 2010

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 2010.

Highlights

- Year of continued development of the business
- Launch of products in Cyber Security market, which holds significant opportunity for Endace
- Good progress in penetration of financial services analytics sector
- Systems sales overtook DAG card sales, demonstrating successful progression of products up the value chain
- Modest sales growth to US\$31.0 million achieved in difficult trading conditions
- Costs contained, despite strong NZ dollar
- Increased investment in R&D
- After taking into account a \$1.2 million provision for an overdue receivable, profit before tax was US\$379,000, before share options
- The sales pipeline is the strongest we have ever seen

Endace Chairman, Ian Graham, commented:

“The year to 31 March 2010 was a one of continued development of our business, with significant progress in penetrating both the financial services analytics sector and the Cyber Security market. It has also been a challenging year for us, with our sales growing more slowly than we had hoped as our customers coped with the effects of the worldwide recession.

“While there still remains considerable uncertainty in the world economy, we continue to experience increasing interest and demand for our products and solutions to protect critical infrastructure. I look forward to Endace making further progress this year and have great confidence in our prospects.”

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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CHAIRMAN'S STATEMENT

Introduction

The year to 31 March 2010 was a one of continued development of our business, with significant progress in penetrating both the financial services analytics sector and the Cyber Security market. It has also been a challenging year for us, with our sales growing more slowly than we had hoped as our customers coped with the effects of the worldwide recession.

We believe the Cyber Security market for the protection of critical infrastructure holds very significant opportunity for Endace. During the year we made significant progress in the development of our Cyber Security solutions, and we launched our products into this market in March 2010. Across Government, telecommunications, internet and mobile service providers, the threats associated with malicious Cyber Security attacks are becoming increasingly a matter for international concern. Recent repeated attempts to cause severe damage to critical infrastructure are leading to heightened focus on accurate detection and forensics technologies. This is a substantial new market for our products.

Our analytics products are being well received in electronic trading environments, and we were pleased to see a rapid recovery in this sector during the year.

We achieved rapid growth in sales of systems based on our cards and, as a result, sales of systems surpassed the sale of cards for the first time. This is an important milestone in our development.

Towards the end of the year three large contracts, budgeted for March 2010, were deferred into the current year as customers took longer to finalise capital expenditure commitments. While it was disappointing to experience these delays, we remain confident that these contracts will be secured in the current year, and I am pleased to report that our pipeline of opportunities is the strongest we have seen.

At the beginning of the year we reduced our cost base through staff restructuring and relocation of the Corporate marketing function from the United States to New Zealand. We have maintained a close focus on cost control but have continued to invest in business infrastructure and the creation of IP. Our current priority is to increase our sales team in the field.

Results and Finance

Revenues for the year ended 31 March 2010 were \$31 million (2009: US\$30.4 million) with systems sales increasing by 72.8% and representing 45.2% of total revenue. Profit before tax and a share option charge of \$746,000 was US\$379,000 (2009: US\$5.2 million), after taking account of a \$1.2m provision for a significant receivable. This provision is discussed further in the Finance Director's report.

We ended the year with cash balances of US\$1.7 million.

Board

On 22 February 2010 Mark Giles was appointed to the board as an Independent Non Executive Director. Mark is currently Chairperson of First Mobile New Zealand, and has previously held senior management positions at IBM and New Zealand Board positions at Alcatel and Vodafone. Mark is resident in New Zealand and brings highly relevant telecoms industry and general management skills and experience to the Endace Board.

Outlook

While there still remains considerable uncertainty in the world economy, we continue to experience increasing interest and demand for our products and solutions to protect critical infrastructure. 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 the company's UK subsidiary, Endace Europe Limited, Davidson House, Forbury Square, Reading, Berkshire, RG1 3EU on Wednesday 28 July 2010 at 9.30am.

Ian Graham
Chairman
25 May 2010

CHIEF EXECUTIVE OFFICER'S REPORT

Introduction

Despite difficult market conditions we made good progress overall towards the achievement of our long term objectives.

For the first time, systems sales exceeded DAG card sales, which is an important indicator for the company as it demonstrates successful progression of our products up the value chain. This year also saw us win our largest ever single contract, with a US based financial institution, and a good number of wins against key competitors. The typical deal size increased substantially during the year.

We maintained tight controls over costs and cash, focusing on essential capital expenditure to continue the successful development of our systems. We also undertook an important internal reorganisation and recruited a number of key individuals to strengthen the operational foundations for the growth we see ahead of us.

Strategy for Growth

While remaining consistent with our previous approach, our strategy for growth has evolved during the year. We are seeing increasing opportunity in the market for Cyber Security solutions. There is strong demand for these in the Government, Financial, and Telecommunications sectors which we already serve and they also open up new sectors for us where there is critical infrastructure which needs to be protected.

Our increasing focus on Cyber Security solutions will accelerate the evolution of our sales from DAG cards to more complete system solutions. Systems sales generate significantly increased revenue and contribution per monitored point, albeit at a lower margin than DAG cards, and the systems market opportunity is significantly larger.

We shall continue to develop and market our traditional product base and are confident that this strategy positions us well to address near term opportunities arising from current markets and to benefit from longer term strategic investment into new markets.

Markets

Customers were substantially more cautious about their investment decisions and more financially demanding of their suppliers, which affected the time to completion as they took longer to finalise capex decisions.

The Financial Services market showed renewed strength in the USA, particularly in Chicago and New York, but less so in EMEA, reflecting the USA's status as the global decision-making hub. Having won major accounts with 7Ticks, Trading Technology and RealTick, Endace established itself as the industry standard analytics platform in the high-frequency trading market place.

In the Cyber Security market, Europe and Asia showed most progress, with both India and the Baltic states generating significant business. We have a clear technology advantage in this marketplace and are competing and gaining market share from our competitors, many of whom are much larger than Endace,

The telecommunications service provider market in the USA was profitable for Endace with some carriers making extensive investments.

Product Portfolio

Significant investment was made during the year into our systems, ensuring that our capabilities continue to exceed those of our competitors. We shall continue to invest in areas of product development in order to retain our competitive advantage and exploit emerging opportunities. In particular, investments planned this year will further improve the performance and flexibility of our probes, enhance our analytics and latency measurement capabilities, building on our core DAG technology.

In February 2010 we announced our DAG 9.2X2, the world's first two-port 10 Gb PCIe Gen 2 packet capture card, which is our first product using FPGA technology from Altera. At the same time we launched our 'Next Generation Intrusion Detection System' aimed at governments, telecommunication companies and large enterprises seeking to protect critical infrastructure. The product was successfully demonstrated at the RSA Conference in San Francisco in March 2010, reinforcing the branding of the Endace range – "The power to see all".

As part of our strategic investment in the Cyber Security market we committed resource to the Open Information Security Foundation ("OISF"), a US Department of Homeland Security funded initiative to create the next generation of Open Source security IDS / IPS engine. This is intended to replace the widely installed, but aging, SNORT; Suricata (the OISF engine) will form the backbone of Endace's cyber product strategy henceforth.

Partnerships and Collaborative Agreements

During the year we continued to develop and invest in our partnership with CACE Technologies, whose Pilot product offers customers a powerful visualisation tool and is proving popular with the Financial Services market. We also signed partnership agreements with Correlix and Seanet, reinforcing our position as the packet capture platform of choice in the Financial Services market.

Other partnerships agreed during the year include Vixtel and Kapsch CarrierCom in the telecommunications market.

Our entry into the market for Cyber Security solutions is widening our base of reselling and marketing partners, particularly in North America and Western Europe, where our customers are major defence contractors.

Resource development

The focus of our resource development is on driving sales growth. We put significant effort into finding the right people in New Zealand to lead key corporate functions within the business. We recruited a Chief Product Officer, a role new to Endace, to drive improvements of processes and systems required to support delivery of Endace's products. We also hired a new Director of Marketing and we re-defined the role of the Chief Technical Officer to give him a more strategic mandate.

At a sales level, we focused the business on EMEA and USA, markets that we know can deliver early value. We also learned much about emerging markets, particularly India. We introduced a new sales organisation structure and we are now recruiting additional sales people in USA and EMEA. Marketing specialists, based in the USA, will also be added to provide strength and depth to this discipline.

During the year we established a new laboratory in the Hamilton office to enhance Quality Assurance and testing. Corporate marketing functions were relocated to New Zealand from overseas to reduce costs and improve efficiency.

Employees

I extend my thanks to everyone in Endace for their commitment and response during a year of difficult market conditions. During the year the team was bolstered by a number of new hires that brought new depth and strength to the team.

Prospects

The current sales pipeline is the strongest that Endace has had in its history and the markets we address give us good near- and longer-term growth potential. We shall maintain vigorous cost control and proceed with caution with our investment decisions but, with increased market focus and a strengthened management team, we enter the current year with confidence.

Mike Riley
Chief Executive Officer
25 May 2010

FINANCE DIRECTOR'S REPORT

Revenue

Group revenue for the year ended 31 March 2010 was US\$31.0 million (2009: US\$30.4 million). Revenues in the US accounted for 59.6% (2009: 61.8%) of total Group revenue, revenues in Europe, Middle East and Africa (EMEA) accounted for 34.3% (2009: 28.7%), and revenues in Asia Pacific 6.1% (2009: 9.5%). Revenue in EMEA grew by 22% with strong sales in the Government sector. In the US revenue was flat year on year, while in Asia Pacific it declined.

Revenue from systems grew by 72.8% over last year and, at 45.2% of total revenue, for the first time exceeded sales from DAG cards, which represented 31.5% of total revenue. This is clear evidence of the success of our strategy to generate an increasing proportion of our sales from systems, the market for which represents a much larger opportunity for the Group.

Across the Group, revenue from the Financial Services sector recorded substantial growth, up 241% with 61.5% derived from the sale of systems. Despite strong Government sales in EMEA, overall Group sales declined due to a drop in revenue through our US government reseller, RSignia. Sales to the Telco market were down as compared with last year, but there were still a number of significant deals in both US and EMEA.

Product margins remain strong. However, the mix of revenue, now weighted more to systems than DAG cards, has resulted in a lower overall gross margin this year of 64.0% (2009: 71.1%). This is also lower due to the impact of a number of one-off lower margin deals involving 3rd party accessories.

Recurring support income, recognised over the life of the support contract, grew by 9.0% over the previous year. The balance sheet shows deferred income of US\$1.7 million (2009: US\$1.8 million), being the contracted support income which is carried forward to the new financial year.

Investment and costs

At the beginning of the financial year we reduced costs through staff restructuring and relocation of some functions to New Zealand. We have maintained a close focus on cost control particularly in salaries and travel. However, operating expenditure has come under pressure from the consequences of a stronger New Zealand dollar. Total SG&A expenditure was \$13.9m (2009: \$12.7m) which includes a doubtful debts provision of \$1.2m and higher employee share options compensation charges.

We have continued to maintain investment in product development with R&D expenditure increased to US\$8.8 million (2009: US\$6.6 million). Of this, US\$6.3 million (2009: US\$4.4 million) has been expensed during the year and US\$2.5 million (2009: US\$2.2 million) has been capitalised in accordance with Group policy. The capitalised R&D costs relates 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\$1.5 million (2009: US\$0.6 million). Depreciation attributable to R&D has also increased this year to \$1.3m (2009: US\$1.0) reflecting investments made in capital equipment over recent years.

Cash

Cash and cash equivalents were US\$1.7 million at 31 March 2010 (2009: US\$1.7 million). The company achieved positive cash flows from operations of \$7.0m (2009: US\$3.6m), but continues to invest in new product development and the purchase of property plant and equipment, (primarily laboratory and test equipment). Total cash spend on these was \$5.0m (2009: \$5.4m). The Group also suffered higher income tax payments of \$2.0m while in the prior year there was a small refund.

The Company recently renewed for a further 12 months its US\$4 million facility in place with HSBC.

Provision against trade receivable

At the time of our interim results we disclosed a debt of \$3,489,338 from RSignia, a reseller and systems integrator supplying the US Government, that was predominantly overdue. This reseller has been a significant customer of the Group for over four years and Endace management has been working closely to help it sell its inventory and establish a payment plan to us, so that our debt will be repaid in full. Due to the poor economic climate, the customer has faced a slowdown in its business and has recently failed to meet the payment plan. As a result, we have decided to make a substantial provision for the balance of the receivable due from Rsignia.

In the past financial year Rsignia met an agreed schedule of payments to Endace and as at 31 March 2010 the balance on the account had reduced to \$2,755,633. Subsequently, however, the customer has failed to make a payment by the due date which fell in April 2010. This has created increased uncertainty of full repayment and we have chosen to make a provision of \$1,200,000. This is based on the difference between the outstanding debt and the value of the Endace sourced inventory the customer held as at 31 March 2010.

Taxation

The Group recorded a tax benefit this year of \$0.5m (2009 \$2.0m tax expense). The effective tax rate varies from the standard corporate tax rate of 30% (2009: 30%) primarily due to foreign exchange differences that arise from translating the tax liability for the New Zealand Group entities from US dollars into New Zealand dollars. In the previous year there was a decline in the New Zealand dollar against the US dollar and the group suffered taxable gains. This year, the strengthening of the New Zealand dollar has provided us with the benefit of taxable losses.

Adjusted earnings per share

The adjusted earnings per share eliminates distortions from one off factors affecting the annual earnings of the Group. The adjusted earnings per share have been calculated as follows:

	2010	2009
	US\$'000	US\$'000
Profit for the year	124	2,749
Add back:		
Provision for restructuring (net of tax)	39	135
Provision against US trade receivable	1,200	-
Tax benefit from trade receivable provision	(360)	-
Share option compensation charge	746	462
Tax charge 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	(337)	-
Adjusted profit for the year	1,412	4,524
Diluted number of shares in issue	16,131	16,890
Adjusted fully diluted EPS (US cents)	8.8	26.8

Neil Hopkins
Finance Director
 25 May 2010

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2010

	Notes	Group	
		2010 US\$'000	2009 US\$'000
Revenue		31,017	30,384
Cost of sales		(11,177)	(8,784)
Gross profit		19,840	21,600
Other income		70	272
Selling and administrative expenses	3	(13,892)	(12,686)
Research and development expenses	3	(6,311)	(4,441)
Finance cost		(103)	(33)
Finance income		29	22
(Loss)/Profit before taxation		(367)	4,734
Income tax benefit/(expense)	4	491	(1,985)
Profit for the year		124	2,749
Earnings per share	5	US cents	US cents
- basic		0.83	18.36
- diluted		0.77	16.28

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2010

		Group	
		2010 US\$'000	2009 US\$'000
Profit for the year		124	2,749
Other comprehensive income			
Cash flow hedges, net of tax	3	3	-
Total comprehensive income for the year		127	2,749

CONSOLIDATED BALANCE SHEET As at 31 March 2010

	Notes	Group	
		2010 US\$'000	2009 US\$'000
Current assets			
Cash and cash equivalents		1,755	1,777
Trade and other receivables	6	10,643	11,790
Inventories		3,611	4,485
Total current assets		16,009	18,052
Non-current assets			
Property, plant and equipment		4,689	3,699
Intangible assets	7	11,913	11,196
Deferred tax asset		1,793	97
Total non-current assets		18,395	14,992
Total assets		34,404	33,044
Current Liabilities			
Trade and other payables		5,980	4,625
Current income tax liabilities		778	1,571
Deferred income		1,397	1,590
Deferred tax liability		5	-
Total current liabilities		8,160	7,786
Non-current liabilities			
Deferred income		343	243
Total non-current liabilities		343	243
Total liabilities		8,503	8,029
Equity			
Share capital		15,272	15,254
Foreign currency translation reserve		(147)	(147)
Cash flow hedge reserve		3	-
Share option reserve		1,586	845
Retained earnings		9,187	9,063
Total equity		25,901	25,015
Total equity and liabilities		34,404	33,044

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2010

	2010	2009
Note	US\$'000	US\$'000
Cash flows from operating activities		
Cash receipts from customers	30,814	27,755
Cash paid to suppliers and employees	(23,817)	(24,111)
Cash generated from operations	6,997	3,644
Interest paid	(103)	(33)
Income tax (payment) /refund	(1,993)	84
Net cash flows from operating activities	4,901	3,695
	8	
Cash flows from investing activities		
Purchases of property, plant and equipment	(2,164)	(2,475)
Purchases of intangible assets	(319)	(287)
Investment in product development	(2,502)	(2,147)
Outflow on acquisition of Applied Watch Technologies LLC	-	(650)
Interest received	29	120
Net cash used in investing activities	(4,956)	(5,439)
Cash flows from financing activities		
Proceeds from exercise of share options	13	123
Net cash flows from financing activities	13	123
Net decrease in cash and cash equivalents	(42)	(1,621)
Cash and cash equivalents at beginning of year	1,777	3,513
Exchange gains/(losses) on cash and cash equivalents	20	(115)
Cash and cash equivalents at end of year	1,755	1,777

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2010

Group	Share capital US\$'000	Foreign currency translation reserve US\$'000	Cash flow hedge reserve US\$'000	Share Option Reserve US\$'000	Retained earnings US\$'000	Total equity US\$'000
Balance as at 1 April 2008	15,092	(147)	-	422	6,314	21,681
Comprehensive Income						
Retained profit for the year	-	-	-	-	2,749	2,749
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	2,749	2,749
Transactions with owners						
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
Comprehensive Income						
Retained profit for the year	-	-	-	-	124	124
Other comprehensive income	-	-	3	-	-	3
Total comprehensive income	-	-	3	-	124	127
Transactions with owners						
Capital raised on employee options	13	-	-	-	-	13
Share options exercised	5	-	-	(5)	-	-
Share option compensation expense	-	-	-	746	-	746
Balance as at 31 March 2010	15,272	(147)	3	1,586	9,187	25,901

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 2010 and the results of all subsidiaries of the Group for the year ended 31 March 2010. Endace Limited (the 'Parent') 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 is an abridged version of the Group's audited accounts, which have received an unqualified report from the Group's auditors and will be included in the statutory Annual Report and Accounts for the year ended 31 March 2010. The Annual Report and Accounts will be dispatched to the shareholders and filed with the New Zealand Registrar of Companies in June 2010.

2. Segment reporting

The chief operating decision-maker has been identified as the team comprising the Chief Executive Officer and the Chief Financial Officer. This team reviews the Group's internal reporting in order to assess performance and allocate resources. The team 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 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.

North America

Comprises sales, support and distribution operations in Chantilly, Virginia, USA; servicing customers throughout the Americas.

Europe, Middle East, Africa

Comprises sales, support and distribution operations in Reading, UK; 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.

Group marketing, product development and engineering 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 CEO and CFO team assesses the performance of the segments based on a measure of profit before tax.

2. Segment reporting (continued)

c) Segment results

31 March 2010	Europe, Middle				Consolidated 2010 US\$'000
	North America	East, Africa	Asia Pacific	Unallocated	
	2010 US\$'000	2010 US\$'000	2010 US\$'000	2010 US\$'000	
Revenue					
Segment sales	20,972	11,985	21,385	-	54,342
Inter-segment sales	(2,491)	(1,351)	(19,483)	-	(23,325)
Total revenue	18,481	10,634	1,902	-	31,017
Results					
Operating (loss)/profit	(461)	425	(181)	(76)	(293)
Finance income - net	-	-	-	(74)	(74)
(Loss)/profit before taxation	(461)	425	(181)	(150)	(367)

31 March 2009	Europe, Middle				Consolidated 2009 US\$'000
	North America	East, Africa	Asia Pacific	Unallocated	
	2009 US\$'000	2009 US\$'000	2009 US\$'000	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/(loss) before taxation	1,037	343	3,365	(11)	4,734

3. Expenses

	Notes	Group	
		2010	2009
		US\$'000	US\$'000
(Loss)/profit before taxation is stated after charging / (crediting):			
Wages and salaries expense		8,721	8,088
Depreciation of property, plant and equipment		1,570	1,060
Amortisation of intangible assets	7	2,104	1,117
Loss on disposal of property plant and equipment		-	9
Bad debt expense		(6)	145
Doubtful Debts Provision	6	1,334	
Operating lease rentals		813	629
Directors fees		219	189
Net share option compensation charge		746	462
Unrealised foreign exchange (gains)/ losses		(23)	114
Realised foreign exchange (gains)		(41)	(13)
Group audit fees		114	76

4. Income tax expense

	Group	
	2010	2009
	US\$'000	US\$'000
Current Tax		
New Zealand Income tax	(2,425)	1,960
New Zealand: Adjustment to tax in respect of prior year	406	(678)
Losses recognised in deferred tax	2,425	-
Foreign corporation taxes	675	287
Foreign corporation taxes: Adjustment to tax in respect of the prior year	120	52
Total current tax	1,201	1,621
Deferred tax		
Origination and reversal of timing differences	(1,692)	364
Represented by:		
New Zealand deferred tax	1,437	348
New Zealand deferred tax in respect of prior year	(216)	-
Losses recognised in deferred tax	(2,425)	-
Foreign deferred tax	(434)	16
Foreign deferred tax in respect of prior year	(54)	-
Total deferred tax (benefit)/expense	(1,692)	364
Income tax (benefit)/expense	(491)	1,985

5. Earnings per share

	As at 31 March 2010			As at 31 March 2009		
	Earnings	Number of shares	Per share amount	Earnings	Number of shares	Per share amount
	US\$'000	'000	US cents	US\$'000	'000	US cents
Profit attributable to shareholders	124			2,749		
Basic EPS						
Earnings attributable to ordinary shareholders	124	14,983	0.83	2,749	14,976	18.36
Effect of dilutive securities						
Options ⁽¹⁾	-	1,148	-	-	1,914	-
Diluted EPS adjusted earnings	124	16,131	0.77	2,749	16,890	16.28

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

6. Trade and other receivables

	Group	
	2010	2009
	US\$'000	US\$'000
Trade receivables	11,586	11,132
Less: provision for impairment of trade receivables	(1,356)	(22)
	10,230	11,110
Other receivables	180	184
Prepayments	232	496
Receivables from related parties	1	-
	10,643	11,790

As at 31 March 2010, trade receivables of \$2,906,793 (2009: \$22,500) were impaired and provided for. The amount of the provision was \$1,355,550 (2009: \$22,500). The individually impaired receivables relate to customers which are in unexpectedly difficult economic situations. The ageing of these receivables is as follows:

	Group	
	2010	2009
	US\$'000	US\$'000
Up to 3 months	55	13
3 to 6 months	-	-
6 to 12 months	2,416	-
Over 12 months	436	9
	2,907	22

At the time of our interim results we disclosed a debt of \$3,489,338 from a reseller and systems integrator supplying the US Government, which was predominantly overdue. This reseller has been a significant customer of the Group for over four years and Endace management has been working closely with it to help build business, to sell through inventory and establish a payment plan, so that the debt will be repaid in full. Due to the poor economic climate, the customer has faced a slowdown in its business and has failed to meet its payment plan. As a result we have decided to make a substantial provision for the balance of the receivable from the customer.

Throughout the past financial year the customer met the schedule of payments to Endace and as at 31 March 2010 the balance on the account had reduced to \$2,755,633. In April 2010 the customer failed to meet the payment plan. As a result, this event has created increased risk and uncertainty of full repayment and a provision of \$1,200,000 has been made. This provision is based on the difference between the outstanding debt and the value of the Endace sourced inventory the customer is holding as at 31 March 2010.

The customer is still committed to full repayment of the debt and is continuing to work closely with Endace to achieve this.

7. Intangible assets

	Goodwill	Software	Development costs	Intellectual property	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cost					
At 1 April 2008	7,057	1,173	1,842	1,211	11,283
Additions	-	287	2,147	-	2,434
Disposals	-	-	-	-	-
At 31 March 2009	7,057	1,460	3,989	1,211	13,717
Additions	-	119	2,502	200	2,821
Disposals	-	(96)	-	-	(96)
At 31 March 2010	7,057	1,483	6,491	1,411	16,442
Amortisation					
At 1 April 2008	40	632	255	477	1,404
Charge for the year	-	284	574	259	1,117
Disposals	-	-	-	-	-
At 31 March 2009	40	916	829	736	2,521
Charge for the year	-	293	1,521	290	2,104
Disposals	-	(96)	-	-	(96)
At 31 March 2010	40	1,113	2,350	1,026	4,529
Net book value					
At 31 March 2010	7,017	370	4,141	385	11,913
At 31 March 2009	7,017	544	3,160	475	11,196

8. Cash flows from operating activities

	Group	
	2010	2009
	US\$'000	US\$'000
Profit for the year	124	2,749
Less		
Depreciation and amortisation	3,674	2,177
Share option compensation charge	746	462
Loss on disposal of property, plant and equipment	-	9
Interest income	(29)	(120)
Foreign exchange (gain)/loss	(17)	115
Movement in deferred tax asset	(1,696)	364
Deferred consideration for Applied Watch Technologies acquisition	-	650
Non-cash movement in working capital	(396)	96
Changes in working capital (excluding the effects of acquisition):		
Inventories	874	(1,672)
Trade and other receivables	1,147	(2,881)
Trade and other payables	474	1,746
Total net cash flows from operating activities	4,901	3,695

9. Contingent liabilities and contingent assets

The Parent and Group had no contingent liabilities or contingent assets as at 31 March 2010 (March 2009: Nil).