

Reckon Limited
ACN 003 348 730
Directors' Report

Your directors present their report for the half-year ended 30 June 2011.

Directors

The names of the company's directors in office during the half-year and until the date of this report are as follows:

John Thame
Greg Wilkinson
Ian Ferrier
Clive Rabie

Review of Operations

Overview of financial performance for the half-year:

	30 June 2011		30 June 2010	
	\$'000	% growth	\$'000	
Operating revenue	\$ 46,654	-	\$ 46,484	
EBITDA before significant items outside normal operating activities	\$ 16,559	8%	\$ 15,323	
Significant items outside normal operating activities	\$ (812)		-	
EBITDA after significant items outside normal operating activities	\$ 15,747	3%	\$ 15,323	
Net profit before significant items outside normal operating activities	\$ 9,278	5%	\$ 8,846	
Significant items outside normal operating activities	\$ (937)		-	
Net profit after significant items outside normal operating activities	\$ 8,341	-6%	\$ 8,846	

The group has continued to build on the strength of its two core businesses in Australia in the first half of 2011, resulting in EBITDA margins (before significant items outside normal operating activities) improving from 33% in 2010 to 35.5% for the 2011 half year.

The **Business Division** has grown EBITDA by 8%. This is mainly attributable to growth in direct revenue, with particularly strong performances in both the enterprise and online offerings. The division has however been impacted by a substantially weaker retail channel in 2011. We have nonetheless continued to enjoy market share growth in the retail channel and in addition the business continues to add substantial numbers of new customers through its online offerings.

The **Professional Division** has grown EBITDA by 16%. The performance in Australia was particularly strong. The result was however negatively impacted in both the United Kingdom and New Zealand by tough economic conditions and weaker currencies. New revenue growth in the Australian Professional Division was also very encouraging, as was the continued addition of new customers in all countries. Recent large contracts won in both the United Kingdom and New Zealand should help improve the results in these countries in the second half.

The **nQueueBillback Division** EBITDA was down by 20%, impacted by substantially weaker currencies, weaker economic conditions and the transition of the UK business to new management. Pleasingly, these businesses are still growing market share at a solid rate, as is evidenced by the quantum of new sales representing circa 30% of the overall revenue in this division.

Significant items outside of normal operating activities have adversely impacted the reported NPAT result by \$0.9million, representing a provision for the anticipated rent shortfall on the companies old Pymont premises following its move to North Sydney, partially offset by the gain from the settlement of the litigation with Espreon. The net saving from the premises move, however, will more than offset this provision over the period of the lease.

The group acquired just under 5% of Melbourne IT for \$7.3m during 2011, and continues to evaluate commercial opportunities with this potential partner, as we move more of our offerings towards cloud computing. To-date no revenue has been booked with regard to this investment.

The board has declared an interim dividend of 3.5 cents (3.5 cents in 2010). The dividend will be 90% franked.

Rounding of amounts to the nearest thousand dollars

The Company is a company of the kind referred to in ASIC Class Order 98/100, and in accordance with that Class Order, amounts in the directors' report and the financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated.

Auditor's independence declaration

We have obtained an independence declaration from our auditors, Deloitte Touche Tohmatsu, which is attached to these financial statements.

Signed in accordance with a resolution of the directors, made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the directors



John Thame
Chairman

Sydney, 8 August 2011

**Condensed Consolidated Income Statement
for the half-year ended 30 June 2011**

		30 June 2011 \$'000	Half-year 30 June 2010 \$'000
	Note		
Continuing operations			
Revenue from sale of goods and rendering of services		46,654	46,484
Product and selling costs		(7,158)	(7,572)
Royalties		(3,022)	(2,749)
Employee benefits expenses		(14,228)	(14,509)
Marketing expenses		(1,335)	(1,703)
Premises and establishment expenses		(1,342)	(1,605)
Telecommunications		(490)	(451)
Depreciation and amortisation of other non-current assets		(4,190)	(3,811)
Finance costs		(32)	(111)
Other expenses		<u>(2,520)</u>	<u>(2,572)</u>
Profit before significant items outside normal operating activities		12,337	11,401
Significant items outside normal operating activities	2	<u>(1,338)</u>	<u>-</u>
Profit before income tax		10,999	11,401
Income tax expense		<u>(2,658)</u>	<u>(2,555)</u>
Profit for the half-year		<u>8,341</u>	<u>8,846</u>
Profit attributable to:			
Owners of the parent		8,035	8,429
Non-controlling interest		<u>306</u>	<u>431</u>
		<u>8,341</u>	<u>8,860</u>
Earnings per share		cents	cents
Basic earnings per share		6.1	6.3
Diluted earnings per share		6.0	6.3
Alternative earnings per share (excluding after tax effect of significant items)			
Basic earnings per share		6.8	6.3
Diluted earnings per share		6.7	6.3

The above condensed consolidated income statement should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Comprehensive Income for the half-year ended 30 June 2011

	30 June 2011 \$'000	Half-year	30 June 2010 \$'000
Profit for the half-year	8,341		8,846
Other comprehensive income			
Exchange differences on translation of foreign operations	(64)		14
Fair value adjustment of financial assets	<u>(267)</u>		<u>-</u>
	8,010		8,860
Prior year exchange differences on translation of foreign operations (relating to goodwill)	<u>(863)</u>		<u>-</u>
Total comprehensive income	<u>7,147</u>		<u>8,860</u>
 Profit and comprehensive income is attributable to:			
Owners of the parent	6,841		8,429
Non-controlling interest	<u>306</u>		<u>431</u>
	<u>7,147</u>		<u>8,860</u>

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

**Condensed Consolidated Statement of Financial Position
as at 30 June 2011**

	30 June 2011 \$'000	31 December 2010 \$'000
ASSETS		
Current Assets		
Cash and cash equivalents	3,271	8,095
Trade and other receivables	8,804	6,756
Inventories	1,165	831
Other assets	1,216	1,320
Total Current Assets	<u>14,456</u>	<u>17,002</u>
Non-Current Assets		
Receivables	651	236
Financial assets	7,058	56
Property, plant and equipment	3,830	3,760
Deferred tax assets	99	56
Intangible assets	45,614	46,438
Total Non-Current Assets	<u>57,252</u>	<u>50,546</u>
Total Assets	<u>71,708</u>	<u>67,548</u>
LIABILITIES		
Current Liabilities		
Trade and other payables	8,837	5,838
Borrowings	-	2
Current tax payables	1,603	920
Provisions	2,790	2,007
Deferred revenue	6,283	5,742
Other liabilities - deferred rent contribution	-	233
Total Current Liabilities	<u>19,513</u>	<u>14,742</u>
Non-Current Liabilities		
Deferred tax liabilities	1,422	1,607
Provisions	1,896	1,337
Other liabilities - deferred rent contribution	18	721
Total Non-Current Liabilities	<u>3,336</u>	<u>3,665</u>
Total Liabilities	<u>22,849</u>	<u>18,407</u>
NET ASSETS	<u>48,859</u>	<u>49,141</u>
EQUITY		
Issued capital	16,659	18,048
Reserves	(1,070)	(63)
Retained earnings	33,223	31,156
Equity attributable to owners of the parent	48,812	49,141
Non-controlling interest	47	-
TOTAL EQUITY	<u>48,859</u>	<u>49,141</u>

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

Condensed Consolidated Statement of Changes in Equity for the half-year ended 30 June 2011

	Issued capital \$'000	Foreign currency translation reserve \$'000	Share-based payments reserve \$'000	Revaluation reserve \$'000	Retained earnings \$'000	Non- controlling interest \$'000	Total \$'000
Total equity at 1 January 2011	18,048	(694)	631	0	31,156	-	49,141
Profit for the half-year					8,035	306	8,341
Exchange differences on translation of foreign operations		(64)					(64)
Fair value adjustment of financial assets				(267)			(267)
	-	(64)	-	(267)	8,035	306	8,010
Prior year exchange differences on translation of foreign operations		(863)					(863)
Total Comprehensive Income	-	(927)	-	(267)	8,035	306	7,147
Dividends paid					(5,968)	(259)	(6,227)
Share based payments expense			187				187
Treasury shares acquired	(1,389)						(1,389)
Total equity at 30 June 2011	16,659	(1,621)	818	(267)	33,223	47	48,859
Total equity at 1 January 2010	18,037	(400)	639	0	24,625	374	43,275
Profit for the half-year					8,415	431	8,846
Exchange differences on translation of foreign operations		14					14
Total Comprehensive Income	0	14	0	0	8,415	431	8,860
Dividends paid					(5,279)	(696)	(5,975)
Share based payments expense			162				162
Transfer to share capital	15		(15)				0
Treasury shares acquired	(370)						(370)
Contributions of equity, net of transaction costs	39						39
Total equity at 30 June 2010	17,721	(386)	786	0	27,761	109	45,991

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

**Condensed Consolidated Statement of Cash Flows
for the half-year ended 30 June 2011**

	30 June 2011 \$'000	Half-year 30 June 2010 \$'000
Cash Flows From Operating Activities		
Receipts from customers	49,037	51,302
Payments to suppliers and employees	(31,803)	(33,274)
Interest received/(paid)	(32)	(111)
Income tax paid	<u>(2,203)</u>	<u>(2,132)</u>
Net cash inflow from operating activities	<u>14,999</u>	<u>15,785</u>
Cash Flows From Investing Activities		
Payment for property, plant and equipment	(1,344)	(346)
Payment for intellectual property	(34)	(40)
Payment for investment	(7,269)	-
Proceeds from security deposits	-	8
Payment for capitalised development costs	<u>(3,548)</u>	<u>(3,854)</u>
Net cash (outflow) from investing activities	<u>(12,195)</u>	<u>(4,232)</u>
Cash Flows From Financing Activities		
Dividends paid	(5,968)	(5,279)
Dividends paid to non-controlling interests	(259)	(696)
Proceeds from repayment of advances	-	320
Payment for treasury shares	(1,389)	(370)
Repayment of borrowings	(2)	(2,393)
Proceeds from issues of equity securities	<u>-</u>	<u>39</u>
Net cash (outflow) from financing activities	<u>(7,618)</u>	<u>(8,379)</u>
Net Increase/(Decrease) In Cash and Cash Equivalents	(4,814)	3,174
Cash and cash equivalents at the beginning of the half-year	8,095	2,350
Effects of exchange rate changes on cash and cash equivalents	<u>(10)</u>	<u>12</u>
Cash and Cash Equivalents at the end of the half-year	<u><u>3,271</u></u>	<u><u>5,536</u></u>

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

Notes to the Condensed Consolidated Financial Statements for the half-year ended 30 June 2011

Note 1. Basis of preparation of half-year report

This general purpose financial report for the interim half year ended 30 June 2011 has been prepared in accordance with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

This interim financial report does not include all of the notes of the type normally included in an annual report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2010 and any public announcements made by Reckon Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The condensed consolidated financial statements have been prepared on the basis of historical cost. All amounts are presented in Australian dollars.

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

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current reporting period.

	30 June 2011 \$'000	Half-year	30 June 2010 \$'000
Net gain from settlement of legal proceedings with Espreon Limited	542		-
Net costs associated with premises relocation, including:			
estimated sub-lease rent shortfall (i)	(1,354)		-
leasehold improvement amortisation	(526)		-
	<u>(1,338)</u>		<u>-</u>
Tax effect on significant items	401		-
Net impact on Profit for the half-year	<u>(937)</u>		<u>-</u>

(i) Accounting standards require that a provision be made for the expected shortfall from the sub-lease of the Pyrmont premises. The net saving that will arise from the move to the new North Sydney premises will more than offset this cost over the period of the lease.

Note 3: Segment information

Primary segments	Business Division \$'000	Professional Division \$'000	nQueueBillBack Division \$'000	Consolidated \$'000
Half-year 2011				
Segment operating revenue	29,504	12,825	4,325	46,654
Interest revenue				-
Total revenue				46,654
Segment EBITDA	11,063	6,012	1,655	18,730
Depreciation and amortisation	(1,031)	(2,729)	(430)	(4,190)
Total segment profit before tax	10,032	3,283	1,225	14,540
Central administration costs				(2,171)
Finance costs				(32)
Significant items				(1,338)
Profit before tax				10,999
Income tax expense				(2,658)
Profit for the half-year				8,341
Half-year 2010				
Segment operating revenue	28,772	12,574	5,138	46,484
Interest revenue				-
Total revenue				46,484
Segment EBITDA	10,215	5,191	2,013	17,419
Depreciation and amortisation	(1,050)	(2,326)	(435)	(3,811)
Total segment profit before tax	9,165	2,865	1,578	13,608
Central administration costs				(2,096)
Finance costs				(111)
Profit before tax				11,401
Income tax expense				(2,555)
Profit for the half-year				8,846

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.

The Professional Division in the June 2010 interim financial report included Billback UK. The 2010 results have been restated to include Billback UK in the nQueue Billback Division in line with 2011. Effective 1 January 2011 25% of Billback Systems (UK) Limited was sold to nQueue Inc in return for an additional 7% of nQueueBillback LLC in the USA.

There have been no material changes to segment assets.

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, ReckonTools, 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.

nQueue Billback Division - distribution and support of cost recovery, cost management and related software predominantly to the USA and UK legal market.

Note 4. Equity securities issued

Issues of ordinary shares during the half-year:

Exercise of employee share scheme options

Issued capital at 30 June 2011 amounted to \$16,659 thousand (132,249,398 shares)

559,926 treasury shares (2010: 197,030) were purchased in the current period.

Half-year 2011		Half-year 2010	
No.	\$'000	No.	\$'000
-	-	52,783	39
-	-	52,783	39

Note 5. Dividends

Ordinary shares

Dividends paid during the half-year

Dividends not recognised at the end of the half-year

In addition to the above dividends, since the end of the half-year the directors have recommended the payment of an interim dividend of 3.5 cents per fully paid ordinary share (2010: 3.5 cents). The dividend will be 90% franked. The aggregate amount of the proposed dividend expected to be paid on 9 September 2011 out of retained profits at 30 June 2011, but not recognised as a liability at the end of the half-year, is

	30 June 2011 \$'000	Half-year	30 June 2010 \$'000
Dividends paid during the half-year	5,968		5,279
Dividends not recognised at the end of the half-year	4,629		4,639

Note 6. Borrowings

During 2009, the Group obtained bank facilities to the value of \$23 million. All except for \$1 million (annual review) are available until 31 December 2011. The facilities, apart from \$1 million related to bank guarantees, are undrawn at balance date.

Note 7. Working capital deficiency

The condensed consolidated statement of financial position indicates an excess of current liabilities over current assets of \$5,057 thousand (December 2010: excess of current assets over current liabilities of \$2,260 thousand). This arises due to the cash management structure adopted by management, whereby surplus funds are used to repay debt and make investments. Available bank facilities at balance date total \$22 million. Furthermore, included in current liabilities is deferred revenue of \$6,283 thousand (December 2010: \$5,742 thousand), settlement of which will involve substantially lower cash flows.

Note 8. Subsequent events

Reckon Limited announced on 12 July 2011 that it had signed a memorandum of understanding with Intuit Inc for the joint development of a "light" version of the APS practice management software. The commitment to this project remains highly contingent on development milestones and market testing requirements being satisfied.

A share buy back of up to 10% of the company's share capital, was announced on 8 August 2011, as part of the company's strategy to manage its capital base.

Directors' Declaration

The directors declare that:

in the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position as at 30 June 2011 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) complying with accounting standards
- (b) there are reasonable grounds to believe that Reckon Limited will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors



John Thame
Chairman

Sydney, 8 August 2011

The Board of Directors
Reckon Limited
Level 12
65 Berry Street
North Sydney NSW 2060

8 August 2011

Dear Board Members

Reckon Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Reckon Limited.

As lead audit partner for the review of the financial statements of Reckon Limited for the half-year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Michael Kaplan
Partner
Chartered Accountants

Independent Auditor's Review Report to the Members of Reckon Limited

We have reviewed the accompanying half-year financial report of Reckon Limited, which comprises the condensed consolidated statement of financial position as at 30 June 2011, and the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Reckon Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Reckon Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Reckon Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Michael Kaplan
Partner
Chartered Accountants
Sydney, 8 August 2011