

# integrated research

Integrated Research Limited > ABN 76 003 588 449

## Half-Yearly Results

(1 July - 31 December 2007)



PROGNOSIS®

Performance monitoring software for business-critical systems

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# Directors' Report

## Dear shareholder,

On behalf of the Board, we are pleased to present the following summary of the Directors' Report, which has been released on the Australian Stock Exchange as part of the company's Half-Year Report for the six months ended 31 December 2007.

The directors of the company at any time during or since the end of the half-year are:

<b>Directors Name</b>	<b>Date appointed as a Director</b>
<b>Non-executive:</b>	
Stephen Killelea	August 1988, Chairman (Appointed Chairman July 2005)
David Boyles	July 2003, Deputy Chairman (Appointed Deputy Chairman September 2005)
Kate Costello	August 2005, Independent Non-Executive Director
Alexander Kennedy	(Resigned as Non-Executive Director September 2007)
John Brown	July 2007, Independent Non-Executive Director
Clyde McConaghy	December 2007 Non-Executive Director
<b>Executive:</b>	
Keith Andrews	(Resigned as Executive Director September 2007)
Mark Brayan	September 2007, CEO and Managing Director

## Principal Activities

The company's principal activities are the design, development and sale of systems and applications management software to provide performance management solutions for high-availability computer systems. There were no significant changes in the nature of these activities during the half-year.

## Half-Year Results

The following table summarises the key revenue, expense and profit results for the consolidated entity for the half-year ended 31 December 2007 compared to the previous corresponding period:

In thousands of AUD	2007	2006	% Incr/Decr
Revenue from licence fees	11,474	7,494	53%
Revenue from maintenance fees	8,222	8,187	0%
Revenue from other operating activities	426	434	(2%)
<b>Total revenue from ordinary activities</b>	<b>20,122</b>	<b>16,115</b>	<b>25%</b>
Total expenses from ordinary activities	14,732	13,731	7%
<b>Profit before tax</b>	<b>5,614</b>	<b>2,627</b>	<b>114%</b>
Net profit after income tax	4,212	1,903	121%



The consolidated entity's revenue for the six months ended 31 December 2007 was \$20.1 million. This represents a 25% increase in revenue against the comparable period last year.

Integrated Research continued its investment in sales and product development in the first half of 2007/08, particularly for the IP telephony platform, and released a number of new versions of software to the market. As a result total expenses increased by 7% compared to the same period in the prior year. First half profit before tax was \$5.6 million which represents a 114% increase compared to the same period last year.

The first half profit after tax result was \$4.2 million which represents a 121% increase compared to the same period last year.

Currency movements reduced revenue by \$1.6 million and PAT by \$0.8 million.

For the financial year ended 30 June 2007, as detailed in the directors report in that financial year, a final dividend of 2.0 cents per share was paid to the holders of fully paid ordinary shares in September 2007.

# Review of Operations

## Overview

This period included significant revenue and net profit increases due to greater sales for all product lines and in all regions compared to the same period last year. Sales were driven by greater demand for our products due to our customers' increased use of the systems and technologies that are supported by PROGNOSIS.

Sales were also supported by more deals with large Managed Service Providers who rely on our products to manage their clients' IP telephony systems and to ensure they meet their service level agreements. Net profit grew due to higher sales and the scalability and efficiency of our business model.

This period also included the release of PROGNOSIS 9.1 for IT Infrastructure, PROGNOSIS 9.1 for ATM/POS and PROGNOSIS 9.5 for IP Telephony. This was the most extensive simultaneous release of new functionality and products in the company's history. These releases open up new opportunities across all of our product lines to address an ever-expanding range of market needs.

Along with developing new functionality to improve our products, we have sought to strengthen our thought leadership position, and we continue to inform and educate the global market about the need for specialised performance management software.



## Revenue

Total revenue of \$20.1 million for the period ended 31 December 2007 comprised licence fees representing 57% and maintenance fees 41% of the total revenue. Other revenue represented 2% of the total, the majority of which is post sales consultancy.

All geographic segments showed revenue growth. The Americas, Europe and Asia-Pacific were all up 25% on the same period last year.

All product lines showed increased revenue on the same period last year.

- › New licence revenue for the IP telephony products was \$2.8 million for the first half. This was a pleasing increase of 73% on the same period last year and supports our IPT strategy and ongoing investment in sales and development of this product line.
- › HP NonStop new licence revenue was \$6.8 million which represented a very solid increase on the prior period of 32%.
- › Windows, Unix and Linux new licence revenue was \$1.9 million, an increase on the prior period of 150%.

## Review of Operations *(continued)*

Maintenance revenue has increased only slightly compared to the prior period, due in part to the impact of exchange rate changes (\$0.8 million) and attrition.

The IP telephony strategy focusing on Managed Service Providers (MSP) and Systems Integrators (SI) has started to yield good results after 18 months of sales activity and is expected to yield good follow-on revenue.

MSPs rely on our products to improve the performance of the IP telephony solutions they deploy and manage for their clients. They also use our products to support and validate the delivery of service levels to their clients. This dual-value proposition is driving increasing deal flow from MSPs.

We have also established productive relationships with mid-tier MSPs that focus on the small-to-medium business (SMB) segment. This segment is one of the fastest growing for IP telephony.

Along with indirect sales, we continue to have success selling directly to major enterprises and will focus on both direct and indirect channels to market to ensure maximum coverage during this early growth phase of the market.



For HP NonStop, growth exceeded expectations. In each region the company is seeing existing customers purchasing more capacity which is the main driver for our revenue on this platform.

Continuing sales efforts for Windows, Unix and Linux (WUL) products has resulted in a significant sale which more than doubled the revenue on the comparable period last year.

## Expenses

Total expenses for the first half period were \$14.7 million which was an overall increase of 7% on the same period last year. This reflects the company's continued investment in sales and product development, particularly in the IP telephony products. Staff numbers at 31 December 2007 were 146 compared to 137 at 31 December 2006.

Net research and development expenses were \$4.6 million for the first half compared to \$3.5 million for the same period last year. This was mainly due to increased labour and contractor costs to develop the newly released products. Gross spending on research and development for the first half was \$6.3 million which represents a 44% increase on the comparable period last year.

# Review of Operations *(continued)*

## Cashflow

The company continues to maintain a strong financial position and remains debt free with \$8.7 million cash at bank as at 31 December 2007. Cash has decreased in the period due to lower collections, which were impacted by: the timing of sales towards the end of the period, higher payments for R&D, and \$3.3 million dividend payment in September 2007.

In thousands of AUD	2007	2006
Gross research and development spending	6,299	4,377
Capitalisation of development expenses	(4,387)	(2,565)
Amortisation of capitalised expenses	2,689	1,646
Net research and development expenses	4,601	3,458



# Outlook

On a full financial year basis the consolidated entity expects both revenue and profit after tax to exceed the previous year.

## Interim Dividend

The company will pay an unfranked interim dividend of 1.5 cents per share on 7 March 2008 to shareholders registered at the end of trading on Friday 22 February 2008.



**Steve Killelea**  
Chairman



**Mark Brayan**  
CEO and Managing Director

For more information visit our website at  
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