

## Results for Announcement to the Market

### Trading Results

	2010 Result	2009 Result	% Change	Amount Change
Operating Revenue	\$90.1 million	\$85.3 million	6% increase	\$4.8 million
Group EBITDA	\$30.2 million	\$25.1 million	20% increase	\$5.1 million
Group NPAT	\$17.2 million	\$13.6 million	27% increase	\$3.6 million
EPS	12.4 cents per share	9.9 cents per share	25% increase	2.5 cents per share

### Dividends

The Board has declared a final dividend of 4.5 cents per share (2009: final dividend of 4.0 cents per share). The dividend will be franked to 90%.

The final dividend will be paid to shareholders recorded on the Company's Register as at record date of 18 February 2011 (see following announcement).

This represents an increase of 1 cent per share on the interim dividend of 3.5 cents per share (declared on 10 August 2010). The Company's dividend payout ratio for 2010 was 65%.

### Net tangible assets

The net tangible assets per security as at 31 December 2010 is 2.0c cents per share (2009: -1.9 cents per share).

### Acquisitions

Effective 1 January 2010, the Group sold 25% of the Billback UK operation to nQueue Inc, in return for a further 7% interest in nQueue Billback in the USA.

## Share Buy Back

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On 8 February 2011 the board of directors approved an on-market share buy-back of not more than 10% of the shares in the company.

The proposed share buy-back is viewed by the board as part of the company's strategy to manage its capital base. No shares have been bought to-date.

In accordance with ASX Listing Rule 7.33 LR 7.33, the price at which shares will be bought back will not be more than 5% above the average market price, calculated over the last 5 days before the day on which any buy back is made.

## Audit

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This report is based on accounts which are in the process of being audited.

## Commentary

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All areas of the Business Division performed strongly with retail up 32%, direct sales up 11% and corporate services up 7%, giving the Division growth of 12%. This translates to a growth in EBITDA of 32%.

In the Professional Division, the Australian and New Zealand businesses continued their history of new customer acquisition despite challenges facing the accounting profession from the global financial crisis. The weakness in United Kingdom market and adverse foreign exchange impacts, however, meant that revenue for the Professional was down 5% and EBITDA down 2%. Without a negative foreign exchange impact, the EBITDA would have been up 2%.

nQueue Billback revenue was down 1%. Without a foreign exchange impact it would have been up 15%. EBITDA grew 41% as a result of the merging of the nQueue and Billback businesses.

## Segment/Divisional Results (before central administration costs)

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- Business Division
  - Operating revenue up 12% to \$56.0m
  - EBITDA up 32% to \$20.7m
- Professional Division
  - Operating revenue down 5% to \$26.8m
  - EBITDA down 2% to \$10.8m
- nQueue Billback Division
  - Operating revenue down 1% \$7.3m
  - EBITDA up 41% to \$3.1m.



**Clive Rabie**  
 Director, Group CEO  
 8 February 2011

# Statement of Comprehensive Income

for the year ended 31 December 2010

	Note	Consolidated	
		2010	2009
		\$'000	\$'000
<b>Continuing operations</b>			
<b>Revenue</b>	<b>2</b>	<b>90,273</b>	<b>85,389</b>
Product and selling costs		(14,588)	(14,623)
Royalties		(4,786)	(4,204)
Employee benefits expenses		(27,461)	(26,913)
Share-based payments expenses		(1,300)	(1,027)
Marketing expenses		(2,471)	(3,106)
Premises and establishment expenses		(2,685)	(2,683)
Depreciation and amortisation of other non-current assets		(7,769)	(6,897)
Telecommunications		(920)	(995)
Legal and professional expenses		(981)	(889)
Finance costs		(161)	(303)
Other expenses		(4,752)	(4,761)
		<hr/>	<hr/>
<b>Profit before business acquisition restructure costs</b>		<b>22,399</b>	<b>18,988</b>
Business acquisition restructure costs		-	(1,176)
		<hr/>	<hr/>
<b>Profit before income tax</b>		<b>22,399</b>	<b>17,812</b>
Income tax expense	3	(5,151)	(4,210)
		<hr/>	<hr/>
<b>Profit for the year</b>		<b>17,248</b>	<b>13,602</b>
		<hr/>	<hr/>
<b>Other comprehensive income</b>			
Exchange difference on translation of foreign operations	21	(294)	(258)
		<hr/>	<hr/>
<b>Total comprehensive income for the year</b>		<b>16,954</b>	<b>13,344</b>
Profit attributable to:		<hr/>	<hr/>
Owners of the parent	22	16,478	13,226
Non-controlling interest		770	376
		<hr/>	<hr/>
		<b>17,248</b>	<b>13,602</b>
		<hr/>	<hr/>
Total comprehensive income attributable to:			
Owners of the parent		16,184	12,968
Non-controlling interest		770	376
		<hr/>	<hr/>
		<b>16,954</b>	<b>13,344</b>
		<hr/>	<hr/>
		Cents	Cents
<b>Basic Earnings per Share</b>	23	12.4	9.9
<b>Diluted Earnings per Share</b>	23	12.4	9.9

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

# Statement of Financial Position

as at 31 December 2010

	Note	Consolidated	
		2010	2009
		\$'000	\$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	27	8,095	2,350
Trade and other receivables	6	6,756	9,152
Inventories	5	831	1,159
Other assets	7	1,320	1,164
<b>Total Current Assets</b>		17,002	13,825
<b>Non-Current Assets</b>			
Receivables	6	236	617
Financial assets	8	56	64
Property, plant and equipment	9	3,760	3,768
Deferred tax assets	10	56	586
Intangible assets	11	46,438	45,270
Other assets	12	-	192
<b>Total Non-Current Assets</b>		50,546	50,497
<b>Total Assets</b>		67,548	64,322
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	13	5,838	6,022
Borrowings	14	2	375
Current tax payables		920	813
Provisions	15	2,007	1,899
Deferred revenue		5,742	6,048
Deferred rent contribution		233	250
<b>Total Current Liabilities</b>		14,742	15,407
<b>Non-Current Liabilities</b>			
Borrowings	16	-	2,023
Deferred tax liabilities	17	1,607	1,972
Provisions	15	1,337	850
Deferred rent contribution		721	795
<b>Total Non-Current Liabilities</b>		3,665	5,640
<b>Total Liabilities</b>		18,407	21,047
<b>Net Assets</b>		49,141	43,275
<b>Equity</b>			
Issued capital	20	18,048	18,037
Reserves	21	(63)	239
Retained earnings	22	31,156	24,625
Equity attributable to owners of the parent		49,141	42,901
Non-controlling interest	28	-	374
<b>Total Equity</b>		49,141	43,275

The above statement of financial position should be read in conjunction with the accompanying notes.

# Statement of Changes in Equity

for the year ended 31 December 2010

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Foreign currency translation reserve \$'000</b>	<b>Share-based payments reserve \$'000</b>	<b>Retained earnings \$'000</b>	<b>Attributable to owners of the parent \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total \$'000</b>
<b>Balance at 1 January 2010</b>	18,037	(400)	639	24,625	42,901	374	43,275
Profit for the year	-	-	-	16,478	16,478	770	17,248
Other comprehensive income:							
Exchange differences on translation of foreign operations	-	(294)	-	-	(294)	-	(294)
Total comprehensive income for the year	-	(294)		16,478	16,184	770	16,954
Share based payments expense	-	-	324	-	324	-	324
Dividends paid	-	-	-	(9,947)	(9,947)	(1,144)	(11,091)
Treasury shares vested/lapsed	314	-	(314)	-	-	-	-
Transfer to share capital	18	-	(18)	-	-	-	-
Treasury shares acquired	(370)	-	-	-	(370)	-	(370)
Contributions of equity, net of transaction costs	49	-	-	-	49	-	49
<b>Balance at 31 December 2010</b>	<b>18,048</b>	<b>(694)</b>	<b>631</b>	<b>31,156</b>	<b>49,141</b>	<b>-</b>	<b>49,141</b>
<b>Balance at 1 January 2009</b>	17,566	(142)	958	20,003	38,385	(2)	38,383
Profit for the year	-	-	-	13,226	13,226	376	13,602
Other comprehensive income:							
Exchange differences on translation of foreign operations	-	(258)	-	-	(258)	-	(258)
Total comprehensive income for the year	-	(258)		13,226	12,968	376	13,344
Share based payments expense	-	-	311	-	311	-	311
Dividends paid	-	-	-	(8,604)	(8,604)	-	(8,604)
Treasury shares vested/lapsed	498	-	(498)	-	-	-	-
Transfer to share capital	132	-	(132)	-	-	-	-
Treasury shares acquired	(415)	-	-	-	(415)	-	(415)
Contributions of equity, net of transaction costs	256	-	-	-	256	-	256
<b>Balance at 31 December 2009</b>	<b>18,037</b>	<b>(400)</b>	<b>639</b>	<b>24,625</b>	<b>42,901</b>	<b>374</b>	<b>43,275</b>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

# Statement of Cash Flows

## for the year ended 31 December 2010

	Note	Consolidated Inflows/(Outflows)	
		2010	2009
		\$'000	\$'000
<b>Cash Flows From Operating Activities</b>			
Receipts from customers		101,523	93,451
Payments to suppliers and employees		(68,461)	(69,701)
Interest received		158	81
Interest paid		(161)	(303)
Income taxes paid		(4,879)	(4,647)
<b>Net cash inflow from operating activities</b>	<b>27(c)</b>	<b>28,180</b>	<b>18,881</b>
<b>Cash Flows From Investing Activities</b>			
Payment for purchase of business, net of cash acquired		-	(18,394)
Payments for purchase of intellectual property		(61)	(164)
Payment for capitalised development costs		(7,568)	(6,485)
Payment for property, plant and equipment		(1,387)	(1,822)
Proceeds/(payments) for security deposits		8	565
<b>Net cash outflow from investing activities</b>		<b>(9,008)</b>	<b>(26,300)</b>
<b>Cash Flows From Financing Activities</b>			
Proceeds from issues of equity securities		49	256
Proceeds from/(repayment of) borrowings		(2,396)	2,398
Payment for treasury shares		(370)	(415)
Dividends paid		(9,947)	(8,604)
Non-controlling interest dividends paid		(763)	-
<b>Net cash outflow from financing activities</b>		<b>(13,427)</b>	<b>(6,365)</b>
<b>Net Increase/(Decrease) in cash and cash equivalents</b>		<b>5,745</b>	<b>(13,784)</b>
Cash and cash equivalents at the beginning of the financial year		2,350	16,134
<b>Cash and cash equivalents at the end of the financial year</b>	<b>27(a)</b>	<b>8,095</b>	<b>2,350</b>

The above statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

for the year ended 31 December 2010

## 1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. The financial report includes the consolidated entity consisting of Reckon Limited and its subsidiaries.

### Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations and the *Corporations Act 2001*, and complies with the other requirements of the law.

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Reckon Limited, comply with International Financial Reporting Standards (IFRSs).

The financial report has been prepared in accordance with the historical cost convention, except for the revaluation of certain non-current assets and financial instruments.

### Significant Accounting Policies

#### (a) Trade Payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. These amounts are unsecured and are usually paid within 30 days of the month of recognition. Trade payables are recognised initially at fair value, and subsequently at amortised cost.

#### (b) Acquisition of Assets

Assets acquired are recorded at the cost of acquisition, being the fair value of the purchase consideration determined as at the date of acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is the weighted average of their closing market price for the total of the five business days either side of the acquisition date. Acquisition related costs are recognised in the profit or loss as incurred.

In the event that settlement of all or part of the consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition. However, where the deferred component is subject to certain criteria being met, the amount deferred is recognised based on an estimate where it is probable that the relevant criteria will be met. If the amount is not probable or cannot be reliably measured, no amount is recognised.

#### (c) Depreciation and Amortisation

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight-line basis. Leasehold improvements are amortised over the period of the lease or the estimated useful life, whichever is the shorter, using the straight-line method. The following estimated useful lives are used in the calculation of depreciation and amortisation:

Plant and equipment	3 - 5 years
Leasehold improvements	3 - 6 years

**(d) Employee Benefits**

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave, and other employee entitlements expected to be settled within 12 months are measured at the amounts expected to be paid when the liabilities are settled.

Provisions made in respect of long service leave which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to the reporting date, using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

The Group recognises a liability and an expense for the long-term incentive plan for selected executives based on a formula that takes into consideration the ranking of total shareholder return measured against a comparator group of companies.

Contributions are made by the Group to defined contribution employee superannuation funds and are charged as expenses when incurred.

**(e) Contributed Equity***Transaction Costs on the Issue of Equity Instruments*

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

**(f) Foreign Currency Translation***Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Reckon Limited's functional and presentation currency.

*Transactions and balances*

All foreign currency transactions during the financial year have been brought to account in the functional currency using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date. Exchange differences are brought to account in the profit or loss in the period in which they arise.

*Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency of the consolidated entity as follows:

- Assets and liabilities are translated at the closing rate at the date of the statement of financial position;
- Income and expenses are translated at average rates (unless this is not a reasonable approximation of the

cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of monetary items forming part of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken directly to reserves. When a foreign operation is sold, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity at the closing rate.

(g) **Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

(h) **Intangible assets**

*Goodwill*

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. Goodwill represents the excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired. Goodwill is not amortised, and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Following initial recognition goodwill is measured at cost less any accumulated impairment losses. If an impairment has been identified, the goodwill is written down and an expense recognised in profit or loss. Impairment losses recognised for goodwill are not subsequently reversed.

*Intellectual Property*

Acquired Intellectual Property is recognised at cost, less accumulated amortisation and any impairment losses, and is amortised on a straight line basis between 3-10 years.

*Research and development costs*

Research and development expenditure is recognised as an expense when incurred, except in the undernoted instances.

Development costs in respect of enhancements on existing Professional Division and Elite suites of software applications are capitalised and written off over a 3 to 4 year period. Development costs on technically and commercially feasible new Professional Division and Elite products are capitalised and written off on a straight line basis over a period of 3 to 4 years commencing at the time of commercial release of the new product.

Development costs include cost of materials, direct labour and appropriate overheads.

At each balance date, a review of the carrying value of the capitalised development costs being carried forward is undertaken to ensure the carrying value is recoverable from future revenue generated by the sale of that software.

(i) **Income Tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities, and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to those temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. All deferred tax liabilities are recognised.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(j) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to inventory on hand on a weighted average cost basis.

(k) **Investments in subsidiaries**

Investments in subsidiaries are recorded at cost.

Dividend revenue is taken to income on a receivable basis.

(l) **Leased Assets**

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased assets, and operating leases under which the lessor effectively retains substantially all the risks and benefits.

Operating lease payments are recognised on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. Lease incentives are initially recognised as a liability and are amortised over the term of the lease on a straight line basis.

(m) **Principles of Consolidation**

The consolidated financial statements have been prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its subsidiaries. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control the entity.

In preparing the consolidated financial statements, all inter-company balances and transactions, and unrealised profits arising from transactions within the consolidated entity are eliminated in full.

**(n) Receivables**

Trade receivables and other receivables are recorded at amortised cost, less impairment.

**(o) Impairment of assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

**(p) Revenue Recognition***Sale of Goods and Disposal of Assets*

Revenue from the sale of goods and disposal of other assets is recognised when the consolidated entity has passed control of the goods or other assets to the buyer, the fee is fixed or determinable and collectability is probable.

Professional Division software licence fee revenue is recognised at the point when the customer is in agreement for a "live operation" (i.e. when the customer accepts that all users can use the system on a fully functional basis).

*Rendering of Services*

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract or on a time and materials basis depending upon the nature of the contract.

Support and maintenance revenue is recognised on a straight-line basis over the period of the contract, unless the cost of providing the technical support is insignificant. Under those circumstances the revenue and the associated cost of providing the technical support is accrued upon shipment of the goods. In multiple element arrangements where goods and services are sold as a bundled product, the fair value of the services is recognised as revenue over the period during which the service is performed, unless cost of providing those services is insignificant. Under those circumstances the revenue and the associated cost of providing the services is accrued upon shipment of the goods.

*Interest and Other Revenue*

Interest revenue is recognised on a time proportional basis taking into account the effective interest rates applicable to the financial assets. Other revenue is recognised when the right to receive the revenue has been established.

**(q) Deferred Revenue**

Revenue earned from maintenance and support services provided on sales of certain products by the consolidated entity are deferred and then recognised in the income statement over the contract period as the services are performed, normally 12 months. Refer note 1(p) for further detail.

**(r) Earnings per share**

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures in the determination of basic earnings per share by taking into

account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of dilutive potential ordinary shares.

(s) **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and bank overdrafts.

(t) **Other financial assets**

Other financial assets represent security deposits held as rental guarantees. They are valued at amortised cost.

(u) **Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that the outflow can be reliably measured.

(v) **Fair Value estimation**

The fair value of financial instruments and share based payments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and assumptions that are based on existing market conditions. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining instruments.

The Directors consider that the nominal value less estimated credit adjustments of trade receivables and payables approximate their fair values.

(w) **Rounding of amounts**

The parent entity has applied the relief available to it under ASIC Class Order 98/100, and accordingly, amounts in the financial report have been rounded off to the nearest thousand dollars, except where otherwise indicated.

(x) **Significant accounting judgments, estimates and assumptions**

*Significant accounting judgments*

In applying the Group's accounting policies, management has made the following judgments which have the most significant effect on the financial statements:

Capitalisation of development costs – the Group has adopted a policy of capitalising development costs only for products for which an assessment is made that the product is technically feasible and will generate definite economic benefits for the Group going forward. The capitalised costs are subsequently amortised over the expected useful life of the product.

Revenue recognition - in multiple element arrangements where goods and services are sold as a bundled product, the fair value of the services is recognised as revenue over the period during which the service is performed

*Significant accounting estimates and assumptions*

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of certain assets and liabilities are:

Impairment of goodwill – the Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the goodwill is allocated. The

assumptions used in this estimation, and the effect if these assumptions change, are disclosed in Note 11.

Share based payments – the Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. The fair value has been determined using a model that adopts the Monte Carlo simulation approach, and the assumptions related to this can be found in Note 19.

(y) **New accounting standards not yet effective**

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the financial report.

<b>Standard/Interpretation</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Expected to be initially applied in the financial year ending</b>
• AASB 9 <i>Financial Instruments</i> , AASB 2009-11 and AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9</i>	1 January 2013	31 December 2013
• AASB 124 <i>Related Party Disclosures (2009)</i> , AASB 2009-12 <i>Amendments to Australian Accounting Standards</i>	1 January 2011	31 December 2011
• AASB 2009-10 <i>Amendments to Australian Accounting Standards – Classification of Rights Issues</i>	1 February 2010	31 December 2011
• AASB 2009-14 <i>Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement</i>	1 January 2011	31 December 2011
• AASB 2010-3 <i>Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i>	1 July 2010	31 December 2011
• AASB 2010-4 <i>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i>	1 January 2011	31 December 2011
• AASB 2010-5 <i>Amendments to Australian Accounting Standards</i>	1 January 2011	31 December 2011
• AASB 2010-6 <i>Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets</i>	1 July 2011	31 December 2012
• AASB 2010-8 <i>Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets</i>	1 January 2012	31 December 2012
• AASB Interpretation 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i>	1 July 2010	31 December 2011

## 2 Profit for the year

**Consolidated**  
**2010**                      **2009**  
**\$'000**                      **\$'000**

Profit before income tax includes the following items of revenue and expense:

### Revenue

#### Sales revenue

Sale of goods and rendering of services

90,042                      85,231

#### Other Revenue

Other income

73                              77

Interest revenue – Bank deposits

158                            81

231                            158

90,273                      85,389

### Expenses

Cost of Sales

19,374                      18,827

Bad debt expense:

    Other Entities

51                              103

Finance costs expensed:

    Wholly-owned controlled entities

-                                -

    Bank loans and overdraft

161                            303

Net transfers to/(from) provisions:

    Sales returns and rebates

158                            149

    Employee benefits

891                            796

    Allowance for doubtful debts

332                            47

Depreciation of non-current assets:

    Property, plant and equipment

915                            871

Amortisation of non-current assets:

    Leasehold improvements

422                            425

    Intellectual property

1,332                        1,529

    Development costs

5,100                        4,072

Foreign exchange losses/(gains)

(83)                            (59)

Research and Development costs

2,339                        2,190

Operating lease rental expenses:

    Minimum lease payments

2,425                        2,362

### 3 Income Tax

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Income tax expense</b>		
Current tax	5,114	4,215
Deferred tax	165	733
Under/(over) provided in prior years	(128)	(738)
	<u>5,151</u>	<u>4,210</u>

(b) The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense/(income tax revenue) in the financial statements as follows:

<b>Profit before income tax</b>	<u>22,399</u>	<u>17,812</u>
Income tax expense calculated at 30% of profit	6,720	5,344
<b>Tax Effect of:</b>		
Effect of higher tax rates on overseas income	86	60
Tax effect of non-deductible/non-taxable items:		
Non-controlling interest component	(231)	(113)
Research and development claims	(787)	(389)
Sundry items	(79)	46
	<u>5,709</u>	<u>4,948</u>
Reversal of withholding tax on pre-acquisition dividend	(430)	-
Under/(over) provision in prior years	(128)	(738)
Income tax expense attributable to profit	<u>5,151</u>	<u>4,210</u>

(c) Future income tax benefits not brought to account as an asset: not probable of recovery

Tax losses:		
Revenue	-	-
Capital	2,295	2,295
	<u>2,295</u>	<u>2,295</u>

## 4 Remuneration of Auditors

### Consolidated

2010                      2009  
\$                              \$

#### (a) Deloitte Touche Tohmatsu

During the year, the auditors of the parent entity earned the following remuneration:

Auditing and reviewing of financial reports	194,153	184,851
Due diligence and other assurance services	19,025	14,850
Tax compliance and consulting services	79,740	56,767
	<u>292,918</u>	<u>256,468</u>

#### (b) Other Auditors

Auditing and reviewing of financial reports	32,078	56,842
Tax compliance services	24,085	19,766
	<u>56,163</u>	<u>76,608</u>
	<u>349,081</u>	<u>333,076</u>

## 5 Inventories

### Consolidated

2010                      2009  
\$'000                      \$'000

Finished goods:		
At lower of cost and net realisable value	831	1,159
	<u>831</u>	<u>1,159</u>

## 6 Trade and Other Receivables

#### Current:

Trade receivables (i)	6,652	8,552
Allowance for doubtful debts	(542)	(261)
	<u>6,110</u>	<u>8,291</u>
Other receivables	646	861
	<u>6,756</u>	<u>9,152</u>

#### Non current:

Other receivables: non-controlling interest holder	236	617
	<u>236</u>	<u>617</u>

(i) The ageing of past due receivables at year end is detailed as follows:

Past due 0-30 days	1,468	1,271
Past due 31-60 days	520	988
Past due 61+ days	1,058	1,474
Total	<u>3,046</u>	<u>3,733</u>

The movement in the allowance for doubtful accounts in respect of trade receivables is detailed below:

Balance at beginning of the year	261	317
Amounts written off during the year	(51)	(103)
Increase in allowance recognised in the profit and loss	332	47
<b>Balance at end of year</b>	<u>542</u>	<u>261</u>

## 7 Other Assets

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Prepayments	970	820
Other	350	344
	1,320	1,164

## 8 Other Financial Assets

Security deposits	56	64
-------------------	----	----

## 9 Property, Plant And Equipment

### Leasehold Improvements

At cost	2,464	2,472
Less: Accumulated amortisation	1,234	858
Total leasehold improvements	1,230	1,614

### Plant and equipment

At cost	5,591	5,382
Less: Accumulated depreciation	3,061	3,228
Total plant & equipment	2,530	2,154
	3,760	3,768

### Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the financial year are set out below.

	<b>Leasehold Improvements \$'000</b>	<b>Plant and Equipment \$'000</b>	<b>Total \$'000</b>
<b>Consolidated</b>			
Carrying amount at 1 January 2010	1,614	2,154	3,768
Additions	38	1,349	1,387
Depreciation/amortisation expense	(422)	(973)	(1,395)
Balance at 31 December 2010	1,230	2,530	3,760

	<b>Leasehold Improvements \$'000</b>	<b>Plant and Equipment \$'000</b>	<b>Total \$'000</b>
<b>Consolidated</b>			
Carrying amount at 1 January 2009	1,210	1,333	2,543
Additions	829	1,741	2,570
Depreciation/amortisation expense	(425)	(920)	(1,345)
Balance at 31 December 2009	1,614	2,154	3,768

## 10 Deferred Tax Asset

**Consolidated**  
**2010**      **2009**  
**\$'000**      **\$'000**

The balance comprises temporary differences attributable to:

Doubtful debts	3	22
Employee benefits	29	319
Deferred revenue	-	65
Other provisions	24	180
	<hr/>	<hr/>
	56	586
	<hr/>	<hr/>

Details of unrecognised deferred tax assets can be found in Note 3(c)

Reconciliation:

Opening balance at 1 January	586	426
Credited/(charged) to profit or loss	(530)	(955)
Acquisition of businesses	-	1,115
	<hr/>	<hr/>
Balance at 31 December	56	586
	<hr/>	<hr/>

## 11 Intangibles

Intellectual property – at cost	11,950	12,588
Accumulated amortisation	(7,387)	(6,667)
	<hr/>	<hr/>
	4,563	5,921
	<hr/>	<hr/>
Development costs – at cost	30,732	23,107
Accumulated amortisation	(17,496)	(12,397)
	<hr/>	<hr/>
	13,236	10,710
	<hr/>	<hr/>
Goodwill – at cost	28,639	28,639
	<hr/>	<hr/>
	46,438	45,270
	<hr/>	<hr/>

### Impairment test for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to the business entities acquired, as follows:

Professional Division Australia	10,361	10,361
Professional Division New Zealand	1,742	1,742
Professional Division United Kingdom	426	426
nQueueBillback	2,449	2,449
Elite	2,536	2,536
Corporate Services	11,125	11,125
	<hr/>	<hr/>
	28,639	28,639
	<hr/>	<hr/>

The recoverable amount of a CGU is determined based on value-in-use calculations. Management has based the value in use calculations on the most recently completed Board approved budget for the forthcoming one year (2011) period. Subsequent cash flows are projected using constant growth rates of 3% per annum. An average post-tax discount rate of 13.4% (2009: 13.4%) (pre-tax rate: 18%) reflecting assessed risks associated with CGU's have been applied to determine the present value of future cash flow projections. No impairment write-offs have been recognized during the year (2009: nil). Should the projected growth rates reduce to 0%, an impairment would still not arise.

**Consolidated movements in intangibles**

	<b>Goodwill</b>	<b>Intellectual</b>	<b>Development</b>	<b>Total</b>
	<b>\$'000</b>	<b>Property</b>	<b>Costs</b>	<b>\$'000</b>
		<b>\$'000</b>	<b>\$'000</b>	
At 1 January 2010	28,639	5,921	10,710	45,270
Additions	-	(26)	7,626	7,600
Amortisation charge	-	(1,332)	(5,100)	(6,432)
At 31 December 2010	<u>28,639</u>	<u>4,563</u>	<u>13,236</u>	<u>46,438</u>
At 1 January 2009	14,708	1,132	8,248	24,088
Additions	13,931	6,318	6,534	26,783
Amortisation charge	-	(1,529)	(4,072)	(5,601)
At 31 December 2009	<u>28,639</u>	<u>5,921</u>	<u>10,710</u>	<u>45,270</u>

**12 Other Assets**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Prepayments - other	-	192
	<u>-</u>	<u>192</u>

**13 Trade and Other Payables**

## Current:

Trade payables and sundry accruals (i)	4,420	4,683
Employee benefits (Note 19)	1,418	1,339
	<u>5,838</u>	<u>6,022</u>

(i) The credit period for the majority of goods purchased is 30 days. No interest is charged. The Group has policies in place to ensure payables are paid within the credit periods.

**14 Borrowings**

## Current:

Bank overdraft (i)	-	258
Other borrowings	2	117
	<u>2</u>	<u>375</u>

(i) During 2009 the consolidated entity secured bank facilities totaling \$23 million. The facility comprises a bank overdraft facility, and a multi option facility (which includes a bill facility and bank guarantee/transactional facility). The facility covers a 3 year term, except for \$1 million which is subject to annual review. The facility is secured over the Australian net assets of the Group (\$48.4 million at 31 December 2010). The facilities, apart from the bank guarantee, are undrawn.

	<b>Bank overdraft \$'000</b>	<b>Bill facility \$'000</b>	<b>Bank guarantee facility \$'000</b>
<b>2010</b>			
The available, used and unused components of the facility at year end is as follows:			
Available	1,000	19,000	3,000
Used	-	-	1,078
Unused	1,000	19,000	1,922
The remaining contractual maturity for the facility (including both interest and principal) is as follows:			
0-12 months	-	-	1,078
12-24 months	-	-	-
Weighted average interest rate	8.26%	6.14%	-

## 15 Provisions

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Current:		
Sales returns, volume rebates	181	339
Employee benefits (Note 19)	1,377	1,052
Commissions and sundry provisions	449	508
	<u>2,007</u>	<u>1,899</u>
Non-current:		
Employee benefits (Note 19)	<u>1,337</u>	<u>850</u>

### Movement in provisions

Movements in each class of provision during the financial year, excluding employee benefits, are set out below:

	<b>Sales returns, volume rebates \$'000</b>	<b>Commissions and sundry \$'000</b>	<b>Total \$'000</b>
<b>2010 Consolidated</b>			
Carrying amount at the start of the year	339	508	847
Released to profit or loss	(158)	(59)	(217)
Carrying amount at the end of the year	<u>181</u>	<u>449</u>	<u>630</u>

## 16 Borrowings

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Non-current:		
Bank loans (note 14)	-	2,012
Other borrowings	-	11
	<u>-</u>	<u>2,023</u>

## 17 Deferred Tax Liabilities

**Consolidated**  
**2010**      **2009**  
**\$'000**      **\$'000**

The temporary differences are attributable to:

Withholding tax payable in event of distribution of pre-acquisition dividend	-	430
Doubtful debts	(137)	(54)
Employee benefits	(1,220)	(600)
Sales returns and volume rebates	(54)	(101)
Deferred revenue	(641)	(762)
Difference between book and tax value of non-current assets	4,307	3,387
Other provisions	(648)	(328)
	<hr/>	<hr/>
	1,607	1,972
	<hr/>	<hr/>

Details of unrecognised deferred tax assets can be found in Note 3(c)

Reconciliation:

Opening balance at 1 January	1,972	640
Charged (credited) to profit or loss	(365)	(222)
Acquisition of businesses	-	1554
	<hr/>	<hr/>
Balance at 31 December	1,607	1,972
	<hr/>	<hr/>

## 18 Parent Entity Disclosures

**Parent**  
**2010**      **2009**  
**\$'000**      **\$'000**

### Financial position

Assets

Current assets	9,054	2,953
Non-current assets	55,534	52,803
	<hr/>	<hr/>
	64,588	55,756
	<hr/>	<hr/>

Liabilities

Current liabilities	12,918	11,081
Non-current liabilities	3,596	3,862
	<hr/>	<hr/>
	16,514	14,943
	<hr/>	<hr/>

Equity

Share capital	18,049	18,037
Share based payments reserve	631	639
Retained earnings	29,394	22,137
	<hr/>	<hr/>
	48,074	40,813
	<hr/>	<hr/>

### Financial performance

Profit for the year	17,205	12,249
Other comprehensive income	-	-
	<hr/>	<hr/>
Total comprehensive income	17,205	12,249
	<hr/>	<hr/>

### Capital commitments for the acquisition of property, plant and equipment

Not longer than 1 year	1,042	-
	<hr/>	<hr/>

### Other

Reckon Limited assets have been used as security for the bank facilities set out in note 14.

The parent entity has no contingent liabilities.

## 19 Employee Benefits

The aggregate employee benefit liability recognised and included in the financial statements is as follows:

Accrued annual leave:

Current (Note 13)

1,418

1,339

Long term incentive:

Current (Note 15)

526

492

Non-current (Note 15)

892

407

Provision for long service leave:

Current (Note 15)

851

560

Non-current (Note 15)

445

443

4,132

3,241

### Long-term incentive plan

The long-term incentive plan was approved at the Special General Meeting on 20 December 2005, and comprises three possible methods of participation: an option plan, a performance share plan and a share appreciation plan. The Board has discretion to make offers to applicable employees to participate in any of these plans. Options granted and/or performance shares awarded (all in respect of the Company's ordinary shares) and/or share appreciation rights do not vest before three years after their grant date. Vesting is also conditional upon the Company achieving defined performance criteria. The performance criteria are based upon a total shareholder return (TSR) target. A TSR is the return to shareholders over a prescribed period, being the growth in the Company's share price plus dividends or returns of capital for that period. The Company's initial TSR target will be the Company achieving a median or higher ranking against the TSR position of individual companies within a 'comparator Group' of companies (i.e. a group of comparable ASX listed companies pre-selected by the Board) over the same period. The initial comparator group was determined by independent advisers and was set out in the Chairman's speech at the Special General Meeting on 20 December 2005. The Board will review the suitability of the comparator group on an on going basis.

Only 50% of options or performance shares become exercisable or vest if the initial performance criterion is satisfied. The extent to which the balance of options or performance shares become exercisable or vest will depend on the extent to which the initial performance criterion is exceeded (i.e. the extent to which the Company exceeds a median ranking against the TSR position of the comparator group of companies). The performance shares are held in trust after vesting.

The share appreciation rights plan represents an alternative remuneration element (to offering options or performance shares) under which the Board can invite relevant employees to apply for a right to receive a cash payment from the Company equal to the amount (if any) by which the market price of the Company's shares at the date of exercise of the right exceeds the market price of the Company's shares at the date of grant of the right. The right may only be exercised if performance criteria are met. The performance criteria are fixed by the Board in the exercise of its discretion. At present these are the same as the TSR target set for the right to exercise options or for performance shares to vest.

No options were issued during the year (2009: Nil).

357,873 (2009: 888,324) appreciation rights and 214,190 (2009:375,475) performance shares were issued during the year. The fair value of these rights was 48.9 cents (2009: 19.7 cents) and the shares were \$1.48 (2009: \$1.05), using a model that adopts the Monte Carlo simulation approach. The assumptions used in this model are: grant date share price of \$1.85; expected volatility of 35.2%; dividend yield of 3.5%; and a risk free rate of 4.9%. The expense recognised in 2010 for appreciation rights/performance shares was \$1,299,810 (2009: \$1,027,823).

Set out below are summaries of performance shares and appreciation rights granted under the long-term incentive plan:

#### Performance Shares

Grant Date	Expiry Date	Shares Granted	Shares lapsed during the year		Shares vested during the year		Shares available at the end of the year	
			2010	2009	2010	2009	2010	2009
			Jan'07	Dec'09	300,590	-	9,823	-
Jan'08	Dec'10	252,477	-	7,332	245,145	-	-	245,145
Jan'09	Dec'11	375,475	3,175	-	6,349	-	365,951	375,475
Jan'10	Dec'12	214,190	3,604	-	1,801	-	208,785	-

#### Appreciation Rights

Grant Date	Expiry Date	Rights Granted	Rights lapsed during the year		Rights vested during the year		Rights available at the end of the year	
			2010	2009	2010	2009	2010	2009
			Jan'07	Dec'09	561,798	-	-	-
Jan'08	Dec'10	495,356	-	-	495,356	-	-	495,356
Jan'09	Dec'11	888,324	-	-	-	-	888,324	888,324
Jan'10	Dec'12	357,873	-	-	-	-	357,873	-

#### Reckon Limited Employee Option Plans

The Company has previously had two ownership-based remuneration schemes:

##### Executive share option plan

The executive share option plan has been terminated.

##### Executive share option plan No. 2

The Reckon Limited Executive Share Option Plan No. 2 was established on 19/7/2000. Under the provisions of the plan, the Directors may grant options over unissued shares in the Company to executives and Directors of the Company (or their associates) or subsidiaries of the Company selected by the Directors from time to time, subject to the ASX Listing Rules and the *Corporations Act 2001*.

Options are granted for a five-year period and 50% of each new tranche becomes exercisable after each of the first two anniversaries of the grant date. The entitlements are vested as soon as they are exercisable (i.e. they are not conditional on future employment). Each option entitles the holder to one ordinary share.

Amounts receivable on exercise of any options are recognised as share capital. Options exercised during the year were exercised with an average exercise price of \$0.75 (2009; \$0.67).

Set out below are summaries of options granted under the Executive Share Option Plan No. 2.

Grant date	Expiry date	Exercise Price	Options Initially Granted	Options lapsed during the year		Options exercised and shares issued during the year		Options vested and available at the end of the year	
				2010	2009	2010	2009	2010	2009
				Feb 01	Feb 06	\$0.198	1,123,334	-	-
Mar 01	Mar 06	\$0.162	22,145	-	-	-	5,937	-	-
Jun 03	Jun 08	\$0.270	58,891	-	-	-	-	-	-
Sep 03	Sep 08	\$0.505	115,002	-	8,339	950	18,050	-	950
Dec 03	Dec 08	\$0.619	48,890	-	10,555	1,419	7,298	-	1,419
Jan 04	Jan 09	\$0.551	1,061,159	-	217,076	633	161,168	-	633
Mar 04	Mar 09	\$0.789	56,110	-	35,889	-	-	-	-
Jun 04	Jun 09	\$0.960	76,668	-	45,389	-	24,278	-	-
Sep 04	Sep 09	\$0.823	151,166	-	45,441	-	42,223	-	-
Dec 04	Dec 09	\$0.796	250,554	-	78,281	171	80,315	-	171
Mar 05	Mar 10	\$0.743	75,555	41,166	-	16,361	-	-	57,527
Jul 05	Jul 10	\$0.741	79,999	30,349	-	19,527	-	-	49,876
Sep 05	Sep 10	\$0.779	113,887	39,319	-	13,722	31,139	-	53,041
Dec 05	Dec 10	\$0.722	144,445	68,087	-	13,722	-	-	81,809
				178,921	440,970	66,505	379,748	-	245,426
Number of shares that can be issued for unexercised options								-	245,426

## 20 Issued Capital

Fully Paid Ordinary Share Capital	2010		2009	
	No.	\$'000	No.	\$'000
Balance at beginning of financial year	133,317,555	18,766	132,937,807	18,378
Transfer from share-based payments reserve for options exercised during the year	-	18	-	132
Issue of shares	66,505	49	379,748	256
Balance at end of financial year	133,384,060	18,833	133,317,555	18,766
<b>Less Treasury shares</b>				
Balance at beginning of financial year	620,620	729	717,319	812
Shares purchased in current period	197,030	370	375,475	415
Shares lapsed	(6,779)	(10)	(17,155)	(20)
Prior year lapsed shares utilised	17,160	20	-	-
Shares vested	(253,295)	(324)	(455,019)	(478)
Balance at end of financial year	574,736	785	620,620	729
Balance at end of financial year net of treasury shares	132,809,324	18,048	132,696,935	18,037

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Changes to the then Corporations Law abolished the authorised capital and par value concepts in relation to share capital from 1 July 1998. Therefore the company does not have a limited amount of authorised capital and issued shares do not have a par value.

66,505 (2009; 379,748) options were exercised during the year with an average exercise price of \$0.75. Details of the options that were exercised and further details in respect of the share option plans are contained in note 19 to the financial statements.

Total consideration for options exercised during the year is \$49,793 (2009; \$255,419).

## 21 Reserves

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Foreign currency translation reserve		
Balance at beginning of financial year	(400)	(142)
Translation of foreign operations	(294)	(258)
Balance at end of financial year	<u>(694)</u>	<u>(400)</u>
Share-based payments reserve		
Balance at beginning of financial year	639	958
Treasury share expense	324	311
Treasury shares vested/lapsed	(314)	(498)
Transfer to share capital (options exercised)	(18)	(132)
Balance at end of financial year	<u>631</u>	<u>639</u>
	<u>(63)</u>	<u>239</u>

### Nature and purpose of reserves

#### (a) Foreign currency translation reserve

Exchange differences arising on translation of the financial reports of foreign subsidiaries are taken to the foreign currency translation reserve, as described in note 1(f)

#### (b) Share-based payments reserve

The share-based payments reserve is for the fair value of options granted and recognised to date but not yet exercised, and treasury shares purchased which have not yet vested.

## 22 Retained Earnings

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at beginning of financial year	24,625	20,003
Net profit	16,478	13,226
Dividends	(9,947)	(8,604)
Balance at end of financial year	<u>31,156</u>	<u>24,625</u>

## 23 Earnings Per Share

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>cents</b>	<b>\$'000</b>
Basic earnings per share	12.4	9.9
Diluted earnings per share	12.4	9.9
Weighted average number of ordinary shares used in the calculation of basic earnings per share	<u>132,779,303</u>	<u>132,494,486</u>
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	<u>133,354,038</u>	<u>133,358,778</u>

## 24 Contingent Liabilities

There are no material contingent liabilities as at 31 December 2010.

## 25 Commitments For Expenditure

### (a) Capital Expenditure Commitments

The consolidated entity has capital expenditure commitments of \$1,042 thousand as at 31 December 2010 (2009: \$nil).

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(b) Lease Commitments</b>		
<b>Operating Leases</b>		
Within 1 year	2,520	1,976
Later than 1 year and not longer than 5 years	10,907	7,344
Later than 5 years	2,127	1,949
	15,554	11,269

Operating leases relate to office and warehouse premises with lease terms of between 1 to 7 years. All operating lease contracts contain market review clauses in the event that the consolidated entity exercises its option to renew. The consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period.

## 26 Subsidiaries

Name of Entity	Country of Incorporation	<b>Ownership Interest</b>	
		2010	2009
		%	%
<b>Parent Entity</b>			
Reckon Limited	Australia		
<b>Subsidiaries</b>			
Reckon.com.au Pty Limited	Australia	100	100
Reckon Australia Pty Limited	Australia	100	100
Reckon Investment Centre Limited	Australia	100	100
Reckon Online Holdings Pty Limited	Australia	100	100
Reckon Pacrim Pty Limited	Australia	100	100
Reckon Training Pty Limited	Australia	90	90
Reckon Limited Performance Share Plan Trust	Australia	100	100
Reckon New Zealand Pty Limited	New Zealand	100	100
Advanced Professional Solutions Pty Limited	Australia	100	100
Advanced Professional Solutions Limited	New Zealand	100	100
Advanced Professional Solutions Limited	United Kingdom	100	100
Reckon Docs Pty Limited	Australia	100	100
Independent Corporate Services Pty Limited	Australia	100	100
Quickdocs.com.au Pty Limited	Australia	100	100
Recount Expense Management Pty Limited	Australia	100	100
Billback Systems (UK) Limited <sup>1</sup>	United Kingdom	100	100
Billback LLC	United States of America	100	100
nQueue Billback LLC <sup>1</sup>	United States of America	67	67

All shares held are ordinary shares.

1. Subsequent to year end 25% of Billback Systems (UK) Limited has been sold to nQueue Inc in return for an additional 7% of nQueueBillback LLC

## 27 Notes to the Statement of Cash Flows

**Consolidated**  
**2010**      **2009**  
**\$'000**      **\$'000**

### (a) Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash (i)	8,095	2,350
	8,095	2,350

(i) Cash balance is predominantly in the form of short-term money market deposits, which can be accessed at call.

### (b) Businesses Acquired

#### Corporate Services and BillBack businesses

Consideration:

Cash consideration (i)	-	18,000
Net debt acquired	-	228
Direct costs relating to the acquisition	-	1,045
Consideration yet to be paid	-	-
	-	19,273

Fair value of net assets of entity acquired:

Receivables	-	3,437
Inventories	-	881
Intellectual property – customer contracts	-	4,210
Intellectual property – development and software	-	1,793
Intellectual property – trademarks and domain names	-	150
Fixed assets	-	728
Deferred tax liabilities	-	(439)
Trade payables	-	(772)
Deferred revenue	-	(3,361)
Other current liabilities	-	(1,121)
Other non-current liabilities	-	(138)
	-	5,368
Goodwill	-	13,905
	-	19,273

(i) Reckon Limited has commenced legal proceedings against Espreon in relation to several claims which is expected to reduce the consideration paid. The amount of the claim is yet to be finalised.

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>nQueueBillback</b>		
Consideration:		
Cash consideration	-	-
Direct costs relating to the acquisition	-	26
	<hr/>	<hr/>
	-	26
Fair value of net assets of entity acquired:		
Receivables - current	-	334
Receivables – non current	-	684
Inventories	-	301
Fixed assets	-	20
Deferred revenue	-	(1,082)
Other current liabilities	-	(257)
	<hr/>	<hr/>
	-	-
Goodwill	-	26
	<hr/>	<hr/>
	-	26

#### **Corporate Services and BillBack businesses**

Reckon Limited acquired the Corporate Services and BillBack businesses previously owned by Espreon Limited effective from 2 January 2009 for \$18 million. The acquisition was funded predominantly from existing cash reserves. Debt funding was used to fund the difference.

The Corporate Services business is a provider of documentation for company formations, secretarial services, trusts and self managed super fund trust deeds. This is a range of products and services which is similar to Reckon's Shelco business.

The BillBack business is a provider of technologies for the capture, reporting and billing of client expenses by professional services suppliers such as lawyers and accountants, and hence has a natural fit with Reckon's Professional Division.

#### **nQueueBillback**

Reckon Limited merged its United States subsidiary of BillBack with nQueue Inc effective from 1 July 2009. Reckon holds a 67% controlling interest in the merged entity.

The merged entity brings together the best of the parties cost recovery and cost management products and service offerings in the USA and gives the business greater scale.

	<b>2010</b>	<b>Consolidated</b>
	<b>\$'000</b>	<b>2009</b>
		<b>\$'000</b>
<b>(c) Reconciliation of Profit After Income Tax To Net Cash</b>		
<b>Flows From Operating Activities</b>		
Profit after income tax	17,248	13,602
Depreciation and amortisation of non-current assets	7,769	6,897
Non-cash employee benefits expense – share based payment	324	311
Increase/(decrease) in current tax liability/asset	107	(1,106)
Increase/(decrease) in deferred tax balances	165	733
Unrealised foreign currency translation amount	(294)	(258)
(Increase)/decrease in assets:		
Current receivables	2,396	(388)
Current inventories	328	463
Other current assets	36	(309)
Non-current receivables	-	(125)
Increase/(decrease) in liabilities:		
Current trade payables	11	(371)
Other current liabilities	(323)	(629)
Other non-current liabilities	413	61
	<hr/>	<hr/>
Net cash inflow from operating activities	28,180	18,881
	<hr/>	<hr/>

## 28 Outside Equity Interests in Controlled Entities

Interest in:		
Share Capital	-	-
Accumulated profits	<hr/>	<hr/>
	-	374
	<hr/>	<hr/>
	-	374
	<hr/>	<hr/>

## 29 Dividends – ordinary shares

	2010	2009
	\$'000	\$'000
Final franked dividend for the year ended 31 December 2009 of 4.0 cents (2008: 3.5 cents) per share paid on 5 March 2010	5,307	4,636
Interim dividend for the year ended 31 December 2010 of 3.5 cents per share franked to 90% (2009: 3.0 cents) paid on 10 September 2010	4,640	3,968
	<hr/> 9,947	<hr/> 8,604
Franking credits available for subsequent financial years based on a tax rate of 30% (2009: 30%)	<hr/> 1,441	<hr/> 1,932

## 30 Financial Instruments

### (a) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

### (b) Financial Risk Management Objectives

The Board of Directors has overall responsibility for the establishment and oversight of the company and group's financial management framework.

The Board of Directors oversees how Management monitors compliance with risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks. The main risk arising from the company and group's financial instruments are currency risk, credit risk, liquidity risk and cash flow interest rate risk.

### (c) Interest Rate Risk

The group is exposed to interest rate risk on the cash held in bank deposits and on bank borrowings. Cash deposits of \$8,095 thousand were held by the consolidated entity at the reporting date, attracting an average interest rate of 4.2% (2009: 1.5%). If interest rates had been 50 basis points higher or lower (being the relevant volatility considered relevant by management) and all other variables were held constant, the group's net profit would increase/decrease by \$40 thousand (2009: \$12 thousand).

Borrowings by the consolidated entity at the reporting date were \$2 thousand. Borrowings during the year attracted an average interest rate of 8.26% on overdraft facilities and 6.14% on bank bill facilities (2009: 4.33%).

The Board of directors monitors these exposures and does not presently hedge against these risks.

### (d) Credit Risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

The consolidated entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

**(e) Foreign Currency Risk**

The consolidated entity and company undertakes certain transactions denominated in foreign currencies that are different to the functional currencies of the entities undertaking the transactions, hence exposures to exchange rate fluctuations arise. The Board of Directors monitor these exposures and does not presently hedge against this risk.

The carrying amount of the consolidated entity's foreign currency denominated monetary assets and liabilities at the reporting date that are denominated in a currency that is different to the functional currency of respective entities undertaking the transactions is as follows:

	<b>Consolidated</b>			
	<b>Liabilities</b>		<b>Assets</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Euro	-	-	21	33
US Dollar	-	-	-	28

At 31 December 2010, if the Euro weakened against the UK Pound by 10% (being the relevant volatility considered relevant by Management), with all other variables held constant the net profit of the consolidated entity would increase by \$2 thousand (2009: \$3 thousand). At 31 December 2010, if the New Zealand Dollar, US Dollar and UK Sterling weakened against the Australian Dollar by 10% (being the relevant volatility considered relevant by Management), with all other variables held constant the net profit of the consolidated entity would increase by \$37 thousand (2009: \$231 thousand). This latter sensitivity relates to inter-group loan balances denominated in Australian Dollars, which are eliminated on consolidation.

In Management's opinion, the sensitivity analysis is not fully representative of the inherent foreign exchange risk as the year-end exposure does not necessarily reflect the exposure during the course of the years. The consolidated entity includes certain subsidiaries whose functional currencies are different to the consolidated entity presentation currency. The main operating entities outside of Australia are based in New Zealand, United States of America and the United Kingdom. These entities transact primarily in their functional currency and, aside from inter-group loan balances, do not have significant foreign currency exposures due to outstanding foreign currency denominated items. As stated in the consolidated entity's accounting policies per Note 1, on consolidation the assets and liabilities of these entities are translated into Australian Dollars at exchange rates prevailing at year end. The income and expenses of these entities is translated at the average exchange rates for the year. Exchange differences arising are classified as equity and are transferred to a foreign exchange translation reserve. The consolidated entity's future reported profits could therefore be impacted by changes in rates of exchange between the Australian Dollar and the New Zealand Dollar, and the Australian Dollar and the US Dollar and the Australian Dollar and the UK Sterling.

**(f) Liquidity**

The Group manages liquidity risk by maintaining adequate cash reserves and banking facilities by continuously monitoring forecast and actual cash flows.

**(g) Capital risk management**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern. The capital structure of the Group consists of cash, debt and equity attributable to equity holders of the parent. The Board reviews the capital structure on a regular basis. Based upon this review, the Group balances its overall capital structure through borrowings, the payment of dividends, issues of shares, share buy-backs and returns of capital. This strategy remains unchanged since the prior year.

**(h) Fair Value**

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets, is determined with reference to quoted market prices. The fair value of other financial assets and liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable market transactions. The carrying amount of financial assets and financial liabilities recorded in the financial report approximates their respective fair values, determined in accordance with the accounting policies disclosed in note 1 to the financial statements.

## 31 Segment Information

The Group has adopted AASB 8 Operating Segments and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 8 with effect from 1 January 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

### (a) Business segment information

The consolidated entity is organised into three operating divisions:

**Business Division**

**Professional Division**

**nQueueBillback Division**

These divisions are the basis upon which the consolidated entity reports its financial information to the chief operating decision maker, being the Board of directors.

The principal activities of these divisions are as follows:

- Business Division - development, distribution and support of personal financial and accounting software, as well as related products and services to professional partners. Products sold in this division include Quickbooks, Quicken, ReckonDocs and ReckonElite.
- Professional Division - development, distribution and support of practice management, tax, client accounting, cost management and related software under the APS and Billback brands.
- nQueueBillback Division – distribution and support of cost recovery, cost management and related software to the USA legal market.

### Segment revenues and results

	Business Division		Professional Division		nQueueBillback Division		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Operating revenue</b>	<b>56,050</b>	<b>49,854</b>	<b>26,803</b>	<b>28,115</b>	<b>7,262</b>	<b>7,339</b>	<b>90,115</b>	<b>85,308</b>
Interest revenue							158	81
Total revenue							90,273	85,389
<b>Segment EBITDA</b>	<b>20,720</b>	<b>15,677</b>	<b>10,837</b>	<b>11,021</b>	<b>3,109</b>	<b>2,205</b>	<b>34,666</b>	<b>28,903</b>
Depreciation and amortisation	(2,017)	(1,865)	(5,053)	(4,703)	(699)	(545)	(7,769)	(7,113)
<b>Total segment profit before tax</b>	<b>18,703</b>	<b>13,812</b>	<b>5,784</b>	<b>6,318</b>	<b>2,410</b>	<b>1,660</b>	<b>26,897</b>	<b>21,790</b>
Central administration costs							(4,495)	(3,756)
Interest revenue/(Financing costs)							(3)	(222)
Profit before income tax							22,399	17,812
Income tax expense							(5,151)	(4,210)
<b>Profit for the year</b>							<b>17,248</b>	<b>13,602</b>

The revenue reported above represents revenue generated from external customers.

Segment profit represents the profit earned by each segment without allocation of central administration costs, finance costs and income tax expense, all of which are allocated to Corporate head office. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessing performance.

**Segment assets and liabilities**

	<b>Assets</b>		<b>Liabilities</b>		<b>Additions to non-current assets</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Business Division	29,308	23,331	15,794	12,613	2,196	6,673
Professional Division	36,052	35,107	6,215	9,182	5,461	8,152
nQueueBillback Division	8,760	10,486	2,970	3,854	1,330	7,081
Total of all segments	74,120	68,924	24,979	25,649	8,987	21,096
Eliminations	(6,572)	(4,602)	(6,572)	(4,602)	-	-
Consolidated	67,548	64,322	18,407	21,047	8,987	21,906

**(b) Geographical information**

	<b>Revenues from external customers</b>		<b>Non-current assets</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Australia	73,199	67,628	37,137	36,512
Other countries (i)	16,916	17,680	13,409	13,985
	<u>90,115</u>	<u>85,308</u>	<u>50,546</u>	<u>50,497</u>

(i) No single country outside of Australia is considered to generate revenues which are material to the group.

**(c) Segment revenues**

	<b>External sales</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Business and wealth management products	49,694	44,433
Accounting industry products	28,298	28,203
Legal industry products	12,123	12,672
	<u>90,115</u>	<u>85,308</u>

**32 Economic Dependency**

Reckon Limited generates a significant volume of its revenue from products supplied by Intuit under the manufacturing and distribution agreement it has with Intuit Inc. The agreement was renegotiated effective from December 2010 to ensure that it also catered for the emerging online market. The initial term of the agreement is 5 years with automatic rolling terms of 3 years. The agreement is subject to commercial terms relating to royalties and termination. Previously the term of the agreement was 10 years and was subject to annual market growth objectives being achieved.