

**Craneware plc**  
**Annual Report and Financial Statements**  
**For the year ended 30 June 2012**

Registered Number SC196331



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**for the year ended 30 June 2012**  
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# Craneware plc

## Chairman's Statement

Despite a mixed trading environment in the first half of the year, Craneware has delivered a solid set of results showing an 8% increase in revenues to \$41.1 million, an 18% increase in adjusted EBITDA to \$11.9 million, and a 23% increase in basic adjusted EPS to 31.6 cents. The Company continues to benefit from strong operational cash flow, closing the year with a cash balance of \$28.8m. Renewal rates have remained high, at 109% by dollar value and Craneware has entered the current financial year with revenue visibility of \$108.7m for the next three years, back at historic high levels.

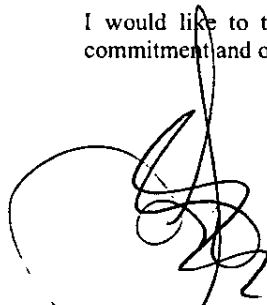
The level of new sales secured in the year was impacted by short-term competing IT priorities within our customer base, driven primarily by Electronic Health Records (EHR) incentive payment deadlines. By June 2012, a total of 3,779 hospitals had registered for the EHR Incentive Program and a total of 2,596 unique hospitals had been paid out \$3.96 billion by that date (source: *Centers for Medicare & Medicaid Services' (CMS)*). During the first half of the year, this resulted in lengthier sales cycles for all of the Group's products. However, the second half saw an increase in sales activity which supports our view that sales cycles will return to normal lengths in the near-term, as healthcare organisations once again refocus on revenue integrity.

2012 has been a year of unprecedented change within US hospitals as the unintended consequences of some of the recently introduced healthcare proposals work through the system. However, it is unavoidable that US healthcare facilities will be required to provide a higher level of patient care, to a greater number of people, at a lower cost per patient in a climate of greater transparency. Compounding these issues, and adding to pressures placed on US healthcare organisations, is the Medicare Recovery Auditors (MRAs, formerly known as RAC) programme. MRAs and their other third party equivalents, continue to recover overpayments from hospitals. Indeed, the latest reported quarter (April-June 2012) showed another consecutive rise in the amount of overpayments collected. Audit readiness is getting real traction in the marketplace and we believe the combination of these factors is resulting in hospitals refocusing on revenue integrity solutions. These pressures create a compelling need for Craneware's software in order to efficiently protect the revenue to which these healthcare facilities are entitled.

Craneware has a client base consisting of approximately 25% of US hospitals and it is now an established part of the fabric of the US healthcare industry making it a trusted partner. We are confident that Craneware is ideally placed with its in-house expertise, industry-leading product suite and balance sheet strength to help US healthcare organisations deal with their increasing fiscal and regulatory pressures. Consequently we continue to be confident in the future growth of the Group.

We have entered the new financial year in a strong position, with a return to historic high levels of revenue visibility for the coming years, a market leading product set, a focused sales force and a large and growing market opportunity.

I would like to take this opportunity to thank our staff for their unrelenting high levels of energy and commitment and our shareholders for their continued support.



George Elliott  
Chairman  
3 September 2012

# **Craneware plc**

## **Operational Review**

### **Introduction**

Craneware's mission is to stop the loss of legitimate revenue owed to healthcare organisations by establishing a culture of revenue integrity within these organisations; our vision is to be the partner that can be relied on to improve and sustain our customers' strong financial performance.

Over the history of the Company we have come a long way towards achieving this. Today, Craneware has a total of nine core products, spanning four product families; Audit & Revenue Recovery, Revenue Cycle, Supply Management and Access Management & Strategic Pricing. Craneware has installed its software into an extensive customer base which represents around a quarter of all registered US hospitals – from the smallest critical access facilities to the largest healthcare networks. To support this growing client base and the Company's future growth prospects, Craneware now employs more than 200 professionals across the US and UK.

We have achieved and are proud of our valuable and trusted position at the centre of this expanding market. Through aiding our customers in their implementation of a holistic revenue integrity model we have helped them achieve substantial revenue improvements and impressive returns on the investments made in our software, which can be reinvested by hospitals to deliver improved patient care. Over the year, the value of Craneware and its solutions to customers has increased, our product set has been enhanced, the addressable market has been extended and the sales team has been augmented for future growth.

In the year Craneware was affected by the cessation of a third party contract and lengthening sales cycles due to the unforeseen consequences of the US government applying incentive payments to Electronic Health Record (EHR) implementations - in a year preceding a Presidential election, which is being fought on healthcare and economic battle grounds. This created a competing healthcare priority of meeting the initial EHR deadlines for these incentive payments. This was mitigated to some extent through a significant partner agreement signed in February 2012, opening market opportunities for the Group. In addition, we are now seeing indications of sales cycles returning to normal levels with the majority of qualifying hospitals having received their initial payments for EHR.

Once again, Craneware received recognition and awards for several of its products, including a number one ranking by KLAS for Chargemaster Toolkit® for a sixth consecutive year, matched by its Bill Analyzer product in the first year of appearance in the programme. Additionally, InSight Audit received platinum level status from Executive Health Resources.

In response to increasing demand and organisational expansion, Craneware opened its extended premises in Scottsdale, Arizona during April 2012. The opening of this enlarged office demonstrates Craneware's commitment to the financial success of its clientele and dedication to exceptional client service across North America.

### **Market Developments**

In 2012 total US healthcare expenditure is expected to exceed \$3 trillion, and with an anticipated 4% growth per annum, it will rapidly approach a projected 20% of US GDP by 2017; US healthcare is the largest healthcare market in the world. It is a market which is striving for greater levels of transparency to understand and better quantify the areas of spend within healthcare providers, resulting in ever-increasing complexity as data becomes more granular. This complexity produces high levels of data which need to be analysed in an effort to understand and bring some control to this unsustainable growth. Even without changing legislation, the US healthcare industry's reimbursement model is unique and complex. Nearly 50% of healthcare costs are paid by the government, with the rest paid by private insurers and individuals; each of these payers has different criteria and rates of reimbursement.

The US healthcare market faces new and increasing regulatory challenges as part of the US government's healthcare reform which seeks to reduce the burden of healthcare on the State whilst making healthcare available to a larger percentage of the population. In addition to this, North America is experiencing the effects of an increasing aging population which brings its own care and cost challenges.

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### Operational Review (continued)

This changing economic landscape necessitates that US healthcare organisations find ways to ensure operational efficiency, quality and financial success while managing compliance risks. The evolving regulations and healthcare reforms make it more important than ever for healthcare organisations to proactively ensure the accuracy and defensibility of their charges as they face tightening reimbursement and increasing scrutiny from auditors.

These factors mean a growing number of hospitals are seeking technology-based solutions to help improve accuracy of billing and reduce regulatory burdens, thereby protecting their slim profit margins. Craneware's strategy to meet this growing need is to provide software solutions that help at the points in systems where clinical and operational data transform into financial transactions. Our solutions automate data normalisation, combining disparate data sets while maintaining the localised context. This produces valuable, actionable information and creates organisation-wide visibility and accountability.

The need for continued innovation in this changing environment will drive Craneware's future growth. By providing the tools to normalise data across disparate areas of the hospital and remaining agnostic to data formats and other vendors, Craneware gives the power to take a step back and provide a holistic view identifying areas of productivity improvement, inefficiencies and errors.

The American Hospital Association estimates the total number of registered US hospitals at 5,754. Fewer than half of these manage their charge description masters, the central dataset from which all bills are generated, with software such as Craneware's Chargemaster Toolkit®. As healthcare reform requires hospitals to manage data and resources better, charging accurately will be nearly impossible without automation tools. Craneware's four product families enable the improvement of financial performance along multiple points in the hospital's operational areas, far beyond the charge description master. One point of increasing importance is in management of claims denials and audits by Medicare Recovery Auditors. Reducing risks associated with managing financial transactions in order to keep earned revenue is a pressing priority for US hospitals facing a myriad of audits from State and federal entities as well as private payers.

#### *Medicare Recovery Auditors (MRA)*

Medicare Recovery Auditors are tasked with detecting and correcting past improper payments to hospitals, whether these are overpayments which need to be recouped or underpayments. The medical record submission process is lengthy and has several strict deadlines. This, coupled with the increased number of audits expected, represents a significant burden for healthcare providers; a hospital can lose 7%-10% of its revenue to denied claims that could be corrected and resubmitted, and this can make the difference between financial success and failure.

Since its nationwide roll-out on 1 January 2010, the Centers for Medicare & Medicaid Services' (CMS) Medicare Fee-for-Service Recovery Audit Program has consistently increased in scale. In the first quarter of FY2012 the recoupment total was \$397.8m, in the second quarter it was \$588.4m, and, in the third quarter it was \$657.2m; therefore in nine months a total of \$1,643.4m has been recouped, this represents an increase of 206% when compared to the previous full 12 month period (FY2011 \$797.4m). This escalating rate of take-backs has driven a greater emphasis on compliance in healthcare and a demand for best practice tools to help healthcare providers support compliance and manage audits. As a result, several healthcare industry associations invited Craneware to share information at audit and compliance events and conferences.

Craneware's InSight Audit product organises, manages and reports on all audit requests, responses and appeal activities for all audit types. It stores the relevant information and documents the steps taken to appeal denials, whilst also identifying trends and areas of exposure. InSight Audit manages (1) the patient record, (2) the RAC audit workflow, and (3) reports on areas of risk. Craneware's solutions have helped hospitals successfully manage the audit process to win more than twice as many appeals as their peers, defending millions of dollars in denials.

## **Craneware plc**

### **Operational Review (continued)**

In February 2012, Craneware announced its participation in the CMS electronic submission of medical documentation (edMD) Gateway Services pilot program. The program provides a mechanism for the digital exchange of medical record documentation in order to streamline and improve the efficiency of audit appeals; this therefore also reduces the potential cost burden. In August 2012, Craneware was pleased to achieve certification from CMS as a Healthcare Information Handler (HIH), enabling its InSight Audit solution to digitally submit medical record documentation and joining a list of less than 20 to have achieved this status.

#### *The Patient Protection and Affordable Care Act (PPACA)*

In June 2012, after years of legislative and legal battles the Supreme Court ruled that the Patient Protection Affordable Care Act (PPACA) was constitutional. The most significant effect of this wide ranging package of legislation is to increase pressure on the entire US healthcare system to slow the growth in costs while bringing roughly 32 million previously uninsured Americans into the system.

#### *Accountable Care Organisations (ACOs) and bundled payments*

The Medicare shared savings program rewards Accountable Care Organisations (ACOs) that take responsibility for the costs and quality of care received by their patients. ACOs can include groups of healthcare providers, including physician groups, hospitals, nurse practitioners, physician assistants and others. As stated by the PPACA, the objective of ACOs is to attain a degree of financial responsibility on the providers in the hope of improving care management and limiting unnecessary expenditures, ultimately fostering clinical excellence while simultaneously controlling costs.

ACOs that meet quality-of-care targets and reduce costs of their patients relative to a spending benchmark are rewarded with a share of the savings they achieve for the Medicare programme. There are two models based on a degree of risk. Model one is low risk and involves shared savings in year one, two and shared savings/risk in year three. Model two is high risk and involves shared savings/risk in all three years. Both models have caps on savings and losses, but there are potential savings of up to 60%.

Bundled payments align incentives for providers - hospitals, post-acute care providers and doctors - to partner closely across all specialties to improve the patient's experience and reduce costs by replacing fragmented care with coordinated care. Many organisations view bundled payments as a measured foray into accountable care at an acceptable level of risk and adjustment. Much of the benefits from bundled payments can be reaped via data normalisation which would have to be a key area of an informed bundled payment movement. The increased transparency and accountability of this normalisation also has obvious benefits to the ACO models.

Alternative payment models like Medicare Shared Savings and bundled/value based payments have the potential of shifting the focus away from the quantity of services to the clinical outcomes achieved. Currently there are 310 ACOs in the US, located in mostly urban areas across 45 states.

However, with these alternative models only expected to yield savings of \$1 billion over the next three years (less than 0.01% of total healthcare costs) and the highly unpredictable nature of small population insurance risk, it is being widely predicted by industry experts that they will have a limited impact on healthcare provision for the foreseeable future and will probably remain at the fringes of the healthcare model accounting for no more than 20% of hospital reimbursement over the long-term. Similar models (e.g. capitation) have been tried and failed in the past in different States to provide the cost savings and clinical improvements expected from these models.

#### *Electronic Healthcare Records (EHR)*

Healthcare Reform authorised CMS to provide incentives to providers to implement Electronic Health Records (EHR). There are two main programs under EHR that hospitals can register for; Medicare and Medicaid. Qualifying hospitals may register for both. As Medicare has set the initial higher standard, hospitals that meet the meaningful use criteria (MU) and are Medicaid eligible can automatically claim for a Medicaid incentive. A hospital may, through choice or eligibility only apply for a Medicaid incentive payment following the criteria set at the local State level.

## **Craneware plc**

### **Operational Review (continued)**

At 30 June 2012, with six States still to start their Medicaid Incentive scheme, 2,596 unique hospitals have received their share of the \$4 billion that has been paid to hospitals under the incentive schemes (~60% of eligible hospitals).

It is likely that the disruption in hospitals seen to December 2011, caused by EHR systems, will continue for many years to come as new levels of EHR integration and standards are introduced. However hospitals need to return their focus to revenue integrity very quickly after making their initial EHR purchasing decisions as it is widely recognised that there are limited additional returns in the short and medium term. Since technologies like Craneware's with its unique normalisation of data approach, when combined with EHRs are critical to achieving the improvements necessary to provide the increased care levels and the required cost efficiencies expected of this programme the Company is well placed to address this expanding market opportunity.

#### **Sales and Marketing**

During the year the geographical alignment of our sales team across the US, which began in the prior year, was completed. Experienced Regional Vice Presidents now oversee each of our three geographical regions, and each has a team comprised of mixed experience and skill sets. In addition, the separate Sales Support and Marketing Teams in our Atlanta office have been strengthened allowing the field Sales Team to concentrate on their customers and sales opportunities. We anticipate further investment into these teams, in line with our revenue growth, as we work to address the market opportunity.

We have completed thorough internal and external training as a result of our enlarged product set and increasing market opportunities presented by various US healthcare reforms, including internally developed industry leading 'boot camps' for every member of the sales team and a sales partner 'boot camp'.

In addition to our direct field sales opportunities, there are a number of major contract opportunities which all have the ability to yield significant potential revenues. Previously we have referred to these deals as 'channel partners'; however it is more accurate to instead refer to these as different 'routes to market', as we shall do going forward. These potential contracts follow the same revenue recognition methodology as an individual hospital and group hospital contracts; although the sales approach for these deals is quite different. These different routes to market can be broken down into six different categories (as listed below), and range in potential total contract value from \$5m to \$100m in any instance.

#### *IDN's & Large Hospital Systems*

An Integrated Delivery Network (IDN) is a network of facilities and providers working together to offer a continuum of care to a specific market or geographic area. These always involve a significant number of multi-site licences, and, like the large hospital systems involve multiple people from Craneware working as a team to sign the contract. Craneware continues to have very good traction in this area, being the only software company with the ability to provide proven "corporate" solutions. Consolidation within the US healthcare industry increases the reach and number of these organisations. Typically a team of Craneware staff representing various areas of the Company will be responsible for the success of these deals from prospecting through implementation.

#### *Business Process Outsourcers/Consultants (BPO)*

Typically BPOs/consultants work with hospitals, on a gain-share model ("at risk") with the improvements found generating the revenue for them (a model we do not utilise). The BPOs will often employ erstwhile hospital staff and outsource large functions of the hospitals' back office. This provides Craneware with the opportunity to provide best-of-breed software to BPOs for a true win-win-win, for them, their hospital client and Craneware. In many instances we will explore white-labelling in this area so that we provide the functionality of our software in a software wrapper that they can brand, but for which we charge a premium.

BPOs can range from large national players (including the largest accountancy firms) to small, regional "mom & pop" players. In some cases, IDNs or Large Hospital Systems will spin-out experts in a particular field and create BPOs that may also want to resell our software into external hospitals. BPO deals are typically led by Business Development and utilise the experts within Craneware as required.

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## **Operational Review (continued)**

### *Hardware Vendors*

Hardware vendors primarily want to use advanced functionality to push a greater requirement for further computer hardware and to embed their brand in a facility. This is commonly under the auspices of a division of the hardware manufacturer or distributor that provides BPO or consultancy services. These deals are typically led by Business Development and utilise the experts within Craneware as required. There are white-label opportunities within this category.

### *Software Vendors*

Third party software vendors often wish to integrate areas of our functionality with their software so that they can leverage more sales, for which we are paid a fee. Sometimes the opportunity is on a pure Value Added Reseller basis; where they are looking for more to sell to their customers and it is seen by Craneware as a quicker route to market. This can work in both directions where Craneware has additional functionality to sell to our customers. These deals are typically led by Business Development and utilise the experts within Craneware as required. There are white-label opportunities within this category.

### *Group Purchasing Organisations (GPOs)*

A Group Purchasing Organisation (GPO) is an entity that is created to leverage the purchasing power of a group of hospitals to obtain discounts from vendors based on their collective buying power. GPOs also provide a route to market and may include a division that has a BPO or consultancy offering in specialist areas. The GPO involvement can be from simple referral or list generation through to senior executive level sponsorship and cross hospital references. These deals are typically led by Business Development and utilise the experts within Craneware as required. There are white-label opportunities within this category.

### *Content Acquirers*

Due to the ever-increasing amount of data powering the Craneware software - and the added functionality we can offer our customers through blinded data - there is a growing desire from some organisations to purchase the data that we use to power our software solutions, to incorporate into different non-competing offerings. These would typically be led by Product Management who utilise Business Development for the commercial terms. There are white-label opportunities within this category.

### *Routes to market Summary*

Craneware has experience in working with organisations in all these categories and in FY2012 new revenues from these sources accounted for less than 20%. Although there has been much debate around our increased exposure to these opportunities in FY2012, it is merely their absence that has further highlighted their always present existence. They are not contributing a larger proportion of the revenue in this year than they have previously nor are they increasing the risk profile of Craneware. In addition to our direct sales efforts, these different routes to market are a valuable extra opportunity for Craneware to generate further revenues from its technology.

A larger number of these organisations successfully promoting products in the US healthcare market, regardless if by their nature they are white-label, further educates and evangelises the importance of Revenue Integrity and leads to further Craneware success.

### *Brand building, Conferences & Events*

During the year important progress was made in brand building and brand awareness. This has been achieved through a variety of activities including sponsorship in support of our different market segments including the Community Hospital 100, the American Association of Medical Audit Specialists (AAMAS) and the Modern Healthcare Women Leaders in Healthcare. Brand building continued through awards, conferences and white papers.

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### **Operational Review (continued)**

Several healthcare industry associations invited Craneware to present information at audit and compliance events and conferences during the year. Craneware was selected to lead an educational session at ANI: Healthcare Financial Management Association's (HFMA) National Institute 2012, held in June 2012. During the presentation, Craneware's client University Medical Center (UMC) Health System explained that moving to a revenue integrity approach increased their gross revenues across all clinical departments by 100%, enhanced electronic charge capture and improved UMC's Medicare case mix by 7%.

Craneware and its client, The Bellevue Hospital, presented at October 2011's Revenue Integrity HFMA MAP event. The Bellevue Hospital shared insights gained from their revenue integrity initiatives, including the successful implementation of revenue integrity solutions that helped them to improve the accuracy and efficiency of charge processes, find missed revenue and strengthen compliance. The Bellevue Hospital reduced its denial write-offs from \$1.8m in 2009 to \$155,000 in 2010, decreased days in accounts receivable by approximately 30%, nearly doubled bad debt collections and achieved a net revenue potential impact of more than \$1m.

In its first year of implementation of Craneware's Chargemaster Toolkit, Online Reference Toolkit and Bill Analyzer products, Amerinet member Adams County Regional Medical Center (ACRMC), a 25-bed Critical Access Hospital in the Southern Ohio region, significantly improved its financial performance, operational efficiency and compliance. The CFO of ACRMC noted that there has been a dramatic financial turnaround having significantly reduced errors, and identified millions in financial performance improvement opportunities. ACRMC is projecting a profit for the first time in five years.

Craneware is a partner in the Amerinet Strategic Alliance for Financial Efficiency (SAFE), a consortium of market-leading companies providing best-in-class revenue cycle and financial performance improvement solutions that support healthcare facilities of all sizes.

#### *Awards*

The Company's supplier award from Amerinet demonstrates the continued success with our partner network. Many awards were achieved during the year across the product portfolio. Craneware's Chargemaster Toolkit received, for its sixth consecutive year, the number one ranking in the KLAS 'Revenue Cycle – Chargemaster Management market' category. Craneware was delighted that its Bill Analyzer product also achieved the number one ranking in 2011 for its KLAS ranking. KLAS is the leading source of healthcare information technology vendor performance metrics.

In addition, the Chargemaster Toolkit achieved Healthcare Financial Management Association (HFMA) Peer-Review status for its eighth consecutive year.

Craneware's InSight Audit software, one of our newer products, achieved platinum-level status; this is the highest level of integration certification from Executive Health Resources, a leading provider of medical necessity compliance and appeals management solutions.

#### **Product Development**

In the year, product development has been focused on leveraging the best innovative combinations of the Craneware and Craneware InSight enlarged product set, whilst ensuring that the direction of the product set moves consistently with the long-term strategic positioning of Craneware as the revenue integrity partner of choice.

#### **Organisational Changes**

As of 1 July 2012 Craneware InSight (formerly ClaimTrust, acquired in February 2011) has been fully integrated into the management structure of the Group.

With this integration, Glen Johnson formerly CIO of ClaimTrust has joined the Operational Board of the Company to lead our Product Management division.

Sharon Cuming has joined the Operational Board as Senior VP of Human Resources.

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### Operational Review (continued)

We would also like to take this opportunity to thank Joe Ferro (former CEO of ClaimTrust and EVP Craneware InSight) who left the Group in February 2012, for his service to both organisations and his continued positive advocacy of Craneware Solutions in his new role heading-up one of the partners we have recently entered into a relationship with.

#### Financial Review

The financial results for the current year, for the first time, include a full year contribution from our February 2011 acquisition ClaimTrust Inc, in comparison to the 4 months contribution in the prior year. These results reflect the mixed trading environment we experienced, especially in the first half of the financial year. However, despite this environment we have continued to invest in the future growth of the Group whilst delivering an 18% increase in our Adjusted EBITDA to \$11.9m from \$10.1m in the prior year.

There have been no changes during the year to the business model underlying the Group's revenue recognition policies. The Group continues to recognise revenue primarily under its Annuity Software-as-a-Service (SaaS) revenue recognition policies with these revenues accounting for between 75% to 80% of all revenue in any one year. Under this model we recognise software licence revenue and any minimum payments due from our 'partner' contracts evenly over the life of the underlying signed contracts.

With any new contract we sign, we normally expect to deliver a professional services engagement, relating to the implementation of the software, the training of the hospital staff and further assisting the hospital in developing its processes to ensure the software is utilised to its maximum potential. Within any individual contract we would expect these services to account for 12% to 20% of the total contract value (dependent on the product and needs of the individual hospital). However of total Group revenue in any one year we would expect services revenues to account for between 10% to 20% of revenue. This revenue is typically recognised as the service is delivered, usually on a percentage of completion basis.

As a result of the ClaimTrust Inc acquisition in 2011 we now have a third revenue model. For revenue recognition purposes it is effectively the same recognition as the normal Annuity SaaS model described above. It is recurring in its nature, however, it is not signed under long term non-breakable contracts and is invoiced monthly in advance, therefore it does not include the inherent advantages of the Craneware Annuity SaaS revenue model. This revenue currently accounts for less than 10% of total revenues in any one year and as new contracts for the InSight product range are being signed under the Annuity SaaS model, we would expect the proportion of revenue derived from this model to reduce over time.

As a result of these revenue recognition models, based on our historical normal average contract life of 5 years, the maximum value of an average contract that can be recognised as revenue in any one year is 20% plus the value of associated services that have been delivered. In all cases, if the contract contains any material contingencies or any increased risk of collection is identified, revenue is deferred until the contingency is satisfied, at which point the revenue that has been deferred is released and the revenue recognition is 'caught up' to the level that would have been recognised had there been no contingency.

#### Revenue

Revenue for the year has increased by 8% to \$41.1m (2011: \$38.1m). Growth of 8%, whilst meaningful, is below both the challenging targets we set for the Group and the historical high levels of growth we have reported in prior years. The primary reasons for this relate to:

- The cessation of a contract 'acquired' as part of the ClaimTrust acquisition at the end of the first quarter of the financial year. This contract was administered through a third party and was unexpectedly terminated as a result of the third party losing its contract with its end hospital network. As with most ClaimTrust contracts, this contract was subject to a 'break clause' which allowed for early termination in the event the end customer contract was lost. The loss of this contract negatively impacted revenues by c\$2m in the current year.

## Craneware plc

### Operational Review (continued)

- The lengthening sales cycles due to the unforeseen consequences of the US government applying incentive payments to Electronic Health Record (EHR) implementations. Further details of these unintended consequences have been provided earlier, however the lengthening of these sales cycles and the resultant reduction in new contracts signed in the year has impacted current year revenues. The most significant impact relates to professional services revenues. As stated above, with any new sale we would expect to deliver and recognise 12% to 20% of the total contract value within the first 3 to 6 months of signing. As a result of the lower level of sales, professional services revenues, on like for like services, have decreased in the current year by c\$1.8m. Whilst we have managed to mitigate some of this loss in other areas, total professional services revenue is \$1.2m below the prior year. However we would expect to see this revenue quickly return to prior year levels as new sales levels return to historical norms.

During the second half of the financial year, we saw month on month sales activity increases which based on our historical norms for sales cycles we would expect to positively impact revenue growth in the second quarter of FY2013 and thereafter.

In any single year large hospital deals and/or other deals signed through other routes to market are an important part of our growth and we would normally expect to sign at least one significant contract in each half year. Whilst the quantum of revenue we derive from any one deal has increased, the actual percentage of our total revenues derived from these deals in any one year has fallen considerably, with now less than 20% of our revenue expected from new large deals in a single year. Despite signing two large deals in the year, the revenue recognised from these deals only served to mitigate the revenue shortfalls discussed above rather than significantly add to our annual revenue growth as we would normally expect.

One of these large deals signed in the year introduced, for the first time since we entered the public markets, a "White-Labeling fee". This is in effect paid for development services (which carry a significant premium), where we provide the functionality of our software in a software wrapper that the partner can brand. We have recognised this revenue as we would any other services revenue, i.e. as we deliver the underlying service on a percentage of completion basis. As a result \$3.5m of revenue has been recognised in the current year, bringing the total services revenue recognised in the year to \$7m or 17% of our current year's revenue, this compares to 12% in the prior year. This increase is primarily a result of total revenue growth being below expectations rather than a significant long term increase in total services revenues.

#### *Earnings*

In the prior year, the Company introduced 'Adjusted' earnings metrics to adjust for one-off acquisition costs. In keeping with this methodology a one-off benefit of \$0.95m relating to the release of the provision for contingent consideration has been removed. We believe the disclosure of these adjusted earnings metrics is consistent with other acquisitive companies and that it allows for a more accurate understanding of the underlying profit generated from operations and for a direct comparison year on year.

Adjusted earnings before interest, taxation, share based payments, depreciation and amortisation ("EBITDA") has grown in the year to \$11.9m (2011: \$10.1m) an increase of 18%. Accordingly Adjusted EBITDA margins have increased from 26.5% in the prior year to 29%.

#### *Revenue Visibility and other KPIs*

The Company continues to believe the "Three Year Visible Revenue" metric is key to assessing the medium term growth prospects. This metric includes:

- Future revenue under contract;
- Revenue generated from renewals (calculated at 100% dollar value renewal);
- ClaimTrust Legacy revenue identified as recurring in nature (subject to an estimated churn rate of 8% per year).

## **Craneware plc**

### **Operational Review (continued)**

The different categories of revenue reflect any inherent future risk in recognising these revenues. Future revenue under contract, is as the title suggests subject to contract without break clauses and therefore only has to be invoiced to be recognised in the respective years (only subject to future collection risk that exists with all revenue). Renewal revenues are contracts coming to the end of their original contract term (e.g. 5 years) and will require the contracts to be renewed for the revenue to be recognised, however as we are renewing contracts at over 100% dollar value it is reasonable to conclude minimal additional risk is associated to this revenue. The final category "ClaimTrust legacy revenue identified as recurring in nature" is revenue that we would expect to recur in the future but as the underlying contracts do contain break clauses there is potential for this revenue not to be recognised in future years, however we apply an estimated 8% churn rate to make allowance for this risk.

To better aid understanding, the three year visible revenue as at 30 June 2012 (i.e. visible revenue for FY2013, FY2014 and FY2015) is being presented against the visible revenue for the same three year period as at 30 June 2011. As such, visible revenue for the three years to 30 June 2015 has increased to \$108.7m from \$100.9m at 30 June 2011, as follows:

- ClaimTrust Legacy revenue of \$10.8m.
- Revenue generated from renewal activities contributing \$38m; being \$5.0m in FY13, \$12.5m in FY2014 and \$20.5m in FY2015.
- Future revenue under contract contributing \$59.9m of which \$28.5m is expected to be recognised in FY2013, \$20.6m in FY2014 and \$10.8m in FY2015.

Average contract length during the period has dipped to c4 years, below our historical normal average contract length of 5 years, this is due to the smaller number of contracts signed in the year and the sales mix of size of hospital being skewed as a result. The Company does not anticipate this to be a long term trend as overall sales levels and mix return to historical levels.

The product attachment rate, being the average number of our nine products that are in place across our entire customer base, has increased from 1.5 in the prior year to 1.6 products. The remaining 7.4 reflects the significant cross sell opportunity that still exists for the Group.

#### *Operating Expenses*

The current year cost base includes the full year cost of the Craneware InSight cost base as well as the planned for investment 'released and executed on' in the year. As a result net operating expenses (before acquisition benefits/costs, share based payments, depreciation and amortisation) have increased to \$27.6m an 18% increase over the prior year (2011: \$23.4m). The most significant increases relate to Client Servicing and Product Development where ClaimTrust had made significant investment prior to the acquisition and we will now look to leverage this cost base investment in future years as we increase sales levels and hospital customer numbers.

Client Servicing has increased 24% to \$7.2m (2011: \$5.8m) and Product Development has increased 36% to \$6.8m (2011: \$5.0m). Product Development spend has increased to 16.5% of our total revenue (2011: 13%) reflecting the increased number of core products we are now supporting. We continue to capitalise very low levels of Development spend with \$0.3m capitalised in the year (2011: 0.2m).

#### *Acquisition of ClaimTrust Inc.*

In the prior year, Craneware completed the acquisition of ClaimTrust Inc. via a newly formed subsidiary Craneware InSight Inc. During the course of the year we made substantial progress on the integration of this business, ultimately completing the integration by 1st July 2012. At an early stage of the integration plan the InSight and the original Craneware sales forces were brought together such that the Group had one common sales force selling nine core products. All nine products are sold into 'one market segment' being revenue integrity solutions to healthcare organisations within the United States of America. As a result of the level of integration achieved throughout the year combined with the Group serving a single market it is not appropriate to show the results of Craneware InSight separate from the rest of the Group.

## **Craneware plc**

### **Operational Review (continued)**

As required by International Accounting Standards (IAS), in the prior year we were required, on consolidation, to both separately identify intangible assets and their fair value and estimate the fair value of contingent consideration that would ultimately be paid. In respect of intangible assets and the fair value of assets acquired, the finalisation of the original fair values are detailed in Note 16 to the accounts and relate primarily to the recognition of a deferred tax asset of \$1.34m relating to pre-acquisition losses and an adjustment for an unrecorded liability of \$0.26m that existed at the opening balance sheet date. As a result finalised Goodwill is \$11.2m (2011: \$12.3m).

In respect of the estimate of contingent consideration, this estimate was produced prior to both the cessation of the third party contract reported in the interim results statement and the effect of lengthening sales cycles due to the unforeseen consequences of the US government applying incentive payments to Electronic Health Record (EHR) implementations which impacted the InSight products as well as the other Craneware products. As a result, no contingent consideration is payable in respect of the ClaimTrust Inc. acquisition and as required by IAS the original provision of \$0.95m has been released to the current year's results.

Again as required by IAS a detailed review for impairment of Goodwill has been carried out at the balance sheet date and no impairment has been identified. Full details of the impairment review are disclosed in Note 14 to the accounts.

#### *Cash*

We continue to measure the quality of our earnings through our ability to convert them into operating cash. As in prior years, we have continued to have very high levels of cash conversion which has enabled us to grow our cash reserves to \$28.8m (2011: \$24.2m). These cash levels are now approaching the levels prior to the \$9m paid for the acquisition despite having paid out a further \$4.1m to our shareholders by way of dividends.

Our ability to return our cash balances to pre-acquisition levels gives us confidence in our ability to fund further 'bolt-on' acquisitions from the Company's own reserves, and as such acquisitions continue to be part of our future growth strategy.

#### *Balance Sheet*

The Group maintains a strong balance sheet position, not only through our significant cash balance but with rigorous controls over working capital and no debt.

#### *Currency*

The reporting currency for the Group (and cash reserves) is US dollars. Whilst the majority of our cost base is US located and therefore US dollar denominated we do have approximately one quarter of the cost base based in the UK relating primarily to our UK employees (and therefore denominated in Sterling). As a result, we continue to closely monitor the Sterling to US dollar exchange rate, and where appropriate consider hedging strategies. During the year, we have not seen a significant impact through exchange rate movements, with the average exchange rate throughout the year being \$1.5840 as compared to \$1.5906 in the prior year.

#### *Taxation*

The Group's effective tax rate remains dependent on the proportion of profits generated in the UK and overseas and the applicable tax rates in the respective jurisdictions. As detailed above, the current year has seen a significant decrease in the levels of professional services revenues generated. As all professional services are delivered in the US, this reduction combined with the lower level of sales generated in the year has significantly reduced the levels of income subject to taxation in the US. This combined with the reducing tax rate in the UK and our continued ability to agree enhanced Research and Development tax relief has resulted in an effective tax rate of 20.6% (2011: 30.5%). We would expect effective tax rates to increase in future years as sales levels return to normal and the levels of professional services increase accordingly.

## **Craneware plc**

### **Operational Review (continued)**

#### *EPS*

As with EBITDA, the Group is reporting an Adjusted EPS figure, adjusting for the \$0.95m of contingent consideration provision release.

In the year adjusted EPS has increased by 23% to \$0.316 (2011: \$0.256) and adjusted diluted EPS has increased by 25% to \$0.315 (2011: \$0.253). This is despite the increase in weighted number of average shares as a result of the full year effect of the shares issued in FY2011 as a result of the acquisition of ClaimTrust. The increase in EPS is driven by the increase in EBITDA further enhanced by the lower effective tax rate resulting in the year.

#### *Dividend*

The Board recommends a final dividend of 5.7p (8.9 cents) per share giving a total dividend for the year of 10.5p (16.4 cents) per share (2011: 8.8p (14.12 cents) per share). Subject to confirmation at the Annual General Meeting, the final dividend will be paid on 7th December 2012 to shareholders on the register as at 9th November 2012, with a corresponding ex-Dividend date of 7th November 2012.

The final dividend of 5.7p per share is capable of being paid in US dollars subject to a shareholder having registered to receive their dividend in US dollars under the Company's Dividend Currency Election, or who register to do so by the close of business on 9th November 2012. The exact amount to be paid will be calculated by reference to the exchange rate to be announced on 9th November 2012. The final dividend referred to above in US dollars of 8.9 cents is given as an example only using the Balance Sheet date exchange rate of \$1.5685/£1 and may differ from that finally announced.

#### **Outlook**

In a mixed trading environment Craneware delivered a solid level of growth across key financial and operational metrics, confirming the health of the business and giving a high degree of confidence for the future.

Added pressures on US hospitals have led to an increased sales and opportunity pipeline for our products as we move into the current financial year. Craneware's solutions help US healthcare providers drive business improvements that will result in better financial health. In this turbulent, demanding environment, hospitals need financial accuracy, visibility and shared accountability to survive. Fiscal and regulatory drivers are expected to increase in the year ahead as they push for greater transparency and accuracy, and although this creates a challenging ever-evolving marketplace, it ultimately increases the opportunities for Craneware's solutions.

Craneware is a trusted and established part of the fabric of the US healthcare industry, with a client base consisting of around a quarter of all US hospitals. We are confident that the business is ideally placed with its in-house expertise, industry-leading product suite and balance sheet strength to help US healthcare organisations deal with their increasing fiscal and regulatory pressures. Furthermore with revenue visibility having returned to the historic high levels, we view the future with confidence.



**Keith Neilson**  
Chief Executive Officer  
3 September 2012



**Craig Preston**  
Chief Financial Officer  
3 September 2012

# **Craneware plc**

## **Directors, Secretary, and Advisors**

### **Directors**

G R Elliott (Chairman, non-executive)  
K Neilson  
N P Heywood (non-executive)  
C T Preston  
R F Verni (non-executive)

### **Secretary and Registered Office**

C T Preston  
1 Tanfield  
Edinburgh  
EH3 5DA

### **Stockbrokers and Nominated Advisors**

Peel Hunt LLP  
120 London Wall  
London  
EC2Y 5ET

### **Registrars**

Capita Registrars Ltd  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

### **Bankers**

The Royal Bank of Scotland plc  
36 St Andrew Square  
Edinburgh  
EH2 2YB

Clydesdale Bank  
20 Waterloo Street  
Glasgow  
G2 6DB

Barclays Commercial Bank  
Aurora House  
120 Bothwell Street  
Glasgow  
G2 7JT

HSBC Bank plc  
7 West Nile Street  
Glasgow  
G1 2RG

Lloyds TSB  
Henry Duncan House  
120 George Street  
Edinburgh  
EH2 4LH

### **Registered Auditors**

PricewaterhouseCoopers LLP  
Erskine House  
68-73 Queen Street  
Edinburgh  
EH2 4NH

### **Solicitors**

Pinsent Masons LLP  
Princes Exchange  
1 Earl Grey Street  
Edinburgh  
EH3 9AQ

## **Craneware plc**

### **Board of Directors**

The Directors of the Company and their responsibilities within the Group are set out below:

**George R Elliott, 59**  
Non-Executive Chairman  
Appointed 10 August 2007

George is non-executive Chairman of Cupid plc (CUP). He is also a non-executive Director of Summit Corporation plc (SUMM), a drugs discovery company and Corsair Components Inc, a manufacturer and supplier of high performance PC components. From 2000-2007 George was Chief Financial Officer of Wolfson Microelectronics plc (WLF), a leading global provider of high performance mixed-signal semiconductors to the consumer electronics market. Previously, he was Business Development Director at McQueen International Ltd (now Sykes), a manufacturing and support services provider, where he was responsible for strategic sales and marketing. George, formerly a partner of Grant Thornton, is a member of the Institute of Chartered Accountants of Scotland and has a degree in Accountancy and Finance from Heriot-Watt University.

**Keith Neilson, 43**  
Chief Executive Officer & Co-founder

Keith co-founded Craneware in 1999 and has served as its CEO ever since. Under Keith's guidance, Craneware became recognised as the pioneer in revenue integrity management and a leading provider of superior products and professional services. Keith's direction has helped Craneware to win multiple prestigious awards in such areas as international achievement, business growth strategy and innovation. Keith was named The Entrepreneurial Exchange's "Emerging Entrepreneur of the Year 2003" and was a finalist in the 2004 World Young Business Achiever Award, winning the Award of Excellence in the Business Strategy category. He received the UK Software & Technology Entrepreneur of the Year Award from Ernst & Young in 2008 and was the Insider Elite Young Business Leader of the Year in 2009. Prior to launching Craneware, Keith worked primarily in international management, where he handled sales, marketing and technical consulting for companies with operations around the world. He studied Physics at Heriot-Watt University, Edinburgh, receiving a bachelor's degree in 1991.

**Craig T Preston, 41**  
Chief Financial Officer  
Appointed 15 September 2008

Craig was appointed to the Board on 15 September 2008, just as the company was entering its second year as a publicly traded corporation on the London Stock Exchange. As CFO, he directs Craneware's financial operations in both the United Kingdom and United States. Craig has significant experience in senior financial roles with other private and public technology companies, including those with a multi-national presence. Prior to Craneware, he was group director of finance and company secretary at Intec Telecom Systems plc. Earlier, he served as corporate development manager at London Bridge Software plc. During his time there, he also held the role of CFO for Phoenix International, a previously NASDAQ-traded software company, following its acquisition by London Bridge. Earlier in his career, Craig worked for Deloitte in both the United Kingdom and United States. Craig has a degree in Accounting and Financial Management from the University of Sheffield. He is also a member of the Institute of Chartered Accountants in England and Wales.

## **Craneware plc**

### **Board of Directors (continued)**

**Neil P Heywood, 50**

Non-Executive Director

Appointed 31 January 2002

Neil is Managing Director of Matrix Alpha Analytics and Chairman of Codeplay Software. Prior to Matrix, Neil was co-founder and CEO of Quadstone from 1995 to 2001. Quadstone won numerous awards for its software and was named best "Small Start-up" of the year at the Financial Times/BVCA awards in 1999. It was acquired by Portrait Software in 2006. Quadstone was a buy-out from the Edinburgh Parallel Computing Centre, a department at the University of Edinburgh, which Neil managed. Prior to EPCC, Neil was a co-founder and later Commercial Director of 3L, a software firm specialising in software for parallel computers. 3L was bought by Spectrum Signal Processing, Inc. Neil received his B.Sc. in Computer Science from the University of Edinburgh in 1984.

**Ron F Verni, 64**

Non-Executive Director

Appointed 1 May 2009

Ron is currently a director of On Deck Capital, and on the Board of Advisors of Company.com, CEO Ventures, and the Robinson College of Business. Before that he was President & CEO of Sage Software, Inc, and a member of the Board of Directors of the Sage Group plc. Under his leadership, the company grew from less than \$160 million in revenue to over \$1 billion, from under 1,000 employees to over 5,000, and from 1 million business customers to over 2.5 million. Ron also engineered over 20 acquisitions and oversaw their successful integration into the company. Prior to Sage Software, Ron was President and CEO of Peachtree Software, Inc., a leading pioneer in business management solutions for small to medium size businesses. Ron also was a Vice President of Marketing with Automatic Data Processing, President and CEO of NEBS Software, Inc., and the founder and CEO of ASTEC Software.

# **Craneware plc**

## **Directors' Report**

The directors present herewith their report and the audited consolidated financial statements for the year ended 30 June 2012.

### **Principal Activities and Business Review**

The Group's principal activity continues to be the development, licensing and ongoing support of computer software for the US healthcare industry.

The Company is required by the Companies Act to include a business review in this report. This includes an analysis of the development and performance of the Group during the financial year and its position at the end of the financial year, including relevant key performance indicators (principally revenue, adjusted operating profit before acquisition costs, share based payments, depreciation and amortisation, visibility of revenue over the next three years and the product attachment rate). Detailed information on all matters required is presented in the Operational Review contained in pages 2 to 12 and is incorporated into this report by reference. A description of the principal risks and uncertainties facing the Group is set out below.

Where the Directors' Report, Chairman's Statement and Operational Review contain forward looking statements, these are made by the directors in good faith based on the information available to them at the time of their approval of this report. Consequently, such statements should be treated with caution due to their inherent uncertainties, including both economic and business risk factors, underlying such forward looking statements or information.

### **Financial Results and Dividends**

The Group's revenue for the year was \$41.1m (2011: \$38.1m) which has generated an adjusted operating profit (before acquisition related matters) of \$10.8m (2011: \$9.3m). The full results for the year, which were approved by the Board of Directors on 3 September 2012, are set out in the accompanying financial statements and the notes thereto.

During the year the Company paid an interim dividend of 4.8p (7.5 cents). The Directors are recommending the payment of a final dividend of 5.7p (8.9 cents) per share giving a total dividend of 10.5p (16.4 cents) per share based on the results for 2012 (2011: 8.8p (14.12 cents)). Subject to approval at the Annual General Meeting, the final dividend will be paid on 7 December 2012 to shareholders on the register as at 9 November 2012.

The level of dividend proposed for the year continues (and the Directors intend to continue in future years) the Company's stated progressive dividend policy based on the Group's retained annual earnings. The level of distributions will be subject to the Group's working capital requirements and the ongoing needs of the business.

### **Research and Development Activities**

The Group continues its development programme of software products for the US healthcare industry which includes research and development of new complimentary products, integration (where appropriate) of products acquired through the ClaimTrust acquisition in the prior year and the enhancements to the Group's existing portfolio of market leading products. The Directors regard investment in development activities as a prerequisite for success in the medium and long term future. During the year development expenditure amounted to \$6.8m (2011: \$5.0m) net of expenditure capitalised of \$0.3m (2011: \$0.2m).

### **Financial Instruments**

The financial risk management strategy of the Group, its exposure to currency risk, interest rate risk, counterparty risk and liquidity is set out in Note 3 to the Financial Statements.

# Craneware plc

## Directors' Report (continued)

### Principal Risks and Uncertainties

To deliver continued sustainable growth, the Group recognises the need to minimise the likelihood and impact of key risks. These risks are both general in nature i.e. business risks faced by all businesses, and more specific to the Group and the market in which it operates. The nature of the US healthcare industry and associated risks are detailed in the Operational Review on pages 2 to 12.

The risks outlined here are those principal risks and uncertainties that are material to the Group. They do not include all risks associated with the Group and are not set out in any order of priority.

#### US Healthcare Reform

*Issue:* The US healthcare industry is going through a continued period of fundamental reform, the outcome of which has yet to be fully determined and as such could impact the Group's market opportunity.

*Actions:* The Group has taken steps to ensure it stays at the forefront of how the industry is interpreting current proposals and actions they are taking. It does this through, amongst other things, its:

- 'Strategic Advisory Council' which is formed from the industry experts from within the Group;
- Having independent industry experts attend and speak at internal Company events;
- Regular attendance by members of this Council and other senior management at healthcare forums and industry education events; and
- Client forums.

The Strategic Advisory Council, the Operations Board and the PLC Board come together at periodic intervals to review developments in the market and provide direct input to the Group's ongoing strategy appraisal and product development.

#### Competitive Landscape

*Issue:* New entrants to the market or increased competition from existing competitors could significantly impact the Group's market opportunity.

*Actions:* The Group continually monitors its competitive landscape, including both existing and potential new market entrants. Significant barriers to entry continue to exist, including but not limited to the significant data content built over the Group history which exists within the products. The Group continues to ensure its products are platform agnostic and actively seeks partnerships with other Healthcare IT vendors.

#### Management of Growth

*Issue:* The Group continues to grow significantly both organically and through acquisition which could place strain on the current management and other resources of the Group.

*Actions:* The Group's Annuity SaaS ("Software as a Service") business model combined with its detailed forecasting processes provide visibility to expected growth rates. This is the foundation when planning in advance, including necessary resourcing levels. To ensure the correct infrastructure to support growth, assessments are performed and improvements are made within systems, policies and procedures and business controls are upgraded, as appropriate, across the Group. In 2012 these included Sales, Sales support, pricing and Contracting, as well as various IT systems.

#### Dependence on Key Executives and Personnel

*Issue:* Due to the size of the Group significant reliance is placed on a few members of the executive and senior management team, the retention of which cannot be guaranteed.

*Actions:* The Group continues to expand its senior management team, with a new appointment to the Operations Board having been made since the Balance Sheet date. In addition, the Group has utilised its 'leadership framework' to help develop its leaders of the future. In regards to retention the Remuneration Committee continues to monitor and develop the remuneration packages of key personnel to ensure they are both competitive and include appropriate long term incentives.

# Craneware plc

## Directors' Report (continued)

### Principal Risks and Uncertainties (continued)

#### Failure to develop or acquire appropriate software solutions

*Issue:* Reliance on a small number of products could significantly limit the Group's market opportunity and leave it unable to meet its customers' needs.

*Actions:* Whilst remaining focused on its core 'Revenue Integrity' market the Group has both internally developed and acquired a total product suite of 9 core products (from the original 1 in 2007). The Group publishes its product attachment rate during every reporting period and has a medium term strategic goal of generating no more than 55% of its revenue in any year, from any one product.

#### Intellectual Property Risk

*Issue:* Failure to protect, register and enforce (if appropriate) the Group's Intellectual Property Rights could materially impact the Group's future performance.

*Actions:* The Group will continue to register its trademarks and protect access to its copyrights and confidential information, as appropriate. The Group would vigorously defend itself against a third-party claim should any arise. The Group also has in place strict physical and data security processes and encryption to protect its intellectual property.

#### Acquisition Risk

*Issue:* The Group has a stated acquisition strategy. Any acquisition carries with it an inherent risk, including failure to identify material matters that could adversely affect future Group performance.

*Actions:* Whilst the Group has limited experience of acquisitions, the Board members individually have significant experience in regards to completing acquisitions.

In addition, and where appropriate, the Board appoints independent professional advisors to assist in the consideration of the acquisition and to assist management in the due diligence process.

The principal *financial risks* are detailed in Note 3 to the financial statements. How the Board determines and manages risks is detailed in the Corporate Governance report on pages 23 to 30.

In summary, the US healthcare market is not immune to the macro-economic climate and, with the increasing focus and requirements of the proposed healthcare reform, the Group expects the market to continue to be competitive. The Group therefore aims to remain at the forefront of product innovation and delivery, through a combination of in-house development and specific acquisition opportunities. This requires the recruitment, retention, and reward of skilled staff, alongside responsiveness to changes, and the opportunities that result, as they arise.

### Going Concern

The Directors, having made suitable enquiries and analysis of the accounts, including the consideration of:

- cash reserves;
- no debt or debt related covenants;
- continued cash generation; and
- Annuity SaaS business model;

have determined that the Group has adequate resources to continue in business for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing these financial statements.

### Directors

The Directors of the Company are listed on page 13.

The Directors have the power to manage the business of the Company, subject to the provisions of the Companies Act, the Memorandum and Articles of Association of the Company, and to any directions given by special resolution, including the Company's power to purchase its own shares. The Company's Articles of Association may only be amended by a special resolution of the Company's shareholders.

# Craneware plc

## Directors' Report (continued)

Details of the Directors' service contracts and their respective notice terms are detailed in the Remuneration Committee Report on page 33.

### Authorised and Issued Share Capital

The Company's authorised share capital at the Balance Sheet date was 50,000,000 ordinary shares of 1p each of which 26,991,891 were issued and fully paid up. During the year, the Company has issued 199,210 shares; the remaining 24,186 were issued to give the final total issue of 641,917 in respect of the ClaimTrust Inc acquisition that took place on 17<sup>th</sup> February 2011. In addition, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 175,024 new ordinary shares. No further new ordinary shares have been allotted as a result of these matters since the end of the financial year to the date of this report.

### Directors and their interests

The interests of the Directors who held office at 30 June 2012 and up to the date of this report in the share capital of the company, were as follows:-

	2012	2011
G R Elliott	15,650	15,650
N P Heywood	130,356	130,356
K Neilson	3,453,459	3,448,779
	<b>3,599,465</b>	<b>3,594,785</b>

Directors' interests in share options are detailed in the Remuneration Committee Report on page 34.

### Substantial shareholders

As at 1 August 2012, the Company had been notified of the following beneficial interests in 3% or more of the issued share capital pursuant to section 793 of the Companies Act 2006:

	No. of Ordinary £0.01 Shares	% of issued share capital
Liontrust Investment Partners	3,473,993	12.87
K Neilson	3,453,459	12.79
W G Craig	3,173,151	11.76
Artemis Investment Management	2,750,074	10.19
Fidelity Investments	1,640,400	6.08
Hargreave Hale	1,259,140	4.66
Baillie Gifford	1,046,699	3.88
D Paterson	873,800	3.24
Black Rock Investment Management	819,811	3.04

The total number of shares as at 30 June 2012 and 1 August 2012 was 26,991,891.

### Indemnity of Directors and Officers

Under the Company's Articles of Association and subject to the provisions of the Companies Act, the Company may and has indemnified all Directors or other officers against liability incurred by them in the execution or discharge of their duties or exercise of their powers, including but not limited to any liability for the costs of legal proceedings where judgement is given in their favour. In addition, the Company has purchased and maintains appropriate insurance cover against legal action brought against Directors and officers.

# **Craneware plc**

## **Directors' Report (continued)**

### **Corporate Social Responsibility & Environmental Policy**

The Group is committed to maintaining a high level of social responsibility. It is the Group's policy to support and encourage environmentally sound business operations, with aspects and impact on the environment being considered at Board level. Recognising that the Group's operations have minimal direct environmental impact, the Group aims to ensure that:

- it meets all statutory obligations;
- where sensible and practical, it encourages working practices, such as teleconferencing, teleworking and electronic information exchange that reduce environmental impact; and
- re-cycles waste products wherever possible, encouraging use of environmentally friendly materials, and disposing safely of any non-recyclable materials.

### **Customers**

The Group treats all its customers with the utmost respect and seeks to be honest and fair in all relationships with them. The Group provides its customers with products and levels of customer service of outstanding quality.

### **Community**

The Group seeks to be a good corporate citizen respecting the laws of the countries in which it operates and adhering to best social practice where feasible. It aims to be sensitive to the local community's cultural social and economic needs.

### **Employees and Employee Involvement**

The Group recognises the value of its employees and that the success of the Group is due to their efforts. The Group respects the dignity and rights of all its employees. The Group provides clean, healthy and safe working conditions. An inclusive working environment and a culture of openness are maintained by the regular dissemination of information. The Group endeavours to provide equal opportunities for all employees and facilitates the development of employees' skill sets. A fair remuneration policy is adopted throughout the Group.

The Group does not tolerate any sexual, physical or mental harassment of its employees. The Group operates an equal opportunities policy and specifically prohibits discrimination on grounds of colour, ethnic origin, gender, age, religion, political or other opinion, disability or sexual orientation. The Group does not employ underage staff.

The general policy of the Group is to welcome employee involvement as far as it is reasonably practicable. Employees are kept informed by meetings, regular updates and web page postings. In addition the Group's UK and US senior management teams meet regularly to review performance against the Group's strategic aims and development roadmaps.

The Group maintains core values of Honesty, Integrity, Hard Work, Service and Quality and actively promotes these values in all activities undertaken on behalf of the Group.

### **Employment of Disabled Persons**

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and the appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

## **Craneware plc**

### **Directors' Report (continued)**

#### **Policy on payment of Payables**

Relationships with suppliers and subcontractors are based on mutual respect, and the Group seeks to be honest and fair in its relationships with suppliers and subcontractors, and to honour the terms and conditions of its agreements in place with such suppliers and subcontractors.

The Group does not believe that the giving or accepting of bribes is acceptable business conduct.

It is the Group's normal practice to make payments to suppliers in accordance with agreed terms and conditions, generally within 30 days, provided that the supplier has performed in accordance with the relevant terms and conditions. Trade payables at 30 June 2012 represented, on average 20 days purchases (2011: 21 days) for the Group and 22 days purchases (2011: 22 days) for the Company.

#### **Charitable and Political Contributions**

The Group has continued to develop the "Craneware Cares" program. The focus of Craneware Cares is to raise awareness and funds for charity. In FY2012, the Group ran a sponsorship through Craneware Cares where employees were encouraged to raise more than \$2,000 charitable donations each to go towards the Villa La Paz Foundation. The employees who were most successful in raising the monies were allowed to volunteer for a week at the Villa La Paz Foundation in Peru. This involved assisting with the children within the Foundation. The Groups' financial costs of this sponsorship for FY2012 was \$10,102. The Villa La Paz Foundation, in Peru, assists children living in deprived areas and who suffer from disabilities and illness. In FY2011, the Craneware Cares program raised \$3,500 towards the same foundation as well as donating \$2,374 towards Highland 100 charitable bike riding events and \$7,820 towards CHAS, Children's Hospice Association Scotland. Neither the Company nor its subsidiaries made any donation for political purposes in fiscal years 2012 or 2011.

#### **Annual General Meeting**

The resolutions to be proposed at the AGM, together with explanatory notes, appear in a separate Notice of Annual General Meeting which is sent to all shareholders. The proxy card for registered shareholders is distributed along with the notice.

#### **Company Registration**

The Company is registered in Scotland as a public limited company with number SC196331.

# **Craneware plc**

## **Directors' Report (continued)**

### **Statement of Directors' Responsibilities**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether applicable IFRSs as adopted by the European Union and IFRSs issued by IASB have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### **Auditors and Disclosure of Information to Auditors**

Each Director, as at the date of this report, has confirmed that insofar as they are aware there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

A resolution to reappoint PricewaterhouseCoopers LLP as auditors will be proposed at the Annual General Meeting.

**Approved by the Board of Directors and signed on behalf of the Board by:**



**Craig Preston**  
Company Secretary  
3 September 2012

# Craneware plc

## Corporate Governance Report

The Board of Directors ("the Board") acknowledge the importance of the Principles set out in The UK Corporate Governance Code issued in June 2010 (the "Code"). Although the Code is not compulsory for AIM listed companies, the Board recognises the importance of good corporate governance practices and therefore has applied the principles as far as practicable for a public Company of its size. This Report and the Remuneration Committee Report (on pages 31 to 34) identify how it has complied with both the individual principles and the 'spirit' of the Code as a whole.

The Code itself defines the purpose of corporate governance being "to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company;" it is this overarching objective that the Board has sought to achieve in applying the Code principles.

### Leadership

#### The role of the Board

*"Every Company should be headed by an effective Board which is collectively responsible for the long-term success of the company"*

The Company's Board is headed by its Chairman George Elliott and comprises two executive Directors, Keith Neilson, Chief Executive Officer and Craig Preston, Chief Financial Officer along with two further non-executive Directors, Ron Verni (Senior Independent Director) and Neil Heywood. Detailed biographies of all Directors are contained on pages 14 and 15.

The Board meets regularly, usually monthly, to discuss and agree on the various matters brought before it, including the Group trading results. The Board is well supported by the Group's Operations Board (details of which are provided below) and a broader senior management team, who collectively have the qualifications and experience necessary for the day to day running of the Group.

There is a formal schedule of matters reserved for the Board, which include approval of the Group's strategy, annual budgets and business plans, acquisitions, disposals, business development, annual reports and interim statements, plus any significant financing and capital expenditure plans. As part of this schedule, the Board has clearly laid out levels of devolved decision making authority to the Group's Operations Board.

The Board has further established an Audit Committee and a Remuneration Committee details of which are provided below. George Elliott is a member of both these committees, in addition to the two independent non-executives. In deciding this, the Company has taken advantage of the Codes 'relaxations' available to smaller companies. The Board has also established a Nominations Committee which is chaired by Neil Heywood and includes George Elliott and Ron Verni as its members. Part of the role of the Nominations Committee is to review and determine the composition and structure of the Board as well as, if appropriate, identify potential candidates to be appointed as Directors. During the year, the Board as a whole performed a review of its composition as part of its annual performance review and determined it was appropriate to add a further independent non-executive Director.

Attendance of Directors at Board and Committee meetings convened in the year, along with the number of meetings that they were invited to attend, are set out below:

	Board	Nominations Committee	Remuneration Committee	Audit Committee
No. Meetings in year	11	-	2	3
<b>Executive Directors</b>				
K Neilson	11/11	-	-	-
C T Preston	11/11	-	-	-
<b>Non Executive Directors</b>				
G R Elliott	10/11	-	2/2	3/3
N P Heywood	11/11	-	2/2	3/3
R Verni	10/11	-	2/2	2/3

# Craneware plc

## Corporate Governance Report (continued)

### Leadership (continued)

Where any Board member has been unable to attend Board or Committee meetings during the year, input has been provided to the Company Secretary ahead of the meeting. The relevant Chairman then provides a detailed briefing along with the minutes of the meeting following its conclusion.

As detailed in the Directors' Report on page 19, the Company maintains appropriate insurance cover against legal action brought against Directors and officers. The Company has further indemnified all Directors or other officers against liability incurred by them in the execution or discharge of their duties or exercise of their powers.

#### Division of Responsibilities

*"There should be a clear division of responsibilities at the head of the company between the running of the Board and the executive responsible for the running of the company's business. No one individual should have unfettered powers of decision"*

The Board has established clearly defined and well understood roles for George Elliott as Chairman of the Company, and Keith Neilson as Chief Executive Officer. The Chairman is responsible for the leadership of the Board, ensuring its effectiveness and setting its agenda. Once strategic and financial objectives have been agreed by the Board, it is the Chief Executive Officer's responsibility to ensure they are delivered upon. To facilitate this, Keith Neilson as CEO chairs the Group's Operations Board which comprises the Chief Financial Officer and five further members of the Senior Management Team. The day-to-day operation of the Group's business is managed by this Board, subject to the clearly defined authority limits.

#### The Chairman

*"The chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role"*

George Elliott was appointed Chairman of the Board in August 2007, shortly before the Company listed on the AIM market. At that time the then Board satisfied themselves that he was independent, fulfilling the requirements of the Code.

In setting the Board agendas, the Chairman, in conjunction with the Company Secretary, ensures input is gathered from all Board Directors on matters that should be included. 'Board papers' are issued in advance of meetings to ensure Board members have appropriate detail in regards to matters that will be covered, thereby encouraging openness and healthy debate.

#### Non-Executive Directors

*"As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy."*

The Board has appointed Ron Verni as Senior Independent Director. In this role, Ron provides a sounding board for the Chairman as well as providing an additional channel of contact for shareholders, other Directors or employees, if the need arises.

In addition to matters outlined above, there is regular communication between executive and non-executive Directors, including where appropriate, updates on matters requiring attention prior to the next Board meeting. The non-executive Directors meet, as appropriate but no less than annually, without executive Directors being present and further meet annually without the Chairman present.

# Craneware plc

## Corporate Governance Report (continued)

### Effectiveness

#### The Composition of the Board

*"The Board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively"*

The composition of the Board has been designed to give a good mix and balance of different skill sets, including significant experience in:

- High growth companies;
- Software and healthcare sectors;
- Entrepreneurial cultures;
- Both UK and US companies;
- Acquisitions; and
- Other listed plc companies.

Through this mix of experience the Board and the individual Directors are well positioned to set the strategic aims of the Company as well as drive the Group's values and standards throughout the organisation, whilst remaining focused on their obligations to shareholders and meeting their statutory obligations.

The Board reviews on an annual basis the independence of each non-executive Director. In making this consideration the Board determines whether the Director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. In regards to Neil Heywood, the Board considered his appointment to the original Craneware Limited Board being in January 2002. Whilst Neil's tenure is over 10 years, the Company and the Board have significantly changed since the Company's IPO in 2007, as a result of this and Neil's conduct, the Board has concluded this has not affected his independence.

As detailed earlier, during the year the Board performed a review of its composition and determined it was appropriate to add a further independent non-executive Director. The process of identifying appropriate candidates is underway.

#### Appointments to the Board

*"There should be a formal, rigorous and transparent procedure for the appointment of new directors to the Board"*

When a new appointment to the Board is to be made, consideration is given to the particular skills, knowledge and experience that a potential new member could add to the existing Board composition. A formal process is then undertaken, usually involving external recruitment agencies (as has been the case with the last two appointments to the Board), with appropriate consideration being given, in regards to executive appointments, to internal and external candidates. Before undertaking the appointment of a non-executive Director, the Chairman establishes that the prospective Director can give the time and commitment necessary to fulfil their duties, in terms of availability both to prepare for and attend meetings and to discuss matters at other times. This process is normally performed under the remit of the Nominations Committee.

#### Commitment

*"All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively"*

All Board Directors recognise the need to allocate sufficient time to the Company for them to be able to meet their responsibilities as Board members. All non-executive Directors' contracts include minimum time commitments; however these are recognised to be the minimums.

Details of the other directorships held by each Board member are provided in the Director Biographies on pages 14 and 15. The Board has evaluated the time commitments required by these other roles and does not believe it affects their ability to perform their duties with the Company. No executive Director currently holds any other plc directorship. The non-executive Director contracts are available for inspection at the Company's registered office and are made available for inspection both before and during the Company's Annual General Meeting.

## Craneware plc

### Corporate Governance Report (continued)

#### Effectiveness (continued)

##### Development

*"The Board should be supplied in a timely manner with the information in a form and a quality appropriate to enable it to discharge its duties"*

The Chairman is responsible for ensuring that all the Directors continually update their skills, their knowledge and familiarity with the Group in order to fulfil their role on the Board and the Board's Committees. Updates dealing with changes in legislation and regulation relevant to the Group's business are provided to the Board by the Company Secretary/Chief Financial Officer and through the Board Committees.

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are properly complied with and that discussions and decisions are appropriately minuted. Directors may seek independent professional advice at the Company's expense in furtherance of their duties as Directors.

Training in matters relevant to their role on the Board is available to all Board Directors. New Directors are provided with an induction in order to introduce them to the operations and management of the business.

In addition, the non-executive Directors meet with, at least once a quarter, the Groups's Operations Board on an informal basis. This provides all Directors with direct access to the senior management of the Company and allows for better understanding of how the strategy set by the Board is being implemented across the Group.

Further to this the non-executive Directors periodically join the Group's Strategic Advisory Council. This is a committee of the Group's industry experts who meet to assess potential changes in the US healthcare market identifying both opportunities and risks to the Group.

##### Evaluation

*"The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors"*

During the year, a formal evaluation was conducted by means of a detailed questionnaire which was completed by each Director. The results of this process were collated by the Chairman and were presented to the Board as a whole. This evaluation included a review of the performance of individual Directors including the Chairman and the Board Committees. Based on this evaluation, the Board has taken steps to implement certain agreed upon suggestions which has included the process to recruit a further independent non executive Director, but overall has concluded that its performance in the past year had been satisfactory.

The Board has considered the Code's recommendation that the evaluation of the Board be carried out externally at least every three years. The Board recognises this recommendation is not applicable to AIM listed companies and has determined it was not necessary to carry out an external review in the current year.

##### Re-election

*"All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance"*

Under the Company's Articles of Association, at every Annual General Meeting, at least one-third of the Directors who are subject to retirement by rotation, are required to retire and may be proposed for re-election. In addition, any Director who was last appointed or re-appointed three years or more prior to the AGM is required to retire from office and may be proposed for re-election. Such a retirement will count in obtaining the number required to retire at the AGM. New Directors, who were not appointed at the previous AGM, automatically retire at their first AGM and, if eligible, can seek re-appointment.

However, the Board recognises the Code's recommendation that all Directors should stand for re-election every year, and whilst not a requirement, the Board has decided to adopt this recommendation as best practice. As such, all Directors will retire from office at the Company's forthcoming AGM and stand for re-appointment.

# Craneware plc

## Corporate Governance Report (continued)

### Accountability

#### Financial and Business Reporting

*"The Board should present a balanced and understandable assessment of the company's position and prospects"*

The Board recognises its responsibilities, including those statutory responsibilities laid out on page 22. An assessment of the Group's market, business model and performance is presented in the Chairman's Statement and the Operational Review on pages 1 to 12.

As detailed on page 18 of the Directors' Report, the Board has confirmed that it is appropriate to adopt the going concern basis in preparing financial statements.

#### Risk Management and Internal Control

*"The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain sound risk management and internal control systems"*

The Directors recognise their responsibility for the Group's system of internal control, and have established systems to ensure that an appropriate and reasonable level of oversight and control is provided. These systems are reviewed for effectiveness annually by the Audit Committee and the Board. The Group's systems of internal control are designed to help the Group meet its business objectives by appropriately managing, rather than eliminating, the risks to those objectives. The controls can only provide reasonable, not absolute, assurance against material misstatement or loss.

Executive Directors and senior management meet to review both the risks facing the business and the controls established to minimise those risks and their effectiveness in operation on an ongoing basis. The aim of these reviews is to provide reasonable assurance that material risks and problems are identified and appropriate action taken at an early stage. From this review the Company maintains its internal risk register which forms the foundation of the Board and the Audit Committee review process.

The annual financial plan is reviewed and approved by the Board. Financial results with comparisons to plan and forecast results are reported on at least a quarterly basis to the Board together with a report on operational achievements, objectives and issues encountered. The quarterly reports are supplemented by interim monthly financial information. Forecasts are updated quarterly in the light of market developments and the underlying performance and expectations. Significant variances from plan are discussed at Board meetings and actions set in place to address them.

Approval levels for authorisation of expenditure are at set levels and cascaded through the management structure with any expenditure in excess of pre-defined levels requiring approval from the executive Directors and selected senior managers.

Measures continue to be taken to review and embed internal controls and risk management procedures into the business processes of the organisation and to deal with areas of improvement which come to the management's and the Board's attention. Metrics and quality objectives continue to be actively implemented and monitored as part of a continual improvement programme.

Details of the principal risks and uncertainties facing the Group are detailed in the Directors' Report on pages 17 to 18. The principal financial risks are detailed in Note 3 to the financial statements.

# Craneware plc

## Corporate Governance Report (continued)

### Accountability (continued)

#### Audit Committee and Auditors

*"The Board should establish formal and transparent arrangements for considering how they should apply the corporate reporting risk management and internal control principles and for maintaining an appropriate relationship with the Company's auditor."*

An Audit Committee has been established to assist the Board with the discharge of its responsibilities in relation to internal and external audits and controls. The Audit Committee will normally meet at least three times a year. The Audit Committee is chaired by Neil Heywood and its other members are George Elliott and Ron Verni. The Chief Financial Officer, Chief Executive Officer and other senior management attend meetings by invitation and the Committee also meets the external auditors without management present. George Elliott, as a member of the Audit Committee has recent and relevant financial experience.

Details of how the Audit Committee has discharged its responsibilities are provided below.

### Remuneration

#### The Level and Components of Remuneration

*"Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance"*

The Company has established a Remuneration Committee to assist the Board in this area. This Committee is chaired by Ron Verni and its other members are George Elliott and Neil Heywood. It is usual for Keith Neilson, as Chief Executive Officer, to be invited to attend meetings except where matters under review by the Committee relate to him.

The Committee has responsibility for making recommendations to the Board on the remuneration packages of the executive Directors, and monitor the level and structure of remuneration for senior management, this includes:

- making recommendations to the Board on the Company's policy on Directors' and senior staff remuneration, and to oversee long term incentive plans (including share option schemes);
- ensuring remuneration is both appropriate to the level of responsibility and adequate to attract and/or retain Directors and staff of the calibre required by the Company; and
- ensuring that remuneration is in line with current industry practice.

The Committee has presented its Remuneration Report on pages 31 to 34, which details the work undertaken operating under its terms of reference (which are available at the Company's registered office), to discharge its responsibilities.

#### Procedure

*"There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration"*

Details of how the Committee and Board have discharged their responsibilities in this area are detailed in the Remuneration Report on pages 31 to 34.

# Craneware plc

## Corporate Governance Report (continued)

### Relations with Shareholders

#### Dialogue with Shareholders

*"There should be a dialogue with shareholders based on mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place"*

The Company engages in full and open communication with both institutional and private investors and responds promptly to all queries received. In conjunction with the Company's brokers and other financial advisors all relevant news is distributed in a timely fashion through appropriate channels to ensure shareholders are able to access material information on the Company's progress.

To facilitate this:

- all shareholders are invited to attend the AGM and are encouraged to take the opportunity to ask questions;
- the primary point of contact for shareholders on operational matters is Keith Neilson as CEO and Craig Preston as CFO;
- the primary point of contact for shareholders on corporate governance and other related matters is George Elliott as Chairman. Ron Verni as Senior Independent Director is available as a point of contact should a shareholder not wish to contact the Chairman for any reason.

Keith Neilson and Craig Preston meet regularly with shareholders, normally immediately following the Company's half year and full year financial results announcements, to discuss the Group's performance and answer any questions. The Board monitors the success of these meetings through anonymous evaluations from both shareholders and analysts performed by the Company's Broker and Financial PR advisor.

The Company's website has a section for investors which contains all publicly available financial information and news on the Company.

#### Constructive Use of the AGM

*"The Board should use the AGM to communicate with investors and to encourage their participation"*

The Board encourages attendance at its AGM from all shareholders. The Notice of AGM together with all resolutions and explanations of these resolutions are sent at least 20 working days before the meeting. All Directors, where possible, make themselves available to answer any questions shareholders may have. Results of all votes on resolutions are published as soon as practicable on the Company's website.

### The Audit Committee

During the year the Audit Committee, operating under its terms of reference (which are available at the Company's registered office), discharged its responsibilities, including reviewing and monitoring:

- interim and annual reports information including consideration of the appropriateness of accounting policies and material assumptions and estimates adopted by management;
- developments in accounting and reporting requirements;
- external auditors' plan for the year-end audit of the Company and its subsidiaries;
- the Committee's effectiveness;
- the Internal Risk Register covering the systems of internal control and their effectiveness, reporting and making new recommendations to the Board on the results of the review and receiving regular updates on key risk areas of financial control;
- the requirements or otherwise for an internal audit function;
- the performance and independence of the external auditors concluding in a recommendation to the Board on the reappointment of the auditors by shareholders at the Annual General Meeting. The auditors provide annually a letter to the Committee confirming their independence and stating the methods they employ to safeguard their independence;
- the audit and non-audit fees charged by the external auditors; and
- the formal engagement terms entered into with the external auditors.

## **Craneware plc**

### **Corporate Governance Report (continued)**

#### **The Audit Committee (continued)**

The Committee has also reviewed the arrangements in place for internal audit and concluded, due to the current size and complexity of the Company, that a formal internal audit function was not required.

Under its terms of reference the Audit Committee is responsible for monitoring the independence, objectivity and performance of the external auditors, and for making a recommendation to the Board regarding the appointment of external auditors on an annual basis. The Group's external auditors, PricewaterhouseCoopers LLP, were first appointed as external auditors of the Company for the year ended 30 June 2003.

The Audit Committee has also implemented procedures relating to the provision of non-audit services by the Company auditors, which include non-audit work and any related fees over and above a de-minimis level to be approved in advance by the Chairman of the Audit Committee. Details of the fees paid to the auditors for audit and non-audit services are shown in Note 6 to the financial statements.

The Audit Committee has considered the level of non-audit services and the related fees paid and have concluded they do not compromise auditor independence.

#### **AIM Rule Compliance Report**

Craneware plc is quoted on AIM and as a result the Company has complied with AIM Rule 31 which requires the following:

- have in place sufficient procedures, resources and controls to enable its compliance with the AIM Rules;
- seek advice from its Nominated Advisor ("Nomad") regarding its compliance with the AIM Rules whenever appropriate and take that advice into account;
- provide the Company's Nomad with any information it reasonably requests in order for the Nomad to carry out its responsibilities under the AIM Rules for Nominated Advisors, including any proposed changes to the Board and provision of draft notifications in advance;
- ensure that each of the Company's Directors accepts full responsibility, collectively and individually, for compliance with the AIM Rules; and
- ensure that each Director discloses without delay all information which the Company needs in order to comply with AIM Rule 17 (Disclosure of Miscellaneous Information) insofar as that information is known to the Director or could with reasonable diligence be ascertained by the Director.

**Approved by the Board of Directors and signed on behalf of the Board by:**



**Craig Preston**  
Company Secretary  
3 September 2012

## **Craneware plc**

### **Remuneration Committee Report**

This report sets out Craneware plc's remuneration and benefits for the financial year under review. A resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be presented for approval.

#### **Remuneration Committee**

The Company has a Remuneration Committee ("the Committee") in accordance with the recommendations of the UK Corporate Governance Code. The members of the Committee are Ron Verni (Chairman), Neil Heywood and George Elliott. None of the Committee has any personal financial interests, other than as shareholders, in matters directly decided by this Committee, nor are there any conflicts of interests arising from cross directorships or day to day involvement in the running of the business.

The Company's Chief Executive Officer often attends meetings, at the invitation of the Committee, to advise on operational aspects of implementing existing and proposed policies. The Company Secretary acts as secretary to the Committee. Under the Committee Chairman's direction, the Chief Executive Officer and the Company Secretary have responsibility for ensuring the Committee has the information relevant to its deliberations. In formulating its policies, the Committee has access, as required, to professional advice from outside the Company and to publicly available reports and statistics.

The remuneration of the non-executive Directors is determined by the Board as a whole within limits set out in the Articles of Association.

#### **Policy**

Executive remuneration packages are designed to attract, motivate and retain Directors of the calibre necessary to achieve the Group's growth objectives and to reward them for enhancing shareholder value. The main elements of the remuneration package for executive Directors and senior management are:

- basic annual salary and benefits in kind;
- annual performance related bonus;
- pension entitlement; and,
- share option awards.

The Company's policy is that a substantial proportion of the remuneration of executive Directors should be performance related.

None of the executive Directors hold any outside appointments.

## **Craneware plc**

### **Remuneration Committee Report (continued)**

#### **Directors' remuneration**

During the year, the Remuneration Committee engaged Hewitt New Bridge Street Consultants to perform a review of director and senior management remuneration. This review has been performed against a peer group of similar sized software and services listed companies and a peer group of similar sized AIM listed companies across all sectors. The conclusions and recommendations of this report are being incorporated as part of the longer term strategy for director remuneration.

As a result, the Committee continues to develop overall directors' remuneration packages to ensure both the short and long term objectives of the Company are met and potentially exceeded, thereby ensuring that the Directors are incentivised to maximise return to the Company's shareholders.

The remuneration package comprises:

(i) Basic Salary and pension entitlement

This is normally reviewed annually, usually in September, or when an individual's position or responsibilities change and is normally paid as a fixed cash sum monthly.

In regards to pension entitlement, the Company pays a fixed sum to a personal pension plan on behalf of the Chief Executive Officer.

(ii) Annual Performance Related Bonus

Under the annual performance related bonus plan executive Directors are eligible to earn a cash bonus payment based on targets that are set by the Committee. In determining these targets, the Committee's objective is to set targets that reflect challenging financial performance in the current year, but also provide for the future growth of the Company. Maximum bonus entitlements were set at a level that allowed additional growth of overall remuneration for out performance of targets but still remains below the appropriate levels of the benchmarking exercise referred to above.

As these financial targets were not met in the current year, no bonus has been paid.

(iii) Share options

The Company operates the Craneware Employees' Share Option Plan 2007 ("Share Option Plan") from which, and at the discretion of the Committee, executive Directors and other employees (including senior management) may be awarded share options under this scheme.

During the year, the executive Directors were awarded share options under this scheme, details of which are shown in the table on page 34.

These options are normally exercisable three years after the date the options were granted, provided the Executive is still employed at the date of exercise. These options are subject to performance criteria and normally vest, in three annual tranches of no greater than 1/3 of the total options granted. The number of shares actually vesting being based on the share price performance in the preceding three year period as compared to a comparator base of companies that make up the Techmark 100. If performance is below the median of the comparator group over the relevant three year period then no shares vest that year. The amount of shares that vest increases as performance reaches top quartile when a third of the total grant of options vest.

## Craneware plc

### Remuneration Committee Report (continued)

#### Service Contracts

The executive Directors and the non-executive Directors are employed under individual employment arrangements or letters of appointment where appropriate. Details of these service contracts are set out below.

	Contract Date	Unexpired Term	Normal Notice Period
K Neilson	Founder	Rolling	3 months*
C T Preston	15 September 2008	Rolling	3 months*
G R Elliott	10 August 2007	11 months	1 month
N P Heywood	11 January 2002	Rolling	1 month
R Verni	1 May 2009	Rolling	1 month

\* The notice terms for Keith Neilson and Craig Preston are normally three months, however in the event of a change of control, these notice periods are automatically extended to twelve months.

#### Directors' Interests

The Directors' interests in the ordinary shares of the Company are set out in the Directors' Report on page 19.

#### Directors' Emoluments

For Directors who held office during the course of the year, emoluments for the year ending 30 June 2012 were as follows (note: With the exception of R Verni, all directors are paid in UK Sterling; the amounts below are translated at the relevant average exchange rate for period being reported) :

	Salary/Fees \$	Benefits \$	Bonus \$	Pension \$	2012 Total \$	2011 Total \$
<b>Executives</b>						
K Neilson	312,030	718	-	7,920	320,668	365,155
C T Preston	291,121	823	-	-	291,944	326,126
<b>Non-Executives</b>						
G R Elliott	95,126	-	-	-	95,126	85,594
N P Heywood	50,990	-	-	-	50,990	46,212
R Verni	51,357	-	-	-	51,357	65,920
<b>Total</b>	<b>800,624</b>	<b>1,541</b>	<b>-</b>	<b>7,920</b>	<b>810,085</b>	<b>889,007</b>

1. Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company held by the Directors.
2. Benefits represent payments for health insurance, death in service and disability insurance.
3. Accrued bonuses were included in the previous year comparatives above and they were approved by the Remuneration Committee.
4. Amounts paid to R Verni for the year ending 30 June 2011 include an amount paid as a consultancy fee in respect of advice and assistance he provided the Executive team in concluding the due diligence and acquisition of ClaimTrust, Inc.

## Craneware plc

### Remuneration Committee Report (continued)

#### Directors' interests in share options

Directors' share options as at 30 June 2012 were in respect of Directors who held office during the course of the year:

	Exercise Price (cents)	Exercise Price (pence)	Issue Date	Held At 30/06/11	Granted During Year	Exercised During Year	Lapsed During Year	Held At 30/06/12
<b>K Neilson</b>								
Ordinary shares	534.0	335.0	Dec-09	42,870	-	-	(14,290)	28,580
Ordinary shares	618.0	401.0	Sept-10	40,150	-	-	(13,383)	26,767
Ordinary shares	866.0	561.0	Sept-11	-	70,869	-	(23,623)	47,246
<b>C T Preston</b>								
Ordinary shares	365.0	208.0	Sep-08	72,115	-	-	-	72,115
Ordinary shares	534.0	335.0	Dec-09	37,649	-	-	(12,550)	25,099
Ordinary shares	618.0	401.0	Sept-10	35,162	-	-	(11,721)	23,441
Ordinary shares	866.0	561.0	Sept-11	-	42,853	-	(14,284)	28,569

Employee share options as at 30 June 2012 were:

	Exercise Price (cents)	Exercise Price (pence)	Issue Date	Held At 30/06/11	Granted During Year	Exercised During Year	Lapsed During Year	Held At 30/06/12
Ordinary shares ("initial options")	1.991	1.0	Sep-07	120,000	-	(120,000)	-	-
Ordinary shares	369.0	187.0	May-08	40,600	-	(40,600)	-	-
Ordinary shares	355.3	211.0	Oct-08	14,424	-	(14,424)	-	-
Ordinary shares	542.0	343.0	Oct-09	44,285	-	-	(44,285)	-
Ordinary shares	534.0	335.0	Dec-09	89,784	-	-	(29,928)	59,856
Ordinary shares	618.0	401.0	Sept-10	132,795	-	-	(61,197)	71,598
Ordinary shares	866.0	561.0	Sept-11	-	141,798	-	(62,502)	79,296

On behalf of the Remuneration Committee:



**Ron Verni**  
Chairman of the Remuneration Committee  
3 September 2012

## **Craneware plc**

### **Independent Auditors' Report to the Members of Craneware plc**

We have audited the Group and Parent Company financial statements (the "financial statements") of Craneware plc for the year ended 30 June 2012 which comprise Consolidated Statement of Comprehensive Income, the Group and Parent Company Statement of Changes in Equity, the Consolidated and Parent Company Balance Sheets, the Group and Parent Company Statement of Cash Flow, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on pages 16-22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2012 and of the Group's profit and Group and Parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Craneware plc

### Independent Auditors' Report to the Members of Craneware plc (continued)

#### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**Mark Hoskyns-Abrahall (Senior Statutory Auditor)**  
**for and on behalf of PricewaterhouseCoopers LLP**  
Chartered Accountants and Statutory Auditors  
Edinburgh  
3 September 2012

## Craneware plc

### Consolidated Statement of Comprehensive Income For the year ended 30 June 2012

	Notes	Total 2012 \$'000	Total 2011 \$'000
<b>Revenue</b>	4	<b>41,067</b>	38,124
Cost of sales		<b>(1,556)</b>	(4,696)
<b>Gross profit</b>		<b>39,511</b>	33,428
Net operating expenses	5	<b>(28,416)</b>	(24,874)
<b>Operating profit</b>	6	<b>11,095</b>	8,554
<b>Analysed as:</b>			
Adjusted EBITDA*		<b>11,932</b>	10,077
Acquisition costs on business combination		-	(517)
Released deferred consideration on business combination		<b>954</b>	-
Share based payments	8	<b>(152)</b>	(139)
Depreciation of plant and equipment		<b>(579)</b>	(312)
Amortisation of intangible assets		<b>(1,060)</b>	(555)
Finance income	9	<b>107</b>	99
<b>Profit before taxation</b>		<b>11,202</b>	8,653
Tax on profit on ordinary activities	10	<b>(2,309)</b>	(2,638)
<b>Profit for the year attributable to owners of the parent</b>		<b>8,893</b>	6,015
<b>Total comprehensive income attributable to owners of the parent</b>		<b>8,893</b>	6,015

The accompanying notes are an integral part of these financial statements.

\*Adjusted EBITDA is defined as operating profit before *acquisition costs, released deferred consideration, share based payments, depreciation and amortisation.*

#### Earnings per share for the year attributable to equity holders

	Notes	2012	2011
Basic (\$ per share)	12a	<b>0.330</b>	0.231
*Adjusted Basic (\$ per share)	12a	<b>0.316</b>	0.256
Diluted (\$ per share)	12b	<b>0.329</b>	0.228
*Adjusted Diluted (\$ per share)	12b	<b>0.315</b>	0.253

\*Adjusted Earnings per share calculations allow for the release of deferred consideration on the business combination and acquisition costs (in the prior year) together with amortisation on acquired intangible assets to form a better comparison with previous years.

## Craneware plc

### Statements of Changes in Equity for the year ended 30 June 2012

<b>Group</b>	<b>Share Capital \$'000</b>	<b>Share Premium Account \$'000</b>	<b>Other Reserves \$'000</b>	<b>Retained Earnings \$'000</b>	<b>Total Equity \$'000</b>
At 1 July 2010	512	9,250	3,237	9,053	22,052
<u>Total comprehensive income</u> - profit for the year	-	-	-	6,015	6,015
<u>Transactions with owners:</u>					
Share-based payments	-	-	139	1,249	1,388
Impact of share options exercised	13	-	(3,074)	3,074	13
Issue of ordinary shares related to business combination	11	5,989	-	-	6,000
Dividends (Note 11)	-	-	-	(3,063)	(3,063)
At 30 June 2011	536	15,239	302	16,328	32,405
<u>Total comprehensive income</u> - profit for the year	-	-	-	8,893	8,893
<u>Transactions with owners:</u>					
Share-based payments	-	-	152	(538)	(386)
Impact of share options exercised	2	169	(245)	692	618
Dividends (Note 11)	-	-	-	(4,093)	(4,093)
<b>At 30 June 2012</b>	<b>538</b>	<b>15,408</b>	<b>209</b>	<b>21,282</b>	<b>37,437</b>
<b>Company</b>					
At 1 July 2010	512	9,250	2,278	6,445	18,485
<u>Total comprehensive income</u> - profit for the year	-	-	-	5,446	5,446
<u>Transactions with owners:</u>					
Share-based payments	-	-	84	478	562
Impact of share options exercised	13	-	(2,225)	2,225	13
Issue of ordinary shares related to business combination	11	5,989	-	-	6,000
Dividends (Note 11)	-	-	-	(3,063)	(3,063)
At 30 June 2011	536	15,239	137	11,531	27,443
<u>Total comprehensive income</u> - profit for the year	-	-	-	9,631	9,631
<u>Transactions with owners:</u>					
Share-based payments	-	-	100	(76)	24
Impact of share options exercised	2	169	(65)	85	191
Dividends (Note 11)	-	-	-	(4,093)	(4,093)
<b>At 30 June 2012</b>	<b>538</b>	<b>15,408</b>	<b>172</b>	<b>17,078</b>	<b>33,196</b>

The accompanying notes are an integral part of these financial statements.

Other reserves relate to share-based payments and are detailed in Note 1 and these reserves are not available for distribution.

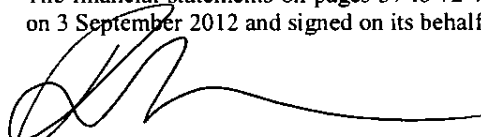
# Craneware plc

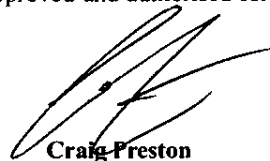
## Consolidated Balance Sheet as at 30 June 2012

	Notes	2012 \$'000	2011 \$'000
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Plant and equipment	13	2,027	2,167
Intangible assets	14	16,010	16,652
Deferred tax	18	1,470	1,287
		<u>19,507</u>	<u>20,106</u>
<b>Current Assets</b>			
Trade and other receivables	17	12,560	13,121
Cash and cash equivalents	21	28,790	24,176
		<u>41,350</u>	<u>37,297</u>
<b>Total Assets</b>		<u>60,857</u>	<u>57,403</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Non-Current Liabilities</b>			
Contingent consideration	16, 23	-	954
Deferred income		183	250
		<u>183</u>	<u>1,204</u>
<b>Current Liabilities</b>			
Deferred income		15,766	15,638
Current tax liabilities		1,527	288
Trade and other payables	22	5,944	7,868
		<u>23,237</u>	<u>23,794</u>
<b>Total Liabilities</b>		<u>23,420</u>	<u>24,998</u>
<b>Equity</b>			
Called up share capital	19	538	536
Share premium account		15,408	15,239
Other reserves		209	302
Retained earnings		21,282	16,328
<b>Total Equity</b>		<u>37,437</u>	<u>32,405</u>
<b>Total Equity and Liabilities</b>		<u>60,857</u>	<u>57,403</u>

Registered Number SC196331

The accompanying notes are an integral part of these financial statements.  
The financial statements on pages 37 to 72 were approved and authorised for issue by the Board of Directors on 3 September 2012 and signed on its behalf by:

  
**Keith Neilson**  
Director

  
**Craig Preston**  
Director and Company Secretary

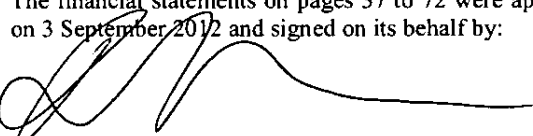
# Craneware plc

## Company Balance Sheet as at 30 June 2012

	Notes	2012 \$'000	2011 \$'000
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Investment in subsidiary undertakings	15	9,000	-
Plant and equipment	13	1,413	1,647
Intangible assets	14	1,243	1,313
Deferred tax	18	-	67
Amounts due from subsidiary undertaking		6,000	14,923
		<b>17,656</b>	<b>17,950</b>
<b>Current Assets</b>			
Trade and other receivables	17	11,028	11,753
Cash and cash equivalents	21	26,151	20,272
		<b>37,179</b>	<b>32,025</b>
<b>Total Assets</b>		<b>54,835</b>	<b>49,975</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Non-Current Liabilities</b>			
Deferred tax	18	14	-
Deferred income		183	250
		<b>197</b>	<b>250</b>
<b>Current Liabilities</b>			
Deferred income		15,334	15,590
Current tax liabilities		1,955	673
Trade and other payables	22	4,153	6,019
		<b>21,442</b>	<b>22,282</b>
<b>Total Liabilities</b>		<b>21,639</b>	<b>22,532</b>
<b>Equity</b>			
Called up share capital	19	538	536
Share premium account		15,408	15,239
Other reserves		172	137
Retained earnings		17,078	11,531
<b>Total Equity</b>		<b>33,196</b>	<b>27,443</b>
<b>Total Equity and Liabilities</b>		<b>54,835</b>	<b>49,975</b>

Registered Number SC196331

The accompanying notes are an integral part of these financial statements.  
The financial statements on pages 37 to 72 were approved and authorised for issue by the Board of Directors on 3 September 2012 and signed on its behalf by:

  
**Keith Neilson**  
Director

  
**Craig Preston**  
Director and Company Secretary

## Craneware plc

### Statements of Cash Flows for the year ended 30 June 2012

	Notes	Group		Company	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Cash flows from operating activities</b>					
Cash generated/(used) from operations	20	10,602	10,089	11,919	(1,499)
Interest received		107	99	270	99
Tax paid		(1,316)	(1,595)	(1,930)	(1,579)
Net cash from operating activities		9,393	8,593	10,259	(2,979)
<b>Cash flows from investing activities</b>					
Purchase of plant and equipment	13	(439)	(1,790)	(95)	(1,679)
Acquisition of subsidiary, net of cash acquired	16	-	(8,772)	-	-
Capitalised intangible assets	14	(418)	(247)	(363)	(233)
Net cash used in investing activities		(857)	(10,809)	(458)	(1,912)
<b>Cash flows from financing activities</b>					
Dividends paid to company shareholders	11	(4,093)	(3,063)	(4,093)	(3,063)
Proceeds from issuance of shares		171	13	171	13
Net cash used in financing activities		(3,922)	(3,050)	(3,922)	(3,050)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>4,614</b>	<b>(5,266)</b>	<b>5,879</b>	<b>(7,941)</b>
Cash and cash equivalents at the start of the year		24,176	29,442	20,272	28,213
<b>Cash and cash equivalents at the end of the year</b>		<b>28,790</b>	<b>24,176</b>	<b>26,151</b>	<b>20,272</b>

The accompanying notes are an integral part of these financial statements.

# **Craneware plc**

## **Notes to the Financial Statements**

### **General Information**

Craneware plc (the Company) is a public limited company incorporated and domiciled in Scotland. The Company has a primary listing on the AIM stock exchange. The address of its registered office and principal place of business is disclosed on page 13 of the financial statements. The principal activity of the Company is described in the Directors' Report.

### **Basis of preparation**

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historic cost convention and prepared on a going concern basis. The applicable accounting policies are set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year, if relevant.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The Company and its subsidiary undertakings are referred to in this report as the Group.

## **1 Principal accounting policies**

The principal accounting policies adopted in the preparation of these accounts are set out below. These policies have been consistently applied, unless otherwise stated.

### **Reporting currency**

The Directors consider that as the Group's revenues are primarily denominated in US dollars the Company's principal functional currency is the US dollar. The Group's financial statements are therefore prepared in US dollars.

### **Currency translation**

Transactions denominated in foreign currencies are translated into US dollars at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities expressed in foreign currencies are translated into US dollars at rates of exchange ruling at the Balance Sheet date \$1.5685/£1 (2011 : \$1.6055/£1). Exchange gains or losses arising upon subsequent settlement of the transactions and from translation at the Balance Sheet date, are included within the related category of expense where separately identifiable, or in general and administrative expenses.

# Craneware plc

## Notes to the Financial Statements (continued)

### 1 Principal accounting policies (continued)

#### New Standards, amendments and interpretations effective in the year

The Directors have adopted the following Standards, amendments and interpretations (where relevant to the Group and subject to their endorsement by the EU) and they have concluded that they have no material financial impact on the financial statements of the Group or Company.

Annual improvements 2010: This set of amendments includes changes to six standards and one IFRIC, none of which have a material impact on the Group.

IFRS 1, 'First time adoption' on hyperinflation (effective 1 July 2011\*), two amendments that result in changes to the standard; the first replaces references to the fixed date of adoption and the second provides guidance for entities that could not comply with IFRS due to its functional currency being subjected to hyperinflation.

IFRS 7, 'Financial instruments: Disclosures on transfers of assets' (effective 1 July 2011\*), amendments improving disclosures of transfer transactions in respect of financial assets, including the possible effects of any risk that may remain with the entity that transferred the assets. The amendments also require enhanced disclosure under circumstances of disproportionate transactions undertaken around the end of a reporting period.

IAS 24, 'Related party disclosures' (effective 1 January 2011\*), amendment provides a revised definition of a related party, and in particular this now includes joint ventures under common control.

#### New Standards, amendments and interpretations not yet effective

The Directors anticipate that the future adoption of the following Standards, amendments and interpretations (where relevant to the Group and subject to their endorsement by the EU) will have no material financial impact on the financial statements of the Group and Company. None of the below Standards, amendments or interpretations has been adopted early.

Annual improvements 2011: This set of amendments includes changes to five standards, none of which are expected to have a material impact on the Group.

IFRS 1, 'First time adoption' on government loans (effective 1 January 2013\*),  
IFRS 7, 'Financial instruments: disclosures' (effective 1 January 2013\*),  
IFRS 9, 'Financial instruments: classification and measurement' (effective 1 January 2015\*),  
IFRS 10, 'Consolidated financial statements' (effective 1 January 2013\*),  
IFRS 11, 'Joint arrangements' (effective 1 January 2013\*),  
IFRS 12, 'Disclosures of interests in other entities' (effective 1 January 2013\*),  
IFRS 13, 'Fair value measurement' (effective 1 January 2013\*),  
IAS 1, 'Financial statement presentation' regarding other comprehensive income (effective 1 July 2012\*),  
IAS 12, 'Income taxes' on deferred tax (effective 1 January 2012\*),  
IAS 19, 'Employee benefits' (effective 1 January 2013\*),  
IAS 27, 'Separate financial statements' (effective 1 January 2013\*),  
IAS 28 (revised 2011), 'Associates and joint ventures' (effective 1 January 2013\*),  
IAS 32, 'Financial instruments presentation' (effective 1 January 2014\*).

\*Effective for accounting periods starting on or after this date.

# Craneware plc

## Notes to the Financial Statements (continued)

### 1 Principal accounting policies (continued)

#### Basis of consolidation

The consolidated Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and Statement of Cashflows include the accounts of the Parent Company and its subsidiaries. Subsidiaries are all entities over which the Group has power to govern the financial and operational policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control transferred to the Group and are deconsolidated from the time control ceases. Intra Group revenue and profits/(losses) are eliminated on consolidation and all sales and profit figures relate to external transactions only. As permitted by Section 408(4) of the Companies Act 2006, the Statement of Comprehensive Income of the Parent Company is not presented although the Company performance can be seen in isolation in the Statements of Changes in Equity. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the acquisition date, of assets given, liabilities incurred or assumed, and the equity issued by the Group. The consideration transferred includes the fair value of any assets or liability resulting from a contingent consideration and acquisition costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in the Statement of Comprehensive Income. Contingent consideration that is classified as equity is not re-measured and its subsequent settlement is accounted for within equity.

Goodwill arising on the acquisition is recognised as an asset and initially measured at cost, being the excess of fair value of the consideration over the Group's assessment of the net fair value of the identifiable assets and liabilities recognised.

If the Group's assessment of the net fair value of a subsidiary's assets and liabilities had exceeded the fair value of the consideration of the business combination then the excess ('negative goodwill') would be recognised in the Statement of Comprehensive Income immediately. The fair value of the identifiable assets and liabilities assumed on acquisition are brought onto the Balance Sheet at their fair value at the date of acquisition.

#### Revenue recognition

The Group follows the principles of IAS 18, "Revenue Recognition", in determining appropriate revenue recognition policies. In principle revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow into the Group.

Revenue is derived from sales of, and distribution agreements relating to, software licenses and professional services (including installation). Revenue is recognised when (i) persuasive evidence of an arrangement exists; (ii) the customer has access and right to use our software; (iii) the sales price can be reasonably measured; and (iv) collectability is reasonably assured.

Revenue from standard licensed products which are not modified to meet the specific requirements of each customer is recognised from the point at which the customer has access and right to use our software. This right to use software will be for the period covered under contract and, as a result, our annuity based revenue model recognises the licensed software revenue over the life of this contract. This policy is consistent with the Company's products providing customers with a service through the delivery of, and access to, software solutions (Software-as-a-Service ("SaaS")), and results in revenue being recognised over the period that these services are delivered to customers.

# **Craneware plc**

## **Notes to the Financial Statements (continued)**

### **1 Principal accounting policies (continued)**

#### **Revenue recognition (cont.)**

'White-labelling' or other 'Paid for development work' is generally provided on a fixed price basis and as such revenue is recognised based on the percentage completion or delivery of the relevant project. Where percentage completion is used it is estimated based on the total number of hours performed on the project compared to the total number of hours expected to complete the project. Where contracts underlying these projects contain material obligations, revenue is deferred and only recognised when all the obligations under the engagement have been fulfilled.

Revenue from all professional services is recognised as the applicable services are provided. Where professional services engagements contain material obligation, revenue is recognised when all the obligations under the engagement have been fulfilled. Where professional services engagements are provided on a fixed price basis, revenue is recognised based on the percentage completion of the relevant engagement. Percentage completion is estimated based on the total number of hours performed on the project compared to the total number of hours expected to complete the project.

Software and professional services sold via a distribution agreement will normally follow the above recognition policies.

Should any contracts contain non-standard clauses, revenue recognition will be in accordance with the underlying contractual terms which will normally result in recognition of revenue being deferred until all material obligations are satisfied.

The excess of amounts invoiced over revenue recognised are included in deferred income. If the amount of revenue recognised exceeds the amount invoiced the excess is included within accrued income.

#### **Intangible Assets**

##### **(a) Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is capitalised and recognised as a non-current asset in accordance with IFRS 3 and is tested for impairment annually, or on such occasions that events or changes in circumstances indicate that the value might be impaired.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

##### **(b) Proprietary software**

Proprietary software acquired in a business combination is recognised at fair value at the acquisition date. Proprietary software has a finite life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the associated costs over their estimated useful lives of 5 years.

# **Craneware plc**

## **Notes to the Financial Statements (continued)**

### **1 Principal accounting policies (continued)**

#### **Intangible Assets (cont.)**

##### **(c) Contractual customer relationships**

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful economic life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship which has been assessed as 10 years.

##### **(d) Research and Development expenditure**

Expenditure associated with developing and maintaining the Group's software products is recognised as incurred. Where, however, new product development projects are technically feasible, production and sale is intended, a market exists, expenditure can be measured reliably, and sufficient resources are available to complete such projects, development expenditure is capitalised until initial commercialisation of the product, and thereafter amortised on a straight-line basis over its estimated useful life, which has been assessed as 5 years. Staff costs and specific third party costs involved with the development of the software are included within amounts capitalised.

##### **(e) Computer software**

Costs associated with acquiring computer software and licensed to-use technology are capitalised as incurred. They are amortised on a straight-line basis over their useful economic life which is typically 3 to 5 years.

#### **Impairment of non-financial assets**

At each reporting date the Group considers the carrying amount of its tangible and intangible assets including goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If there is such an indication, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any) through determining the value in use of the cash generating unit that the asset relates to. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the impairment loss is recognised as an expense.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset. A reversal of an impairment loss is recognised as income immediately. Impairment losses relating to goodwill are not reversed.

# **Craneware plc**

## **Notes to the Financial Statements (continued)**

### **1 Principal accounting policies (continued)**

#### **Plant and Equipment**

All plant and equipment are stated at historical cost less depreciation, costs include the original purchase price of the asset and the costs attributable to bring the asset to its working condition for its intended use. Depreciation is provided to write off the cost less estimated residual values of tangible fixed assets over their expected useful lives. It is calculated at the following rates:

Computer equipment	- Between 20% - 33% straight line
Tenants improvements	- Between 10% - 20% straight line
Office furniture	- Between 14% - 25% straight line

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of assets are included in operating profit.

Repairs and maintenance are charged to the Statement of Comprehensive Income during the financial year in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group.

#### **Taxation**

The charge for taxation is based on the profit for the period and takes into account deferred taxation. Taxation is computed using the liability method. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted rates and laws that will be in effect when the differences are expected to reverse. The deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will arise against which the temporary differences will be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities arising in the same tax jurisdiction are offset.

In the UK and the US, the Group is entitled to a tax deduction for amounts treated as compensation on exercise of certain employee share options under each jurisdiction's tax rules. As explained under "Share-based payments", a compensation expense is recorded in the Group's Statement of Comprehensive Income over the period from the grant date to the vesting date of the relevant options. As there is a temporary difference between the accounting and tax bases a deferred tax asset is recorded. The deferred tax asset arising is calculated by comparing the estimated amount of tax deduction to be obtained in the future (based on the Company's share price at the Balance Sheet date) with the cumulative amount of the compensation expense recorded in the Statement of Comprehensive Income. If the amount of estimated future tax deduction exceeds the cumulative amount of the remuneration expense at the statutory rate, the excess is recorded directly in equity against retained earnings.

#### **Investment in subsidiaries**

Investment in Group undertakings is recorded at cost, which is the fair value of the consideration paid, less any provision for impairment.

# **Craneware plc**

## **Notes to the Financial Statements (continued)**

### **1 Principal accounting policies (continued)**

#### **Operating leases**

The costs of operating leases are charged on a straight line basis over the duration of the leases in arriving at operating profit.

#### **Financial assets**

The Group classifies its financial assets in the following categories: (i) at fair value through profit and loss, (ii) loans and receivables and (iii) available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. At each Balance Sheet date included in the financial information, the Group held only items classified as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the Balance Sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' or 'cash and cash equivalents' in the Balance Sheet.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairments. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of Comprehensive Income within 'net operating expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against net operating expenses in the Statement of Comprehensive Income.

#### **Financial liabilities**

The only financial liability held by the Group at each Balance Sheet date included in the financial information is trade payables. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held with banks and short term highly liquid investments. For the purpose of the Statements of Cash flows, cash and cash equivalents comprise cash on hand, deposits held with banks and short term highly liquid investments.

#### **Employee benefits**

The Group operates a defined contribution Stakeholder Pension Scheme as described in Section 3 of Welfare Reform and Pensions Act 1999. Private medical insurance is also offered to every employee. Amounts payable in respect of these benefits are charged to the Statement of Comprehensive Income as they fall due. The Group has no further payment obligations once the payments have been made. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

# Craneware plc

## Notes to the Financial Statements (continued)

### 1 Principal accounting policies (continued)

#### Share-based payments

The Group grants share options to certain employees. In accordance with IFRS 2, "Share-Based Payments" equity-settled share-based payments are measured at fair value at the date of grant. Fair value is measured by use of the Black-Scholes pricing model as appropriately amended. The fair value determined at the date of grant of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the Statement of Comprehensive Income, with a corresponding adjustment to equity. When the options are exercised the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

The share-based payments charge is included in net operating expenses and is also included in 'Other reserves'.

#### Share capital

Ordinary shares are classified as equity.

#### Dividends

Dividends are recorded in the accounts in the year in which they are approved by the shareholders. Interim dividends are recognised as a distribution when paid.

### 2 Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the Directors to make critical accounting estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying value of assets and liabilities within the next financial year are discussed below:-

- **Impairment assessment:-** the Group tests annually whether Goodwill has suffered any impairment and for other assets including acquired intangibles at any point where there are indications of impairment. This requires an estimation of the value in use of the applicable cash generating unit to which the Goodwill and other assets relate. Estimating the value in use requires the Group to make an estimate of the expected future cashflows from the specific cash generating unit using certain key assumptions including growth rates and a discount rate. Reasonable changes to these assumptions such as increasing the discount rate by 5% (18% to 23%) and decreasing the long term growth rate applied to revenues by 1% (2% to 1%) would still result in no impairment.
- **Provision for impairment of trade receivables:-** the Group assesses trade receivables for impairment which requires the Directors to estimate the likelihood of payment forfeiture by customers.

## **Craneware plc**

### **Notes to the Financial Statements (continued)**

#### **2 Critical accounting estimates and judgements (continued)**

- **Revenue recognition:-** the Group assesses the economic benefit that will flow from future milestone payments in relation to sub-licensing partnership arrangements. This requires the Directors to estimate the likelihood of the Group, its partners, and sub-licensees meeting their respective commercial milestones and commitments.
- **Capitalisation of development expenditure:-** the Group capitalises development costs provided the conditions laid out previously have been met. Consequently the Directors require to continually assess the commercial potential of each product in development and its useful life following launch.
- **Provisions for income taxes:-** the Group is subject to tax in the UK and US and this requires the Directors to regularly assess the applicability of its transfer pricing policy.
- **Share-based payments:-** the Group requires to make a charge to reflect the value of share-based equity-settled payments in the period. At each grant of options and Balance Sheet date, the Directors are required to consider whether there has been a change in the fair value of share options due to factors including number of expected participants.

# Craneware plc

## Notes to the Financial Statements (continued)

### 3 Financial risk management

#### Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (primarily currency risk and cash flow interest rate risk), credit risk and liquidity risk.

Risk management is carried out under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk.

#### *(a) Market risk*

##### *(i) Foreign exchange risk*

Foreign exchange risk arises when commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group operates primarily in the US however a significant proportion of costs are incurred in Sterling.

Management are therefore required to continually assess the Group's foreign exchange risk against the Group's functional currency, and whether any form of hedge should be entered into. The Group's policy has not been to enter into hedging arrangements, although the Board continues to assess the appropriateness of this approach.

The Directors believe that a 10% change in the value of Sterling relative to the Dollar would impact post-tax profits and equity between approximately \$720,000 and \$790,000 (dependent on whether lower or higher) as a result of foreign exchange gains/losses on Sterling denominated transactions and the translation of Sterling denominated current liabilities. The Directors believe that 10% is appropriate for the sensitivity analysis based on recent movements in the exchange rates.

##### *(ii) Cash flow and interest rate risk*

The Group has no significant interest-bearing assets or liabilities, other than cash held on deposit at variable rates. The Directors believe that a 25 basis point move in interest rates would, with all variables held constant, alter post-tax profit and equity for the year in the region of \$65,000 higher/lower respectively. The Directors believe that 25 basis points is appropriate for the sensitivity analysis based on recent market conditions.

#### *(b) Credit risk*

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and trade receivables. In order to minimise the Group's exposure to risk, all cash deposits are placed with reputable banks and financial institutions. The Group's exposure to trade receivables is reduced due to contractual terms which require installation, training, annual licensing and support fees, to be invoiced annually in advance.

#### *(c) Counterparty risk*

The Group has significant cash and cash equivalent balances and in order to mitigate the risk of failing institutions management have treasury deposits spread across a range of reputable banks, the details of which are disclosed on page 13.

#### *(d) Liquidity risk*

Management review the liquidity position of the Group to ensure that sufficient cash is available to meet the underlying needs of the Group as they fall due for payment.

# Craneware plc

## Notes to the Financial Statements (continued)

### 3 Financial risk management (continued)

#### (d) Liquidity risk (continued)

The table below analyses the Group's financial liabilities which will be settled on a net basis into relevant maturity grouping based on the remaining period from the Balance Sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>At 30 June 2011</b>					
Trade Payables	984	-	-	-	984
<b>At 30 June 2012</b>					
Trade Payables	855	-	-	-	855

There is no difference between the undiscounted liabilities and the amounts shown in Note 22 as the Group's financial liabilities are all short term in nature.

#### Capital risk management

The Group is cash generative and trading is funded internally. As a result, management do not consider capital risk to be significant for the Group. Contracts are normally billed annually in advance. Assuming timely receivables collection, the Group will have favourable movements from working capital by generating cash ahead of revenue recognition. Consequently funds are retained in the business to finance future growth, either organically or by acquisition.

### 4 Revenue

The chief operating decision maker has been identified as the Board of Directors. The Group revenue is derived entirely from the sale of software licences, white labelling and professional services (including installation) to hospitals within the United States of America. Consequently the Board has determined that Group supplies only one geographical market place and as such revenue is presented in line with management information without the need for additional segmental analysis. All of the Group assets are located in the United States of America with the exception of the Parent Company's, the net assets of which are disclosed separately on the Company Balance Sheet and are located in the UK.

Revenue is analysed as follows:-

	2012 \$'000	2011 \$'000
Software licencing	34,002	33,381
White labelling	3,500	-
Professional services	3,565	4,743
<b>Total revenue</b>	<b>41,067</b>	<b>38,124</b>

## Craneware plc

### Notes to the Financial Statements (continued)

#### 5 Net operating expenses

Net operating expenses are comprised of the following:-

	2012	2011
	\$'000	\$'000
Sales and marketing expenses	8,804	8,368
Client servicing	7,189	5,775
Research and development	6,844	5,024
Administrative expenses	4,763	4,143
Acquisition costs on business combination	-	517
Release of contingent consideration on business combination (Note 16, 23)	(954)	-
Share-based payments (Note 8)	152	139
Depreciation of plant and equipment	579	312
Amortisation of intangible assets	1,060	555
Exchange (gain)/loss	(21)	41
Net operating expenses	28,416	24,874

#### 6 Operating profit

The following items have been included in arriving at operating profit:

	2012	2011
	\$'000	\$'000
Staff costs (Note 7)	17,847	14,773
Acquisition costs on business combination	-	517
Release of contingent consideration on business combination (Note 16, 23)	(954)	-
Depreciation of plant and equipment	579	312
Amortisation of intangible assets	1,060	555
Impairment of trade receivables	417	581
Operating lease rents for premises	812	607

#### Services provided by the Group's auditor

During the year the Group obtained the following services from the Group's auditors as detailed below:

	2012	2011
	\$'000	\$'000
Statutory audit - Parent Company financial statements and consolidation	97	81
Tax compliance and other tax services	88	89
Other assurance services	5	1
	190	171

# Craneware plc

## Notes to the Financial Statements (continued)

### 7 Staff costs

The average number of persons employed by the Group during the year, excluding non-executive Directors, is analysed below:

	2012	2011
	Number	Number
Sales and distribution	37	39
Client servicing	72	58
Research and development	66	53
Administration	28	22
	203	172

Employment costs of all employees excluding non-executive Directors:-

	2012	2011
	\$'000	\$'000
Wages and salaries	16,222	13,246
Social security costs	1,457	1,372
Post employment benefits	16	16
Share-based payments	152	139
Total direct costs of employment	17,847	14,773

Highest paid director:-

Salary and short-term employee benefits	313	357
Post employment benefits	8	8
Share-based payments	33	18
	354	383

Directors' emoluments are detailed in the Remuneration Committee Report on page 33 and key management compensation is given in the Related Party Transaction note on pages 71 and 72. Retirement benefits are accruing to 1 of the executive Directors under a defined contribution scheme (2011: 1).

### 8 Share-based payments

The Group has an equity-settled share-based payment scheme, whereby options over shares in Craneware plc can be granted to employees and directors. A charge is shown in the Statement of Comprehensive Income of \$152,489 (2011: \$139,058) as detailed in Note 7 above.

Options issued under the 2006 Share Options Plan over Ordinary shares and Incentive shares were granted at par and have been adjusted to reflect the 299 for 1 share split. Options over Ordinary shares vested on admission to AIM on 13 September 2007 and became fully exercisable on that date, whilst options over Incentive shares lapsed at this event. Outstanding options lapse upon leaving employment or if not exercised within 10 years from the date of grant. Directors and employees interests in share options are set out in the Remuneration Committee Report on page 34.

The market value of share options exercised during the year ranged from \$8.46 (£5.35) to \$9.41 (£5.95). The market value at 30 June 2012 was \$4.47 (£2.85).

Under the 2007 Share Options Plan, options over a maximum of 1,400,000 ordinary shares ("initial options") were granted on 14 September 2007 shortly after admission to AIM with an exercise price of \$0.02 (£0.01) per share. These options were subject to performance targets and any remaining options lapsed on 30 April 2011.

# Craneware plc

## Notes to the Financial Statements (continued)

### 8 Share-based payments (continued)

Other options over ordinary shares under the 2007 Share Options Plan may be granted with an exercise price no less than the market value of the Ordinary shares on the date of grant, and in the case of the Directors of the Company will be granted subject to sufficiently stretching performance targets. These options will be subject to time based vesting and will not normally be exercisable before the third anniversary of grant. Such options will lapse on the tenth anniversary of grant.

The fair value of options granted was estimated on the date of grant using the Black-Scholes option pricing model as appropriately adjusted. The Company estimates the number of options likely to vest by reference to the Group's staff retention rate, and expenses the fair value over the relevant vesting period. A sufficiently long trading history of the Company's own share price, dating from IPO to date of grant, results in an actual volatility calculation for all grants from December 2010. Prior to this date volatility had to be estimated by reference to similar companies whose shares are traded on a recognised stock exchange.

The assumptions for each option grant were as follows:

Date of Grant	23-Sep-11	06-Sep-10	22-Dec-09	14-Oct-09	21-Oct-08	08-Sep-08	02-May-08	14-Sep-07
<b>Options over Ordinary shares</b>								
Share price at date of grant	\$8.66	\$6.18	\$5.34	\$5.42	\$3.55	\$3.65	\$3.69	\$2.60
Share price at date of grant	£5.61	£4.01	£3.35	£3.43	£2.11	£2.08	£1.87	£1.28
Vesting period (years)	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.04
Expected volatility	28%	24%	23%	40%	40%	40%	40%	40%
Risk free rate	0.83%	1.18%	1.96%	1.86%	3.82%	4.41%	5.00%	5.75%
Dividend yield	1.6%	2.2%	1.5%	1.4%	1.5%	1.5%	1.0%	1.0%
Exercise price	\$8.66	\$6.18	\$5.34	\$5.42	\$3.55	\$3.65	\$3.69	\$0.02
Exercise price	£5.61	£4.01	£3.35	£3.43	£2.11	£2.08	£1.87	£0.01
Number of employees	25	20	10	1	1	1	1	84
Shares under option	255,520	255,655	170,303	44,285	14,424	72,115	40,600	1,400,000
Fair value per option	\$1.42	\$1.40	\$1.34	\$1.37	\$1.01	\$1.67	\$1.11	\$0.95

# Craneware plc

## Notes to the Financial Statements (continued)

### 8 Share-based payments (continued)

The following options have been granted over Ordinary shares:

	2012 options number	2011 options number
<b>2007 Share Options Plan:-</b>		
<b>Initial options of ordinary shares (£0.01 exercise price)</b>		
Outstanding at 1 July	120,000	929,100
Granted	-	-
Forfeited	-	-
Exercised	(120,000)	(809,100)
Outstanding at 30 June	-	120,000
<b>Ordinary share options (£1.87 exercise price)</b>		
Outstanding at 1 July	40,600	40,600
Granted	-	-
Forfeited	-	-
Exercised	(40,600)	-
Outstanding at 30 June	-	40,600
<b>Ordinary share options (£2.08 exercise price)</b>		
Outstanding at 1 July	72,115	72,115
Granted	-	-
Forfeited	-	-
Exercised	-	-
Outstanding at 30 June	72,115	72,115
<b>Ordinary share options (£2.11 exercise price)</b>		
Outstanding at 1 July	14,424	14,424
Granted	-	-
Forfeited	-	-
Exercised	(14,424)	-
Outstanding at 30 June	-	14,424
<b>Ordinary share options (£3.43 exercise price)</b>		
Outstanding at 1 July	-	44,285
Granted	-	-
Forfeited	-	(44,285)
Outstanding at 30 June	-	-
<b>Ordinary share options (£3.35 exercise price)</b>		
Outstanding at 1 July	170,303	170,303
Granted	-	-
Forfeited	(56,768)	-
Outstanding at 30 June	113,535	170,303
<b>Ordinary share options (£4.01 exercise price)</b>		
Outstanding at 1 July	208,107	-
Granted	-	255,655
Forfeited	(86,301)	(47,548)
Outstanding at 30 June	121,806	208,107
<b>Ordinary share options (£5.61 exercise price)</b>		
Outstanding at 1 July	-	-
Granted	255,520	-
Forfeited	(100,409)	-
Outstanding at 30 June	155,111	-

# Craneware plc

## Notes to the Financial Statements (continued)

### 9 Finance income

	2012	2011
	\$'000	\$'000
Deposit interest receivable	107	93
Other interest	-	6
<b>Total interest receivable</b>	<b>107</b>	<b>99</b>

### 10 Tax on profit on ordinary activities

	2012	2011
	\$'000	\$'000
Profit on ordinary activities before tax	11,202	8,653
<b>Current tax</b>		
Corporation tax on profits of the year	3,790	3,257
Foreign exchange on taxation in the year	2	42
Adjustments for prior years	(762)	68
<b>Total current tax charge</b>	<b>3,030</b>	<b>3,367</b>
<b>Deferred tax</b>		
Origination & reversal of timing differences	(1,371)	(749)
Adjustments for prior years	645	-
Change in tax rate	5	20
<b>Total deferred tax (credit)</b>	<b>(721)</b>	<b>(729)</b>
<b>Tax on profit on ordinary activities</b>	<b>2,309</b>	<b>2,638</b>

The difference between the current tax charge on ordinary activities for the year, reported in the consolidated Statement of Comprehensive Income, and the current tax charge that would result from applying a relevant standard rate of tax to the profit on ordinary activities before tax, is explained as follows:

Profit on ordinary activities at the UK tax rate 25.5% (2011: 27.5%)	2,857	2,380
Effects of:		
Adjustment in respect of prior years	(117)	68
Change in tax rate	5	20
Additional US taxes on losses/profits 39% (2011: 39%)	(256)	136
Foreign Exchange	2	34
Non taxable income	(243)	-
Expenses not deductible for tax purposes	82	13
Tax deduction on share plan charges	(21)	(13)
<b>Total tax charge</b>	<b>2,309</b>	<b>2,638</b>

# Craneware plc

## Notes to the Financial Statements (continued)

### 11 Dividends

The dividends paid during the year were as follows:-

	2012	2011
	\$'000	\$'000
Final dividend, re 30 June 2011 - 7.68 cents (4.8 pence)/share	2,036	1,333
Interim dividend, re 30 June 2012 - 7.54 cents (4.8 pence)/share	2,057	1,730
Total dividends paid to Company shareholders in the year	4,093	3,063

The proposed final dividend for 30 June 2012 is subject to approval by the shareholders at the Annual General Meeting and has not been included as a liability in these accounts.

### 12 Earnings per share

#### a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the year.

	2012	2011
Profit attributable to equity holders of the Company (\$'000)	8,893	6,015
Weighted average number of ordinary shares in issue (thousands)	26,946	26,079
Basic earnings per share (\$ per share)	0.330	0.231
Profit attributable to equity holders of Company (\$'000)	8,893	6,015
Release of deferred consideration on business combination (Note 16, 23)	(954)	-
Acquisition costs (\$'000)	-	517
Amortisation of acquired intangibles (\$'000)	574	147
Adjusted Profit attributable to equity holders (\$'000)	8,513	6,679
Weighted average number of ordinary shares in issue (thousands)	26,946	26,079
Adjusted Basic earnings per share (\$ per share)	0.316	0.256

# Craneware plc

## Notes to the Financial Statements (continued)

### 12 Earnings per share (continued)

#### b) Diluted

For diluted earnings per share, the weighted average number of ordinary shares calculated above is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares, being those granted to Directors and employees under the share option scheme.

	2012	2011
Profit attributable to equity holders of the Company (\$'000)	8,893	6,015
Weighted average number of ordinary shares in issue (thousands)	26,946	26,079
Adjustments for:- Share options (thousands)	84	324
Weighted average number of ordinary shares for diluted earnings per share (thousands)	27,030	26,403
Diluted earnings per share (\$ per share)	0.329	0.228
Profit attributable to equity holders of Company (\$'000)	8,893	6,015
Release of deferred consideration on business combination (Note 16, 23)	(954)	-
Acquisition costs (\$'000)	-	517
Amortisation of acquired intangibles (\$'000)	574	147
Adjusted Profit attributable to equity holders (\$'000)	8,513	6,679
Weighted average number of ordinary shares in issue (thousands)	26,946	26,079
Adjustments for:- Share options (thousands)	84	324
Weighted average number of ordinary shares for diluted earnings per share (thousands)	27,030	26,403
Adjusted Diluted earnings per share (\$ per share)	0.315	0.253

## Craneware plc

### Notes to the Financial Statements (continued)

#### 13 Plant and equipment

<b>Group</b>	<b>Computer Equipment \$'000</b>	<b>Office Furniture \$'000</b>	<b>Tenants Improvements \$'000</b>	<b>Total \$'000</b>
<b>Cost</b>				
At 1 July 2011	1,293	758	1,581	3,632
Additions	272	94	73	439
At 30 June 2012	1,565	852	1,654	4,071
<b>Depreciation</b>				
At 1 July 2011	811	310	344	1,465
Charge for year	258	141	180	579
At 30 June 2012	1,069	451	524	2,044
<b>Net Book Value at 30 June 2012</b>	<b>496</b>	<b>401</b>	<b>1,130</b>	<b>2,027</b>
<b>Cost</b>				
At 1 July 2010	804	287	343	1,434
Additions	246	403	1,141	1,790
Acquisition of subsidiary	243	68	97	408
At 30 June 2011	1,293	758	1,581	3,632
<b>Depreciation</b>				
At 1 July 2010	665	231	257	1,153
Charge for the year	146	79	87	312
At 30 June 2011	811	310	344	1,465
<b>Net Book Value at 30 June 2011</b>	<b>482</b>	<b>448</b>	<b>1,237</b>	<b>2,167</b>

## Craneware plc

### Notes to the Financial Statements (continued)

#### 13 Plant and equipment (continued)

Company	Computer Equipment \$'000	Office Furniture \$'000	Tenants Improvements \$'000	Total \$'000
<b>Cost</b>				
At 1 July 2011	609	599	1,452	2,660
Additions	34	19	42	95
At 30 June 2012	643	618	1,494	2,755
<b>Depreciation</b>				
At 1 July 2011	450	234	329	1,013
Charge for year	75	114	140	329
At 30 June 2012	525	348	469	1,342
<b>Net Book Value at 30 June 2012</b>	<b>118</b>	<b>270</b>	<b>1,025</b>	<b>1,413</b>
<b>Cost</b>				
At 1 July 2010	447	198	336	981
Additions	162	401	1,116	1,679
At 30 June 2011	609	599	1,452	2,660
<b>Depreciation</b>				
At 1 July 2010	395	171	256	822
Charge for year	55	63	73	191
At 30 June 2011	450	234	329	1,013
<b>Net Book Value at 30 June 2011</b>	<b>159</b>	<b>365</b>	<b>1,123</b>	<b>1,647</b>

# Craneware plc

## Notes to the Financial Statements (continued)

### 14 Intangible assets

#### Goodwill and Other Intangible assets

Group	Goodwill	Customer	Proprietary Development	Computer	Total	
	Relationships	Software	Costs	Software		
	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>Cost</b>						
At 1 July 2011	11,188	2,964	1,222	2,584	453	18,411
Additions	-	-	-	328	90	418
At 30 June 2012	11,188	2,964	1,222	2,912	543	18,829
<b>Amortisation</b>						
At 1 July 2011	-	66	82	1,308	303	1,759
Charge for the year	-	329	244	410	77	1,060
At 30 June 2012	-	395	326	1,718	380	2,819
<b>Net Book Value at 30 June 2012</b>	<b>11,188</b>	<b>2,569</b>	<b>896</b>	<b>1,194</b>	<b>163</b>	<b>16,010</b>
<b>Cost</b>						
At 1 July 2010	-	-	-	2,385	293	2,678
Additions	-	-	-	199	48	247
Additions acquired at Fair Value	11,188	2,964	1,222	-	112	15,486
At 30 June 2011	11,188	2,964	1,222	2,584	453	18,411
<b>Amortisation</b>						
At 1 July 2010	-	-	-	944	260	1,204
Charge for the year	-	66	82	364	43	555
At 30 June 2011	-	66	82	1,308	303	1,759
<b>Net Book Value at 30 June 2011</b>	<b>11,188</b>	<b>2,898</b>	<b>1,140</b>	<b>1,276</b>	<b>150</b>	<b>16,652</b>

In accordance with the Group's accounting policy, the carrying values of goodwill and other intangible assets are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill arose on the acquisition of Craneware InSight Inc. (Note 16).

The carrying values are assessed for impairment purposes by calculating the value in use (net present value (NPV) of future cashflows) of the Craneware InSight cash generating unit. The goodwill impairment review assesses whether the carrying value of goodwill is supported by the NPV of the future cashflows based on management forecasts for 5 years and then using an assumed sliding scale annual growth rate which is trending down to give a long-term growth rate of 2% in the residual years of the assessed period. Management have made the judgement that this long-term growth rate does not exceed the long-term average growth rate for the industry and also estimated a pre-tax discount rate of 18% based on the Group's estimated weighted average cost of capital.

Sensitivity analysis was performed using a combination of different annual growth rates and a range of different weighted average cost of capital rates. Management concluded that the tempered growth rates resulting in 2% during the residual period and the pre-tax discount rate of 18% were appropriate in view of all relevant factors and reasonable scenarios and that there is currently sufficient headroom over the carrying value of the assets in the acquired business that any reasonable change to key assumptions is not believed to result in impairment.

## Craneware plc

### Notes to the Financial Statements (continued)

#### 14 Intangible assets (continued)

##### Goodwill and Other Intangible assets (continued)

Company	Development Costs \$'000	Computer Software \$'000	Total \$'000
<b>Cost</b>			
At 1 July 2011	2,584	261	2,845
Additions	328	35	363
At 30 June 2012	2,912	296	3,208
<b>Amortisation</b>			
At 1 July 2011	1,308	224	1,532
Charge for the year	410	23	433
At 30 June 2012	1,718	247	1,965
<b>Net Book Value at 30 June 2012</b>	<b>1,194</b>	<b>49</b>	<b>1,243</b>
<b>Cost</b>			
At 1 July 2010	2,385	227	2,612
Additions	199	34	233
At 30 June 2011	2,584	261	2,845
<b>Amortisation</b>			
At 1 July 2010	944	201	1,145
Charge for the year	364	23	387
At 30 June 2011	1,308	224	1,532
<b>Net Book Value at 30 June 2011</b>	<b>1,276</b>	<b>37</b>	<b>1,313</b>

#### 15 Investments in subsidiary undertakings

The following information relates to the subsidiaries which, in the opinion of the Directors, principally affected the profits or assets of the Group:-

Name of Company	Class of Shares held	Proportion of Nominal Value of Issued Shares held by Craneware plc	Nature of Business
Craneware Inc	Ordinary	100%	Sales & Marketing
Craneware InSight Inc	Ordinary	100%	Product Development & Professional Services

Craneware Inc. and Craneware InSight Inc. are both incorporated in the United States of America and Craneware plc holds 10,000 (2011: 10,000) and 1,000 (2011: 1,000) common shares respectively with a nominal value of \$0.01 each. During the year \$9,000,000 of outstanding debt due from Craneware InSight Inc. was converted to equity. The results of the Subsidiary Companies have been included in the consolidated financial statements.

## Craneware plc

### Notes to the Financial Statements (continued)

#### 16 Acquisition of subsidiary: Craneware InSight Inc

On 17 February 2011, the Company acquired 100% of the issued share capital of ClaimTrust Inc. On the date of acquisition the assets and liabilities of ClaimTrust Inc. were merged into the newly created entity, Craneware InSight Inc. The total consideration for the acquisition along with the fair value of the identified assets and assumed liabilities is shown below:

<u>Recognised amounts of identifiable assets acquired and liabilities assumed</u>	<b>Book Value</b> \$'000	<b>Fair Value Adjustments</b> 30-Jun-11 \$'000	<b>Final Fair Value Adjustments</b> \$'000	<b>Final Fair Value</b> \$'000
<b>Tangible fixed assets</b>				
Plant and equipment	408	-	-	408
<b>Intangible assets</b>				
Computer software	112	-	-	112
Customer relationships	-	2,964	-	2,964
Proprietary software	-	1,222	-	1,222
<b>Other assets and liabilities</b>				
Trade and other receivables	1,171	-	-	1,171
Bank and cash balances	228	-	-	228
Trade and other payables	(741)	-	(263)	(1,004)
Deferred tax	-	(1,674)	1,339	(335)
	<u>1,178</u>	<u>2,512</u>	<u>1,076</u>	<u>4,766</u>
Goodwill				11,188
Fair Value				<u><b>15,954</b></u>
<b>Satisfied by:</b>				<b>\$'000</b>
Cash				9,000
Ordinary shares issued - 641,917 shares at \$9.347 (£5.83)				6,000
Fair value of contingent deferred consideration				954
				<u><b>15,954</b></u>
Bank balances and cash acquired				228
Cash consideration				(9,000)
<b>Net cash on acquisition</b>				<u><b>(8,772)</b></u>

#### Provisional accounting for the business combination as disclosed in the Financial Statements for the year ended 30 June 2011

The contingent consideration is subject to performance criteria, including revenue and profit targets, set for the next financial year and consequently the actual consideration is payable following the respective year end. The maximum potential deferred consideration payable is an additional \$4.5m subject to meeting all the performance criteria. The acquisition costs, including all due diligence costs that related to the transaction amounted to \$516,796 and these have been expensed as operating costs in compliance with IFRS 3 (revised).

Goodwill of \$12,263,819 has been recognised on acquisition and is attributable to future customers, future software and the assembled workforce.

In the period following the acquisition, Craneware InSight Inc. contributed \$2,612,624 to Group revenue and \$3,016 to adjusted EBITDA\* which has been included with the consolidated Statement of Comprehensive Income for the year. Had Craneware InSight Inc. been consolidated from 1 July 2010, the consolidated Statement of Comprehensive Income would show revenue of \$42,958,489 and adjusted EBITDA\* of \$10,235,219.

\*Adjusted EBITDA is defined as operating profit before acquisition costs, share based payments, depreciation and amortisation.

## **Craneware plc**

### **Notes to the Financial Statements (continued)**

#### **16 Acquisition of subsidiary: Craneware InSight Inc (continued)**

##### Completed accounting in respect of the business combination reported in the prior year

The accounting for the business combination was completed during the year and resulted in two further separate fair value adjustments, as reflected in amended table above, both of which had a resulting impact on the final Goodwill recognised on acquisition, which remains attributable to future customers, future software and the assembled workforce.

The first fair value adjustment to the acquired Balance Sheet was in respect of obligations to third parties which were not recorded in the opening Balance Sheet. Following the completion of a rigorous internal review of inherited systems and all potential obligations, a total liability of \$262,776 was recognised as at the date of acquisition. The subsequent expenditure satisfies the liability that existed on the 17 February 2011.

With regard to the second fair value adjustment the Directors have now determined that the cumulative historical net operating losses of ClaimTrust Inc. have survived the merger agreement. As such they are therefore available to offset against future profits, in so much as they are derived in the same trade and tax jurisdiction as before. Consequently, Craneware InSight Inc. has recognised a deferred tax asset that existed at the date of acquisition equal to the net operating losses at the Federal rate of US tax against which they may be utilised. The Directors have also considered any potential lapses and restrictions that apply to the utilisation of these losses in conjunction with the timing of forecasted future taxable profits made by Craneware InSight in order to arrive at their conclusion. The resulting fair value adjustment was to recognise a deferred tax asset of \$1,338,800.

These fair value adjustments concluded the accounting for the business combination and as such the initial recognised Goodwill of \$12,263,819 was amended to a finalised Goodwill of \$11,187,795. Comparative balances have been restated throughout to reflect the fair value adjustments noted above.

## Craneware plc

### Notes to the Financial Statements (continued)

#### 17 Trade and other receivables

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Trade receivables	7,779	8,856	7,344	8,159
less: provision for impairment of trade receivables	(750)	(876)	(745)	(856)
Net trade receivables	7,029	7,980	6,599	7,303
Other receivables	342	335	76	134
Amounts owed from group companies	-	-	6,000	14,923
Prepayments and accrued income	5,189	4,806	4,353	4,316
	12,560	13,121	17,028	26,676
Less non-current trade receivables	-	-	(6,000)	(14,923)
<b>Current portion</b>	<b>12,560</b>	<b>13,121</b>	<b>11,028</b>	<b>11,753</b>

There is no material difference between the fair value of trade and other receivables and the book value stated above.

The \$6,000,000 loan due to the Company from Craneware InSight Inc. is repayable on demand although the loan note is five years in its duration from the date of issue (the acquisition date) and interest is charged quarterly in accordance with the agreement at LIBOR plus 1%.

As at 30 June 2012, trade receivables of \$1,328,237 (2011: \$1,057,793) were past due and therefore deemed to be impaired. The amount of the provision against these receivables was \$749,898 as of 30 June 2012 (2011: \$876,438). The individually impaired receivables mainly relate to customers' financial difficulties and unresolved disputes. It was assessed a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2012 \$'000	2011 \$'000
Less than 30 days past due	417	-
30 – 60 days past due	6	-
61 – 90 days past due	2	-
91 + days past due	903	1,058
	<b>1,328</b>	<b>1,058</b>

## Craneware plc

### Notes to the Financial Statements (continued)

#### 17 Trade and other receivables (continued)

As at 30 June 2012, trade receivables of \$1,515,257 (2011: \$2,169,265) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2012	2011
	\$'000	\$'000
Less than 30 days past due	811	831
31 – 60 days past due	186	315
61 – 90 days past due	148	186
91 + days past due	370	837
	<b>1,515</b>	<b>2,169</b>

As at 30 June 2012, trade receivables of \$4,935,213 (2011: \$5,629,478) were not past due or impaired, and the Group does not anticipate collection issues. None of these balances were deemed to be impaired (2011: None).

Movement on the provision for impairment of trade receivables is as follows:

	2012	2011
	\$'000	\$'000
At 1 July	876	445
Provision for receivables impairment on revenue recognised	561	895
Provision acquired on business combination	-	20
Receivables written off during year as uncollectable	(399)	(179)
Unused amounts reversed	(288)	(305)
At 30 June	<b>750</b>	<b>876</b>

The creation and release of provision for impaired receivables has been included in net operating expenses in the Statement of Comprehensive Income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

#### 18 Deferred taxation

Deferred tax is calculated in full on the temporary differences under the liability method using a rate of tax of 24% (2011: 26%) in the UK and 39% (2011: 39%) in the US including a provision for state taxes.

The movement on the deferred tax account is shown below:-

	Group		Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
At 1 July	1,287	1,521	67	284
Acquired at fair value on business combination	-	(335)	-	-
(Charge)/credit to comprehensive income	721	729	(6)	(106)
Transfer direct to equity	(538)	(628)	(75)	(111)
At 30 June	<b>1,470</b>	<b>1,287</b>	<b>(14)</b>	<b>67</b>

# Craneware plc

## Notes to the Financial Statements (continued)

### 18 Deferred taxation (continued)

The movements in deferred tax assets and liabilities during the year are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. The net deferred tax asset at 30 June 2012 was \$1,470,259 (2011: \$1,286,563).

Deferred tax assets - recognised	Accelerated accounting depreciation	Short term timing differences	Losses	Share Options	Total
Group	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2011	38	89	2,237	645	3,009
(Charged)/Credited to comprehensive income	(38)	36	509	(88)	419
Debited to equity	-	-	-	(538)	(538)
<b>Total provided at 30 June 2012</b>	<b>-</b>	<b>125</b>	<b>2,746</b>	<b>19</b>	<b>2,890</b>
At 1 July 2010	7	89	-	1,430	1,526
Acquired asset on business combination	-	-	1,339	-	1,339
Credited/(charged) to comprehensive income	31	-	898	(157)	772
Debited to equity	-	-	-	(628)	(628)
<b>Total provided at 30 June 2011</b>	<b>38</b>	<b>89</b>	<b>2,237</b>	<b>645</b>	<b>3,009</b>

Deferred tax liabilities - recognised	Accelerated tax depreciation	Total
Group	\$'000	\$'000
At 1 July 2011	(1,722)	(1,722)
Credited to comprehensive income	302	302
<b>Total provided at 30 June 2012</b>	<b>(1,420)</b>	<b>(1,420)</b>
At 1 July 2010	(5)	(5)
Acquired Intangible assets on business combination	(1,674)	(1,674)
Charged to comprehensive income	(43)	(43)
<b>Total provided at 30 June 2011</b>	<b>(1,722)</b>	<b>(1,722)</b>

The analysis of the deferred tax assets and liabilities is as follows:

Group	2012 \$'000	2011 \$'000
Deferred tax assets:		
Deferred tax assets to be recovered after more than 1 year	1,572	2,275
Deferred tax assets to be recovered within 1 year	1,318	734
	<b>2,890</b>	<b>3,009</b>
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after more than 1 year	(1,157)	(1,722)
Deferred tax liabilities to be recovered within 1 year	(263)	-
	<b>(1,420)</b>	<b>(1,722)</b>
<b>Net deferred tax assets</b>	<b>1,470</b>	<b>1,287</b>

The Company's Deferred tax assets and liabilities are all expected to be recovered in the future.

# Craneware plc

## Notes to the Financial Statements (continued)

### 18 Deferred taxation (continued)

Deferred tax assets - recognised	Accelerated accounting depreciation	Short term timing differences	Losses	Share Options	Total
Company	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2011	-	-	-	115	115
Charged to comprehensive income	-	-	-	(75)	(75)
Debited to equity	-	-	-	(21)	(21)
<b>Total provided at 30 June 2012</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19</b>	<b>19</b>
At 1 July 2010	-	-	-	289	289
Charged to comprehensive income	-	-	-	(63)	(63)
Debited to equity	-	-	-	(111)	(111)
<b>Total provided at 30 June 2011</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>115</b>	<b>115</b>

Deferred tax liabilities - recognised	Accelerated tax depreciation	Total
Company	\$'000	\$'000
At 1 July 2011	(48)	(48)
Credited to comprehensive income	15	15
<b>Total provided at 30 June 2012</b>	<b>(33)</b>	<b>(33)</b>
At 1 July 2010	(5)	(5)
Charged to comprehensive income	(43)	(43)
<b>Total provided at 30 June 2011</b>	<b>(48)</b>	<b>(48)</b>

### 19 Called up share capital

#### Authorised

	2012		2011	
	Number	\$'000	Number	\$'000
<b>Equity share capital</b>				
Ordinary shares of 1p each	50,000,000	1,014	50,000,000	1,014

#### Allotted called-up and fully paid

	2012		2011	
	Number	\$'000	Number	\$'000
<b>Equity share capital</b>				
Ordinary shares of 1p each	26,991,891	538	26,792,681	536

The movement in share capital during the year is represented as follows:

- 175,024 Ordinary Share options were exercised in the year, as detailed in the Remuneration Committee Report on page 34.
- 24,186 Ordinary Shares were issued in the year which represented the remaining outstanding equity in respect of the final consideration for the Craneware InSight Inc acquisition at price of \$9.35 (£5.83).

## Craneware plc

### Notes to the Financial Statements (continued)

#### 20 Cash flow generated from operating activities

Reconciliation of profit before tax to net cash in flow from operating activities

	Group		Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Profit before tax	11,202	8,653	12,870	7,538
Finance income	(107)	(99)	(270)	(99)
Depreciation on plant and equipment	579	312	329	191
Amortisation on intangible assets	1,060	555	433	387
Share-based payments	152	139	100	84
<b>Movements in working capital:</b>				
Increase/(decrease) in trade and other receivables	611	(3,353)	1,598	(14,345)
(Decrease)/increase in trade and other payables	(2,895)	3,882	(3,141)	4,745
Cash generated from operations	10,602	10,089	11,919	(1,499)

#### 21 Cash and cash equivalents

	Group		Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Cash at bank and in hand	28,790	24,176	26,151	20,272

The effective rates on short term bank deposits were 0.43% (2011: 0.35%).

#### 22 Trade and other payables - current

	Group		Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Trade payables	855	984	477	414
Amounts owed to group companies	-	-	2,433	1,483
Social security and PAYE	387	371	158	146
Other creditors	92	26	-	-
Accruals	4,590	6,449	1,065	3,938
Advance receipts	20	38	20	38
	5,944	7,868	4,153	6,019

Amounts owed to Group companies on trading accounts are non-interest bearing and have no fixed repayment terms. Trade payables are settled in accordance with those terms and conditions agreed, generally within 30 days, provided that all trading terms and conditions on invoices have been met. The Group's average payment period at 30 June 2012 was 20 days (2011: 21 days).

# Craneware plc

## Notes to the Financial Statements (continued)

### 23 Contingent liabilities and financial commitments

#### a) Deferred consideration

The Group has been able to release the contingent consideration that related to the acquisition of Craneware InSight Inc. in the previous reporting period, the consideration was payable based on the revenue and profits of this company during the current financial year and the stipulated milestone targets were not met and as such no consideration is due to be paid.

#### b) Capital commitments

The Group has no capital commitments at 30 June 2012 (2011: \$nil).

#### c) Lease commitments

The Group leases certain land and buildings. The commitments payable by the Group under these operating leases are as follows:-

	2012	2011
	\$'000	\$'000
Within one year	592	446
Between 2 and 5 years	2,469	2,176
More than 5 years	3,944	4,633
	<u>7,005</u>	<u>7,255</u>

The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays all insurance, maintenance and repairs of these properties. During the year the Group signed a new lease upgrading the Arizona office, all other leases are consistent with the end of the previous year.

### 24 Related party transactions

During the year the Group has traded in its normal course of business with shareholders, consultancy businesses and its wholly owned subsidiary in which Directors, former Directors and the subsidiary have a material interest as follows:-

Group	2012		2011	
	Charged	Outstanding at year end	Charged	Outstanding at year end
	\$	\$	\$	\$
<b>Fees for services provided as non-executive Directors</b>				
Fees	102,347	4,323	112,132	3,969
Salaries and Short-term employee benefits	95,126	-	85,594	-
<b>Executive Directors</b>				
Salaries and Short-term employee benefits	604,692	-	683,328	204,328
Post employment benefits	7,920	-	7,953	-
Share-based payments	57,635	-	53,856	-
<b>Other key management</b>				
Salaries and Short-term employee benefits	834,355	-	1,264,951	306,492
Post employment benefits	7,920	-	7,953	-
Share-based payments	33,894	-	41,344	-

## Craneware plc

### Notes to the Financial Statements (continued)

#### 24 Related party transactions (continued)

Company	2012		2011	
	Charged	Outstanding at year end	Charged	Outstanding at year end
	\$	\$	\$	\$
<b>Fees for services provided as non-executive Directors</b>				
Fees	102,347	4,323	112,132	3,969
Salaries and Short-term employee benefits	95,126	-	85,594	-
<b>Executive Directors</b>				
Salaries and Short-term employee benefits	604,692	-	683,328	204,328
Post employment benefits	7,920	-	7,953	-
Share-based payments	57,635	-	53,856	-
<b>Other key management</b>				
Salaries and Short-term employee benefits	447,974	-	594,283	204,328
Post employment benefits	7,920	-	7,953	-
Share-based payments	22,985	-	17,329	-
<b>Amounts due to Craneware Inc - Subsidiary company</b>				
Sales commission	12,135,044	-	14,077,095	-
Net operating expenses	1,037,951	-	5,688,147	-
Balance (Note 22)	-	2,727,573	-	1,483,259
<b>Amounts due from Craneware InSight Inc - Subsidiary company</b>				
Balance (Note 17)	-	6,294,917	-	14,923,115

Key management are considered to be the Directors together with the Chief Operating Officer, Chief Technology Officer (President of US Operations), the EVP of Marketing, the EVP of Craneware InSight Inc. (until departure in at the end of February) and SVP of Product Management (appointed to the Operations Board at the beginning of March).

There were no other related party transactions in the year which require disclosure in accordance with IAS 24.

#### 25 Ultimate controlling party

The Directors have deemed that there are no controlling parties of the Company.