Second Quarter Report
April 30, 2014

Enghouse Systems

Software engineered for results

June 9, 2014

To our Shareholders,

Second quarter revenue was $55.0 million, an increase of 23% over revenue of $44.5 million in the second quarter last year. The increase in revenue reflects a combination of contributions from acquisitions, the positive impact of foreign exchange and organic growth. Revenue includes hosted and maintenance services contributions of $28.3 million in the quarter, an increase of 21% over last year. Adjusted EBITDA for the quarter was $13.9 million or $0.52 per diluted share compared to $10.7 million or $0.40 per diluted share in last year's second quarter. Results from operating activities for the quarter were $12.5 million compared to $9.7 million in the prior year's second quarter, an increase of 29% over the prior year. Net income for the quarter was $6.6 million or $0.24 per diluted share compared to the prior year's second quarter net income of $4.9 million or $0.19 per share.

On a year to date basis, revenue was $102.4 million for the year compared to $86.5 million last year, an increase of 18%, while net income was $12.7 million or $0.47 per diluted share compared to $8.3 million or $0.32 per diluted share, an increase of 53%. Adjusted EBITDA was $26.0 million or $0.97 per diluted share compared to $20.3 million or $0.77 per diluted share last year.

Operating expenses increased to $26.3 million from $22.3 million in the prior year's second quarter and include incremental operating costs related to acquisitions, foreign exchange and special charges of $0.8 million related to restructuring of acquired operations. Non-cash amortization charges in the quarter were $4.2 million compared to $3.9 million in the prior year's second quarter and include amortization charges for acquired software and customer relationships including acquisitions completed in the current year.

Enghouse closed the quarter with $101.0 million in cash, cash equivalents and short-term investments, compared to $90.3 million at October 31, 2013. This is after net cash paid of $8.2 million for the acquisition of IT Sonix AG, completed March 3, 2014, $1.8 million for Information Access Technology Inc., acquired November 4, 2013, final payments of $3.4 million made on previous acquisitions and dividends of $4.2 million paid year to date. The Company continues to have no long-term debt.

The Board of Directors has approved an eligible quarterly dividend of $0.10 per common share, payable on August 29, 2014 to shareholders of record at the close of business on August 15, 2014.

Enghouse remains committed to diversifying its revenue stream and continues to seek accretive acquisitions to grow its market share.

Stephen J. Sadler
Chairman of the Board and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis ("MD&A") has been prepared as of June 9, 2014 and all information contained herein is current as of that date. For a complete understanding of our business environment, risks, trends and uncertainties and the effect of critical accounting policies and estimates on our results, this MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and the notes thereto for the periods ended April 30, 2014 and 2013, as well as the Company's audited Consolidated Financial Statements and Management's Discussion and Analysis for the fiscal year ended October 31, 2013, contained in the Company's 2013 Annual Report to Shareholders. This MD&A covers the consolidated results of operations, financial condition and cash flows of Enghouse Systems Limited (the "Company" or "Enghouse") and its subsidiaries, all wholly owned, for the second quarter ended April 30, 2014. Unless otherwise noted, the results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, stated in thousands, except per share amounts.

This document is intended to assist the reader in better understanding operations and key financial results as of the date of this report. The unaudited condensed consolidated interim financial statements and the MD&A have been reviewed by the Company's Audit Committee and approved by its Board of Directors.

Non-GAAP Measures

The Company uses non-GAAP measures to assess its operating performance. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Accordingly, they should not be considered in isolation. The Company uses Adjusted EBITDA as a measure of operating performance. Therefore, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Adjusted EBITDA is calculated as income before income taxes adjusted for depreciation of property, plant and equipment, amortization of acquired software and customer relationships, finance income, finance expenses, other income, and special charges for acquisition related restructuring costs. Management uses Adjusted EBITDA to evaluate operating performance as it excludes amortization of software and intangibles (which is an accounting allocation of the cost of software and intangible assets arising on acquisition), any impact of finance and tax related activities, asset depreciation, other income and restructuring costs primarily related to acquisitions.

Forward-looking Statements

Certain statements made or incorporated by reference in this MD&A are forward-looking and relate to, among other things, anticipated financial performance, business prospects, strategies, regulatory developments, new services, market forces, commitments and technological developments. By its nature, such forward-looking information is subject to various risks and uncertainties, including those discussed in this MD&A or in documents incorporated by reference in this MD&A, such as Enghouse's Annual Information Form, which could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed herein. Readers are cautioned not to place undue reliance on this forward-looking information, and the Company shall have no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws.

For additional information with respect to certain of these risks or factors, reference should be made to section "Risks and Uncertainties" of the MD&A and notes to the consolidated financial statements for the year ended October 31, 2013, as well as to the Company's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, copies of which are filed electronically on SEDAR at www.sedar.com.

Corporate Overview

Enghouse is a Canadian publicly traded company (TSX:ESL) that develops enterprise software solutions for a variety of vertical markets. The Company is organized around two business segments: the Interactive Management Group and the Asset Management Group. The Interactive Management Group specializes in customer interaction software and services that are designed to enhance customer service, increase efficiency and manage customer communications across the enterprise. Core technologies include contact center, attendant console, interactive voice response dialers, and call recording that support any telephony environment, deployed on-premise or in the cloud. Its customers include insurance companies, banks and utilities as well as high technology, health care and hospitality companies. The Asset Management Group provides a portfolio of products to telecom service providers as well as fleet management and public safety software solutions, first responders, distribution, security, utilities and oil and gas industries. Products include telecom billing, data conversion, and geo-spatial software solutions for complex network infrastructures and fleet/logistics management solutions for the public and private sectors.

The Company's strategy is to continue to build a consistently profitable enterprise software company with a diversified product suite and global market presence. The Company emphasizes the importance of recurring revenue streams to increase shareholder value and the predictability of its operating results. This objective is addressed through a combination of organic growth and acquisitions. While the Company continues to develop and enhance its existing product portfolio, it is also important to augment and expedite this strategy with new and complementary technology, products and services obtained through acquisition. This multi-faceted approach will enable the Company to provide a broader spectrum of products and services to its customer base more quickly than through organic means alone.

Quarterly Results of Operations

The following table sets forth certain unaudited information for each of the eight most recent quarters (the last of which ended April 30, 2014). Historically, the Company's operating results have fluctuated on a quarterly basis, which the Company expects will continue in the future. Fluctuations in results continue to relate to the timing of software license and hardware sales, which may result in large sales orders in any one quarter, movements in foreign currency exchange rates and to the timing of acquisitions, staffing and infrastructure changes. See "Risks and Uncertainties" for more details.

For the three months ending	Total revenue $	Net income $	Earnings per share – basic $	Earnings per share – diluted $	Cash and short-term investments $	Total assets $
April 30, 2014	54,951	6,558	0.25	0.24	101,014	312,124
January 31, 2014	47,492	6,172	0.24	0.23	100,081	303,677
October 31, 2013	47,171	9,712^	0.37	0.36	90,297	277,956
July 31, 2013	46,247	6,297	0.24	0.24	92,037	261,585
April 30, 2013	44,511	4,903	0.19	0.19	80,940	261,590
January 31, 2013	41,957	3,435	0.13	0.13	80,051	251,829
October 31, 2012	38,952	8,345^	0.32	0.32	83,652	239,710
July 31, 2012	35,427	4,288	0.17	0.16	79,700	238,574

^Includes credit adjustment to tax provision of $3.1 million in fiscal 2013 and $2.5 million in fiscal 2012 on the set-up of deferred tax assets related to non-capital losses

Results of Operations:

(in thousands of Canadian dollars except per share amounts)

	Q2/2014	Q2/2013	Year over year change $	%
Interactive Management Group	$ 43,897	$ 36,268	7,629	21.0
Asset Management Group	11,054	8,243	2,811	34.1
Total revenue	**54,951**	**44,511**	**10,440**	**23.5**
Direct costs	16,139	12,545	3,594	28.6
Revenue, net of direct costs	**38,812**	**31,966**	**6,846**	**21.4**
Operating expenses	25,520	21,699	3,821	17.6
Special charges	810	599	211	35.2
Results from operating activities	**12,482**	**9,668**	**2,814**	**29.1**
Amortization of acquired software and customer relationships	(4,231)	(3,876)	(355)	(9.2)
Finance income	124	94	30	31.9
Finance expense	(75)	(96)	21	21.9
Other income	1	448	(447)	(99.8)
Income before income taxes	8,301	6,238	2,063	33.1
Provision for income taxes	1,743	1,335	408	30.6
Net Income	**$ 6,558**	**$ 4,903**	**1,655**	**33.8**
Earnings per share – basic	$ 0.25	$ 0.19	0.06	31.6
Earnings per share – diluted	$ 0.24	$ 0.19	0.05	26.3
Cash flow from operating activities	**$ 13,866**	**$ 9,313**	**$ 4,553**	**48.9**
Cash flow from operating activities excluding changes in working capital	**$ 13,377**	**$10,458**	**2,919**	**27.9**

Adjusted EBITDA:

The table below reconciles Adjusted EBITDA to income before income taxes:

	Three Months ended		Six Months ended	
	April 30, 2014	**April 30, 2013**	**April 30, 2014**	**April 30, 2013**
Total Revenue	**$ 54,951**	**$ 44,511**	**$ 102,443**	**$ 86,486**
Income before income taxes	8,301	6,238	16,003	10,586
Depreciation of property, plant and equipment	566	410	1,095	878
Amortization of acquired software and customer relationships	4,231	3,876	8,141	7,460
Finance income	(124)	(94)	(267)	(427)
Finance expenses	75	96	133	177
Other income	(1)	(448)	(8)	(809)
Special charges	810	599	922	2,414
Adjusted EBITDA	**$ 13,858**	**$ 10,677**	**$ 26,019**	**$ 20,279**
Adjusted EBITDA margin	**25%**	**24%**	**25%**	**23%**
Adjusted EBITDA per diluted share	**$ 0.52**	**$ 0.40**	**$ 0.97**	**$ 0.77**

Revenue

Total revenue for the quarter was $55.0 million compared to $44.5 million in the prior year's second quarter, a 23% increase over the prior year. Hosted services and maintenance revenue was $28.3 million compared to $23.4 million in the prior year's second quarter, an increase of 21%. This includes maintenance revenue of $23.0 million compared to $20.3 million in the prior year's second quarter and reflects incremental maintenance revenue from license sales in the past fiscal year as well as contributions from acquired operations. Hosted services revenue continues to grow and now represents $5.3 million in revenue, a 75% increase over Q2/13 as a result of increased organic hosted activity and contributions from IAT, Enghouse Knowledge Management Solutions ("EKMS", formerly SafeHarbor) and recently acquired IT Sonix. License revenue was $18.9 million compared to $13.6 million in the prior year's second quarter and reflects incremental subscription revenue booked in the quarter.

Revenue for the fiscal year to date was $102.4 million compared to $86.5 million in fiscal 2013, an 18% increase. Hosted and maintenance services revenue grew 22% in the year to $53.4 million and represents 52% of revenue compared to 51% last year. Revenue also includes license revenue of $34.6 million, a 21% increase over last year.

The Interactive Management Group contributed $43.9 million in revenue in the quarter, compared to $36.3 million reported in the second quarter of fiscal 2013. The increase is attributable to incremental contributions from acquisitions completed after last year's second quarter. The Asset Management Group contributed revenue of $11.1 million in the quarter, compared to $8.2 million reported in the second quarter of fiscal 2013 and reflects stronger contributions from the Group's hosted operations and a full quarter's contributions from Locus. On a year to date basis, the Interactive Management Group contributed $81.7 million compared to $73.0 million, while the Asset Management Group revenue was $20.7 million compared to $13.5 million as a result of contributions from the Locus acquisition in March 2013.

Both revenue and costs were impacted by the weakening Canadian dollar as the U.S. dollar compared to the Canadian dollar averaged $1.11 in the current quarter and $1.01 in the prior year's second quarter. The Pound Sterling averaged $1.84 in the current quarter compared to $1.56 in the prior year's second quarter, while the Swedish Kronor averaged $0.17 in the current quarter vs. $0.16 in the prior year's second quarter.

Direct costs

Direct costs for the quarter were $16.1 million or 29.4% of revenue compared to $12.5 million or 28.2% of revenue in the prior year's second quarter. The increase in costs and decrease in margins is attributable to incremental costs associated with third party services on the Company's hosted and maintenance services and professional services revenue. The decrease in gross margins also reflects increased third party software related costs in the quarter.

Operating Expenses

Operating expenses for the quarter were $26.3 million, compared to $22.3 million reported in the second quarter of last year and include special charges related to restructuring initiatives undertaken on acquired operations (IT Sonix) of $0.8 million in the quarter. The increase in costs also reflect incremental operating costs related to newly acquired operations and the impact of the weaker Canadian dollar which increased operating costs in Canadian dollars. Last year's operating expenses included $0.6 million in special charges related to acquisitions. Operating costs, excluding special charges, as a percentage of total revenue decreased from 48.7% to 46.4% in the quarter as a result of reductions in organic headcount related costs and operating cost synergies. For the fiscal year, operating expenses, excluding restructuring costs increased by 10% to $47.4 million or 46.3% of revenue from $42.9 million (49.6%) in fiscal 2013.

The Company continues to invest in R&D for future growth. R&D expenses were $9.4 million or 17.2% as a percentage of revenue in the quarter, compared to $7.8 million or 16.8% in the prior year. This is net of R&D tax credits of $0.2 million and $0.1 million respectively recorded in the current and prior year's second quarters.

Non-cash charges for amortization of acquired software and customer relationships related to acquisitions were $4.2 million, up from the prior year's second quarter expense of $3.9 million as a result of incremental charges related to acquisitions completed in the last year, which were partially offset by expiring amortization charges from previous acquisitions. On a year to date basis, this represents a charge of $8.1 million versus $7.5 million last year.

Foreign Exchange
The Company continues to earn a significant portion of revenue from sales denominated in currencies other than the Canadian dollar. As a result of recent acquisitions in the Scandinavian region and Germany, an increasing proportion of revenue is derived from operations outside of the U.S. and is denominated in currencies other than the U.S. dollar. As a result, the Company transacts a significant proportion of its business in Pounds Sterling, Swedish Kronor, Euros, as well as currencies in the Asia Pacific region.

During the past quarter, the Canadian dollar continued to weaken against major currencies including the U.S. dollar, the pound sterling, the Swedish krona and the euro. As the Company's reporting currency is the Canadian dollar, this has positively impacted revenue reported in Canadian dollars while negatively impacting operating costs, and partially acts as a natural hedge. Revenue was positively impacted by an estimated $4.4 million, while costs increased by an estimated $3.6 million, as calculated by applying the change in the average exchange rates from Q2/13 to Q2/14 to the Company's foreign currency denominated revenue and direct costs and operating expenses in Q2/14.

The Company does not hedge foreign currency exposure but funds its U.S. dollar operational expenses with U.S. dollar revenue in order to mitigate exposure. A similar natural hedge exists for the Company's U.K. and Scandinavian operations. The Company continues to have more operating expenses denominated in Canadian dollars than Canadian dollar revenue. Going forward, fluctuations in exchange rates among the Canadian dollar, the U.S. dollar, the pound sterling, the Swedish krona, the euro and other currencies may have a material but mitigating effect on the Company's foreign currency denominated revenue and expenses stated in Canadian dollars. This will also impact the relative cost of foreign currency denominated acquisitions stated in Canadian dollars.

The Company recorded nominal foreign exchange losses related to foreign currency denominated monetary assets and liabilities in the current year second quarter compared to losses of $0.1 million in the prior year's second quarter. The Company records these foreign exchange gains and losses in selling, general and administrative expenses in the condensed consolidated interim statements of operations. Translation gains or losses incurred upon consolidation of the Company's foreign operation's balance sheets into Canadian dollars are included in the Company's accumulated other comprehensive income (loss) account on the balance sheet.

Finance and Other Income
The Company recognized finance and other income of $0.1 million in the quarter compared to $0.5 million in the second quarter of fiscal 2013, which included dividends received and gains recognized in other income on the sale of equity positions held.

Income Tax Expense
During the quarter, the Company established a tax provision of $1.7 million or a 21.0% effective tax rate as compared to a provision of $1.3 million or 21.4% in the prior year's second quarter. The decrease in the effective tax rate relates to reductions in statutory tax rates in a number of jurisdictions and the change in the Company's profit mix by country. The Company paid $2.4 million in tax installments in the quarter, compared to $0.6 million in the second quarter of fiscal 2013.

Net Income
Net income was $6.6 million or $0.24 per share on a diluted basis in the quarter compared to $4.9 million or $0.19 per share respectively in the second quarter of fiscal 2013, as a result of incremental operating profits on organic operations and acquisitions. For the year to date, net income was $12.7 million or $0.47 per diluted share compared to $8.3 million or $0.32 per share.

Liquidity and Capital Resources:
The Company closed the quarter with cash reserves of $101.0 million, compared to the October 31, 2013 balance of $90.3 million. This is after funding new acquisitions, Information Access Technology, Inc. ("IAT"),

completed November 4, 2013 and IT Sonix AG, completed March 3, 2014 and finalizing holdbacks on the Vision, Albatross and Locus acquisitions for a total payment of $13.5 million in the year. The Company continues to have no long-term debt and has sufficient cash resources to fund both its current and future financial operating commitments as well as its dividend and acquisition strategies. During the quarter the Company generated cash flow from operating activities of $13.9 million compared to $9.3 million in the second quarter of 2013.

The Company had 26,121,462 Common Shares issued and outstanding as at June 9, 2014. During the second quarter, 39,500 stock options were exercised contributing $0.4 million in cash to the Company. In comparison, 102,000 options were exercised in the prior year's second quarter adding $0.9 million. The Company granted 110,000 options in the second quarter of the fiscal year compared to 120,000 in the second quarter last year. Enghouse did not repurchase any shares of its common stock in either second quarter under its Normal Course Issuer Bid but did renew the bid for a further year commencing April 16, 2014 and expiring April 15, 2015, whereby it may repurchase up to a maximum of 1,802,756 common shares of the Company.

Off-Balance Sheet Arrangements

The Company has not entered into off-balance sheet financing arrangements. Except for operating leases and other low probability and/or immeasurable contingent liabilities (not accrued in accordance with IFRS), all commitments are reflected on the Company's balance sheet.

Transactions with Related Parties

The Company has not entered into any transactions with related parties during the year, other than transactions between wholly owned subsidiaries and the Company in the normal course of business, which are eliminated on consolidation.

Basis of preparation and significant accounting policies

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies disclosed in Note 3 of the Company's 2013 annual consolidated financial statements.

The policies applied in these unaudited condensed consolidated interim financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as of June 10, 2014, the date the Board of Directors approved the unaudited condensed consolidated interim financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending October 31, 2014 could result in a restatement of these unaudited condensed consolidated interim financial statements.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's 2013 annual consolidated financial statements.

Risks and Uncertainties

The primary risks and uncertainties that affect or may affect the Company and its business, financial condition, and results of operations remain substantially unchanged from those discussed in the Company's latest Annual Information Form and its Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended October 31, 2013, contained in the Company's 2013 Annual Report to Shareholders and all such risks and uncertainties are incorporated herein by reference.

Controls and Procedures

In compliance with the Canadian Securities Administrators' National Instrument 52-109 ("NI 52-109"), the Company has filed with applicable Canadian securities regulatory authorities, certificates signed by its Chief Executive Officer ("CEO") and Vice President Finance that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design of internal controls over financial reporting.

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed under the supervision of the CEO and Vice President Finance, with the participation of other management, to provide reasonable assurance that all relevant information required to be disclosed by the Company is recorded, processed, summarized and reported on a timely basis to senior management, as appropriate, to allow timely decisions regarding required public disclosure. Pursuant to NI 52-109, as of October 31, 2013, an evaluation of the effectiveness of the Company's disclosure controls and procedures was carried out under the supervision of the CEO and Vice President Finance. Based on this evaluation, the CEO and the Vice President Finance concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation considered the Company's disclosure policy, a sub-certification process and the functioning of the Company's Disclosure Committee.

Internal Controls over Financial Reporting

The Company's CEO and Vice President Finance are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in accordance with IFRS.

At October 31, 2013, an evaluation was carried out of the effectiveness of the design and operation of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting. Based on that evaluation, the Company's CEO and Vice President Finance have concluded that, as at October 31, 2013, the design and operation of controls over financial reporting was effective. These evaluations were conducted in accordance with the standards established in "Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission", and the requirements of NI 52-109.

There were no changes to the Company's internal control over financial reporting during the quarter ended April 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional Information

Additional information relating to the Company including our most recently completed Annual Information Form ("AIF") is available on SEDAR at ***www.sedar.com*** and on the Company's website at ***www.enghouse.com***.

Notice of No Auditor Review of Interim Financial Statements

The accompanying unaudited condensed consolidated interim financial statements of the Company for the three and six months ended April 30, 2014 have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of the interim financial statements by an entity's auditor.

Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)
(Unaudited)

	April 30, 2014	October 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 82,802	$ 70,109
Short-term investments	18,212	20,188
Accounts receivable, net	44,454	36,444
Prepaid expenses and other assets	7,766	5,839
	153,234	**132,580**
Non-current assets:		
Property, plant and equipment	3,944	3,599
Intangible assets (Note 4)	145,228	132,358
Deferred income tax assets	9,718	9,419
Total assets	**$ 312,124**	**$ 277,956**
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$ 31,956	$ 32,659
Income taxes payable	506	1,555
Dividends payable	2,613	2,083
Accrued provisions (Note 5)	3,576	3,427
Deferred revenue	50,992	39,325
	89,643	**79,049**
Non-current liabilities:		
Deferred income tax liabilities	17,948	14,482
Deferred revenue	2,357	1,797
Total liabilities	**109,948**	**95,328**
Shareholders' Equity		
Share capital (Note 6)	59,436	58,514
Contributed surplus	3,332	3,175
Retained earnings	123,830	115,800
Accumulated other comprehensive income	15,578	5,139
Total shareholders' equity	**202,176**	**182,628**
Total liabilities and shareholders' equity	**$ 312,124**	**$ 277,956**

Commitments and contingencies (Note 12)

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Operations and Comprehensive Income

(in thousands of Canadian dollars, except per share amounts)
(Unaudited)

	Three months ended April 30		Six months ended April 30	
	2014	2013	2014	2013
Revenue				
Software licenses	$ 18,872	$ 13,624	$ 34,635	$ 28,688
Hosted and maintenance services	28,345	23,394	53,359	43,957
Professional services	6,100	6,077	11,232	11,568
Hardware	1,634	1,416	3,217	2,255
	54,951	**44,511**	**102,443**	**86,468**
Direct costs				
Software licenses	1,684	649	2,884	2,078
Services	13,377	10,892	25,093	20,476
Hardware	1,078	1,004	2,097	1,597
	16,139	**12,545**	**30,074**	**24,151**
Revenue, net of direct costs	**38,812**	**31,966**	**72,369**	**62,317**
Operating expenses				
Selling, general and administrative	15,514	13,517	28,190	26,923
Research and development	9,440	7,772	18,160	15,115
Depreciation of property, plant and equipment	566	410	1,095	878
Special charges (Note 5)	810	599	922	2,414
	26,330	**22,298**	**48,367**	**45,330**
Results from operating activities	**12,482**	**9,668**	**24,002**	**16,987**
Amortization of acquired software and customer relationships	(4,231)	(3,876)	(8,141)	(7,460)
Finance income	124	94	267	427
Finance expenses	(75)	(96)	(133)	(177)
Other income	1	448	8	809
Income before income taxes	**8,301**	**6,238**	**16,003**	**10,586**
Provision for income taxes (Note 8)	1,743	1,335	3,273	2,248
Net income for the period	**$ 6,558**	**$ 4,903**	**$ 12,730**	**$ 8,338**
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation differences from foreign operations	751	(478)	10,521	383
Transfer to net income of realized gains on available for sale investments	(17)	(443)	(37)	(868)
Unrealized (loss) gain on available for sale investments	(40)	210	(57)	1,097
Deferred income tax recovery (expense)	7	30	12	(122)
Other comprehensive income (loss)	**701**	**(681)**	**10,439**	**490**
Comprehensive income	**$ 7,259**	**$ 4,222**	**$ 23,169**	**$ 8,828**
Earnings per share				
Basic	$ 0.25	$ 0.19	$ 0.49	$ 0.32
Diluted	$ 0.24	$ 0.19	$ 0.47	$ 0.32

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes in Equity

(in thousands of Canadian dollars)
(Unaudited)

	Share Capital -number	Share capital $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Retained earnings $	Total $
Balance – November 1, 2013	**26,042,962**	**58,514**	**3,175**	**5,139**	**115,800**	**182,628**
Net income	-	-	-	-	12,730	12,730
Other Comprehensive Income:						
Cumulative Translation Adjustment	-	-	-	10,521	-	10,521
Transfer to net income of realized gains on available-for-sale investments	-	-	-	(37)	-	(37)
Unrealized loss on available-for-sale investments	-	-	-	(57)	-	(57)
Deferred income tax recovery	-	-	-	12	-	12
Comprehensive income for the period	**-**	**-**	**-**	**10,439**	**12,730**	**23,169**
Employee share options:						
Value of services recognized	-	-	364	-	-	364
Proceeds on issuing shares	83,500	922	(207)	-	-	715
Dividends	-	-	-	-	(4,700)	(4,700)
Balance – April 30, 2014	**26,126,462**	**59,436**	**3,332**	**15,578**	**123,830**	**202,176**
Balance – November 1, 2012	**25,780,562**	**55,751**	**2,847**	**(29)**	**99,371**	**157,940**
Net income	-	-	-	-	8,338	8,338
Other Comprehensive Income:						
Cumulative Translation Adjustment	-	-	-	383	-	383
Transfer to net income of realized gains on available-for-sale investments	-	-	-	(868)	-	(868)
Unrealized gain on available-for-sale investments	-	-	-	1,097	-	1,097
Deferred income tax expense	-	-	-	(122)	-	(122)
Comprehensive income for the period	**-**	**-**	**-**	**490**	**8,338**	**8,828**
Employee share options:						
Value of services recognized	-	-	423	-	-	423
Proceeds on issuing shares	172,400	1,864	(489)	-	-	1,375
Dividends	-	-	-	-	(3,756)	(3,756)
Balance – April 30, 2013	**25,952,962**	**57,615**	**2,781**	**461**	**103,953**	**164,810**

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

ENGHOUSE SYSTEMS LIMITED

Condensed Consolidated Interim Statements of Cash Flows

(*in thousands of Canadian dollars)*
(Unaudited)

	Three months ended April 30		Six months ended April 30	
	2014	**2013**	**2014**	**2013**
Cash flows from operating activities				
Net income	$ 6,558	$ 4,903	$ 12,730	$ 8,338
Adjustments for:				
Depreciation of property, plant and equipment	566	410	1,095	878
Amortization of acquired software and customer relationships	4,231	3,876	8,141	7,460
Stock-based compensation expense	205	286	364	423
Income tax expense	1,743	1,335	3,273	2,248
Finance expenses and other income	74	(352)	125	(632)
	13,377	**10,458**	**25,728**	**18,715**
Changes in non-cash operating working capital (Note 13)	2,874	(544)	1,214	(473)
Income tax paid	(2,385)	(601)	(3,172)	(2,786)
Net cash flows from operating activities	**13,866**	**9,313**	**23,770**	**15,456**
Cash flows from investing activities				
Purchase of property, plant and equipment, net	(131)	(677)	(788)	(971)
Acquisitions, net of cash acquired of $969 ($3,617 - 2013) (Note 10)	(8,282)	(6,846)	(10,060)	(16,831)
Purchase consideration for prior period acquisitions (Note 10)	(3,040)	-	(3,422)	-
Net sale of short-term investments	4,861	8,831	3,246	4,803
Net cash flows used in investing activities	**(6,592)**	**1,308**	**(11,024)**	**(12,999)**
Cash flows from financing activities				
Issuance of share capital	354	850	715	1,375
Payment of cash dividend	(2,087)	(1,680)	(4,170)	(3,356)
Net cash flows used in financing activities	**(1,733)**	**(830)**	**(3,455)**	**(1,981)**
Effect of currency translation adjustments on cash and cash equivalents	264	(267)	3,402	39
Net increase in cash and cash equivalents during the period	**5,805**	**9,524**	**12,693**	**515**
Cash and cash equivalents- beginning of period	76,997	50,535	70,109	59,544
Cash and cash equivalents - end of period	**$ 82,802**	**$ 60,059**	**$ 82,802**	**$ 60,059**

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended April 30, 2014 and 2013

(Unaudited, in thousands of Canadian dollars, except as indicated)

1. Description of the business and reporting entity

Enghouse Systems Limited and its wholly owned subsidiaries (together the “Company” or “Enghouse”) develop enterprise software solutions for a variety of vertical markets. The Company is organized around two business segments: the Interactive Management Group and the Asset Management Group. The Interactive Management Group specializes in customer interaction software and services that are designed to enhance customer service, increase efficiency and manage customer communications across the enterprise. The Asset Management Group provides products and services to telecom service providers as well as fleet management and public safety software solutions, first responders, distribution, security, utilities and oil and gas industries. Enghouse is incorporated and domiciled in Canada. The address of its registered office is 80 Tiverton Court, Suite 800, Markham, Ontario, L3R 0G4. The Company has offices around the world including the United States, the United Kingdom, Sweden, Norway, Denmark, Germany, Australia, New Zealand, Israel and Croatia.

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, ‘Interim financial reporting’. The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended October 31, 2013, which have been prepared in accordance with IFRS.

These condensed consolidated interim financial statements were approved for issue on June 10, 2014.

(b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for available-for-sale financial assets, certain assets and liabilities initially recognized in connection with business combinations, and derivative financial instruments, which are measured at fair value.

(c) Functional and presentation of currency

The condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended October 31, 2013, with the exception of changes in estimates that are required in determining the provision for income taxes.

3. Significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except as described below.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual income.

New Standards and interpretations adopted

IFRS 10 – Consolidated Financial Statements ("IFRS 10") requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretations Committee *(SIC)-12 – Consolidation – Special Purpose Entities* and parts of *IAS 27 – Consolidated and Separate Financial Statements*. The Company has adopted the standard for the annual period beginning on November 1, 2013. The standard did not have a material impact on the condensed consolidated interim financial statements.

IFRS 11 – Joint Arrangements ("IFRS 11") requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes *IAS 31 – Interests in Joint Ventures, and SIC-13 – Jointly Controlled Entities – Non-monetary Contributions by Venturers*. The Company has adopted the standard for the annual period beginning on November 1, 2013. The standard did not have a material impact on the condensed consolidated interim financial statements.

IFRS 12 – Disclosure of Interests in Other Entities establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The Company has adopted the standard for the annual period beginning on November 1, 2013. The standard did not have a material impact on the condensed consolidated interim financial statements.

IFRS 13 – Fair Value Measurement is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The Company has adopted the standard for the annual period beginning on November 1, 2013. The standard did not have a material impact on the condensed consolidated interim financial statements.

IFRS 7 - Offsetting Financial Assets and Liabilities ("IFRS 7") - IFRS 7 has been amended to include additional disclosure requirements for financial assets and liabilities that can be offset in the statement of financial position. The Company has adopted the amendment for the annual period beginning on November 1, 2013. The amendment did not have a material impact on the condensed consolidated interim financial statements.

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended April 30, 2014 and 2013
(Unaudited, in thousands of Canadian dollars, except as indicated)

4. Intangible assets

	Acquired Software	Customer Relationships	Goodwill	Total
	$	$	$	$
At November 1, 2013				
Cost	85,101	45,287	81,248	211,636
Accumulated depreciation	(57,697)	(21,581)	-	(79,278)
Net book value	**27,404**	**23,706**	**81,248**	**132,358**
Period ended April, 2014				
Opening net book value	27,404	23,706	81,248	132,358
Acquisition	5,586	3,280	5,073	13,939
Amortization	(5,018)	(3,123)	-	(8,141)
Purchase Price Adjustments	-	-	(947)	(947)
Exchange difference	1,185	1,368	5,466	8,019
Closing net book value	**29,157**	**25,231**	**90,840**	**145,228**
At April 30, 2014				
Cost	90,687	48,567	90,840	230,094
Accumulated amortization	(61,530)	(23,336)	-	(84,866)
Net book value	**29,157**	**25,231**	**90,840**	**145,228**

5. Accrued provisions
Accrued provisions include provisions for onerous contracts, legal claims, restructuring and special charges, and are measured based on management's best estimate of the expenditure required to settle the obligation at the end of the reporting period.

	Total
At November 1, 2013	**$ 3,427**
Additional provisions	1,122
Utilized during the period	(1,102)
Effect of movements in foreign exchange	129
At April 30, 2014	**$ 3,576**

6. Share capital and other components of shareholder's equity

Capital Stock
The authorized share capital of the Company consists of an unlimited number of common shares, an unlimited amount of Class A, redeemable, retractable, non-voting, non-cumulative, preference shares and an unlimited number of Class B, redeemable, retractable, non-voting, preference shares. There were 26,126,462 common shares outstanding as at April 30, 2014. There were no Class A and no Class B preference shares issued and outstanding as at either October 31, 2013 or April 30, 2014.

Common share repurchase plan
On April 16, 2014, the Company renewed its common share repurchase plan, whereby it may repurchase up to a maximum of 1,802,756 common shares of the Company, expiring on April 15, 2015. The Company did not repurchase any common shares in either of fiscal 2014 or in fiscal 2013.

Accumulated other comprehensive income (loss)
Accumulated other comprehensive income (loss) is comprised of the following separate components of equity:

(Unaudited, in thousands of Canadian dollars, except as indicated)

Cumulative translation account
The cumulative translation account comprises all foreign currency differences arising from the translation of the financial statements of foreign operations net of income tax recovery of $117 on a year to date basis (YTD-2013- recovery of $17).

Unrealized gains/losses on available-for-sale financial assets
Available-for-sale differences comprise the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or impaired net of income tax recovery of $12 on a year to date basis (YTD-2013- expense of $122).

Dividends
During the three months ended April 30, 2014, the Company declared and paid dividends of $0.10 and $0.08 respectively per common share (three months ended April 30, 2013 - $0.08 and $0.065 per common share).

7. Stock-based Compensation
The Company has granted options to purchase common shares to certain directors, officers and employees of the Company, pursuant to the terms of the Company's stock option plan (the "Plan"). The Plan provides that a total of 2,255,200 (April 30, 2013 – 2,076,100) common shares are reserved for options and that the shares reserved for options, which could become exercisable in any one year, will not exceed more than 10% of the issued and outstanding common shares of the Company at the time such options may be exercisable. These options vest at various times over four years and expire seven years after the grant date. The exercise price of each option equals the market price of the Company's stock on the date the options are granted.

A summary of the status of the Company's Plan as at April 30, 2014 and April 30, 2013, and changes during the three and six months ended respectively on those dates is presented as follows:

Three months ended:	**April 30, 2014**		**April 30, 2013**	
	Number of Options	**Weighted Average Exercise Price in $**	**Number of Options**	**Weighted Average Exercise Price in $**
Outstanding at beginning of period	1,294,000	12.54	1,390,000	10.47
Granted	110,000	34.45	120,000	19.07
Exercised	(39,500)	8.92	(102,000)	8.34
Forfeited	-	-	-	-
Outstanding at end of period	**1,364,500**	**14.41**	**1,408,000**	**11.36**
Options exercisable at end of period	**715,000**	**9.50**	**679,000**	**8.00**

Six months ended:	**April 30, 2014**		**April 30, 2013**	
	Number of Options	**Weighted Average Exercise Price in $**	**Number of Options**	**Weighted Average Exercise Price in $**
Outstanding at beginning of period	1,419,000	12.42	1,354,400	9.43
Granted	110,000	34.45	315,000	17.89
Exercised	(83,500)	8.55	(172,400)	7.98
Forfeited	(81,000)	12.81	(89,000)	11.67
Outstanding at end of period	**1,364,500**	**14.41**	**1,408,000**	**11.36**
Options exercisable at end of period	**715,000**	**9.50**	**679,000**	**8.00**

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended April 30, 2014 and 2013
(Unaudited, in thousands of Canadian dollars, except as indicated)

The Company uses the fair value method for recording compensation expense related to equity instruments awarded to employees, officers and directors in accordance with IFRS 2. For the purposes of expensing stock options, each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. During the second quarter of 2014, the Company recorded a non-cash charge of $205 (Q2/2013 - $286).

For options granted in the period, the fair value of each stock option on the date of the grant was estimated using the Black-Scholes option pricing model as set out below. Estimated volatility is calculated on a daily basis using historical closing prices, as adjusted for certain events that management deemed to be non-recurring and non-indicative of future events over a five year period, which reflects the expected life of the options.

	Options Granted FY 2014	**Options Granted FY 2013**
Risk-free interest rate (%)	1.34% - 1.93%	1.25% - 1.75%
Estimated volatility (%)	20%-28%	31%
Dividend yield	$0.40	$0.26-$0.32
Expected life (in years)	3.5 – 6.3	5
Weighted average fair value (in dollars)	$5.01 - $9.34	$4.27- $6.16

There were 110,000 options granted in fiscal 2014 (120,000 – 2013).

8. Income tax

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated annual rate used for the year ended October 31, 2014 and the year ended October 31, 2013 was 21% in both years.

9. Earnings per share:

Basic: Basic earnings per share are calculated by dividing the net income attributable to owners of the parent by the weighted average number of common shares issued and outstanding during the period.

	Three months ended April 30		**Six months ended April 30**	
	2014	**2013**	**2014**	**2013**
Net income attributable to owners of the parent	$ 6,558	$ 4,903	$ 12,730	$ 8,338
Weighted average number of common shares in issue	26,096	25,886	26,074	25,847
Basic earnings per share	**$ 0.25**	**$ 0.19**	**$ 0.49**	**$ 0.32**

Diluted: Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding assuming conversions of all dilutive potential common shares. The Company has only stock options as potential dilutive common shares. For stock options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined using the average market share price of the Company's outstanding shares for the period) based on the monetary value of the subscription rights attached to the stock options. The number of shares calculated above is compared to the number of shares that would have been issued assuming the exercise of the stock options.

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended April 30, 2014 and 2013
(Unaudited, in thousands of Canadian dollars, except as indicated)

	Three months ended April 30		Six months ended April 30	
	2014	**2013**	**2014**	**2013**
Net income attributable to owners of the parent	$ 6,558	$ 4,903	$ 12,730	$ 8,338
Weighted average number of common shares issued	26,096	25,886	26,074	25,847
Adjustments for:				
Stock options	776	598	758	533
Weighted average number of common shares for diluted earnings per share	26,872	26,484	26,832	26,380
Diluted earnings per share	**$ 0.24**	**$ 0.19**	**$ 0.47**	**$ 0.32**

10. Acquisitions
Acquisitions have been recorded under the purchase method of accounting and results have been included in the consolidated statements of operations from their respective acquisition dates. Accordingly, the allocation of the purchase price to assets and liabilities is based on the fair value, with the excess of the purchase price over the fair value of the assets acquired being allocated to goodwill.

2014 Acquisitions:

Interactive Management
The Company acquired 100% of the issued and outstanding common shares of Information Access Technology, Inc. ("IAT") and IT Sonix AG ("IT Sonix") on November 4, 2013 and March 3, 2014 respectively for an aggregate cash purchase price of approximately $13.6 million. Of this amount, approximately $2.2 million is subject to hold back and adjustment. Results are included in the Interactive Management Group from the date of acquisition.

Headquartered in West Jordan (Salt Lake City), Utah, IAT specializes in innovative communication technology which enables companies to design, execute and measure customer communication campaigns. IAT solutions include premise and hosted products and services for both outbound dialing and broadcast messaging. Based in Leipzig, Germany, IT Sonix is a software provider specializing in outbound contact center solutions with a particular focus on tele-marketing. ELSBETH, IT Sonix's flagship solution, is a fully featured, general purpose, outbound suite combining a powerful predictive dialer, campaign management, call scripting, real-time speech analytics and agent coaching capabilities.

2013 Acquisitions:

Interactive Management
The Company acquired 100% of the issued and outstanding common shares of Visionutveckling AB ("Vision"), Safeharbor Knowledge Solutions ("Safeharbor") and Andtek GmbH ("Andtek") on November 1, 2012, September 6, 2013 and October 7, 2013 respectively for an aggregate cash purchase price of approximately $18.8 million. Of this amount, approximately $1.3 million remains subject to hold back and adjustment. During the quarter, approximately $1.0 million of the hold back was reduced with the proceeds previously classified as restricted cash now accruing to the Company due to the finalization of the Vision purchase price. Results are included in the Interactive Management Group from the date of acquisition.

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended April 30, 2014 and 2013
(Unaudited, in thousands of Canadian dollars, except as indicated)

Vision provides attendant and contact center software solutions with offerings both on-premise and in the cloud, with operations based in Sweden, Norway and Denmark. Safeharbor delivers a SaaS based, unified knowledge base and community forum platform for small and medium size businesses as well as Fortune 500 enterprises, with operations based in Satsop (Seattle), Washington. Andtek is a unified communications specialist delivering highly scalable attendant console and contact center solutions as well as a range of handset applications for small and large size organizations, with operations based in Hallbergmoos, Germany.

Asset Management Group
The Company acquired 100% of the issued and outstanding common shares of Albatross Scandinavia AB (“Albatross”) and Locus Holdings AS (“Locus”) on December 1, 2012 and March 1, 2013 respectively for an aggregate cash purchase price of approximately $13.8 million. The results have been included in the Asset Management Group subsequent to acquisition.

Albatross, based in Sweden, provides a real-time intelligent network platform that delivers voice and SMS routing products to telecom operators. Locus supplies fleet management solutions for the Public Safety and Transport & Logistics (including Security) sectors in the Scandinavian market. Locus is headquartered in Sandefjord, Norway and has offices in Denmark and Sweden.

Management has established the preliminary purchase price allocations taking into account all relevant information at the time of preparing these notes to the consolidated financial statements. The purchase price allocations below have not been finalized, other than Locus, Vision and Albatross, subject to receipt of additional information related to the settlement of the holdback obligations.

The Company’s purchase price allocations are as follows:

	Interactive Management Group Preliminary Quarter ended April 30, 2014	**Interactive Management Group Preliminary Year ended October 31, 2013**	**Asset Management Group Final Year ended October 31, 2013**
Cash and cash equivalents	$ 1,303	$ 2,583	$ 3,421
Short-term investments	-	508	-
Accounts receivable, net	5,476	2,989	4,254
Income tax receivable	-	196	-
Prepaid expenses and other assets	530	504	744
Property, plant and equipment	438	170	248
Deferred income tax assets	-	321	991
Acquired software	5,586	8,114	3,804
Customer relationships	3,280	4,208	6,630
Goodwill	5,073	8,898	5,294
Total assets acquired	**$ 21,686**	**$ 28,491**	**$ 25,386**
Less: Current liabilities assumed	$ 5,881	$ 6,499	$ 9,140
Less: Deferred income tax liabilities	2,178	3,169	2,408
Total liabilities assumed	**$ 8,059**	**$ 9,668**	**$ 11,548**
Net assets acquired for cash consideration	**$ 13,627**	**$ 18,823**	**$ 13,838**

11. Segmented information
The Company has two operating segments, the Interactive Management Group and the Asset Management Group, based on the nature of the operations and markets that each of these segments serves. The accounting policies followed by these segments are the same as those described in the summary of significant accounting policies.

The Company’s operating segments each develop and market software products and provide services for their respective markets and are inclusive of the current year acquisitions. The Interactive Management

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended April 30, 2014 and 2013
(Unaudited, in thousands of Canadian dollars, except as indicated)

Group specializes in customer interaction software and services that are designed to enhance customer service, increase efficiency and manage customer communications across the enterprise. Core technologies include contact center, attendant console, interactive voice response, call recording and workforce optimization solutions that support any telephony environment, on-premise or in the cloud. Its customers include insurance companies, banks and utilities as well as high technology, health care and hospitality companies. The Asset Management Group provides a portfolio of products to telecom service providers as well as fleet management and public safety software solutions for the transportation industry, first responders, distribution, security, utilities and oil and gas industries. These include telecom billing, data conversion, and geo-spatial software solutions for complex network infrastructures and fleet/logistics management solutions for the public and private sectors.

The Company evaluates segment performance based on revenue and profit or loss before income taxes.

	Interactive Management Group	Asset Management Group	Total
Three months ended April 30, 2014			
Revenue	$ 43,897	$ 11,054	$ 54,951
Operating expenses excluding non-cash charges	(32,330)	(8,207)	(40,537)
Depreciation of property, plant and equipment	(467)	(99)	(566)
Segmented profit	**$ 11,100**	**$ 2,748**	**$ 13,848**
Corporate expenses			
Amortization of acquired software and customer			(1,366)
relationships			(4,231)
Finance income			124
Finance expenses			(75)
Other income			1
Income before income taxes			**$ 8,301**

	Interactive Management Group	Asset Management Group	Total
Three months ended April 30, 2013			
Revenue	$ 36,268	$ 8,243	$ 44,511
Operating expenses excluding non-cash charges	(25,966)	(7,425)	(33,391)
Depreciation of property, plant and equipment	(339)	(71)	(410)
Segmented profit	**$ 9,963**	**$ 747**	**$ 10,710**
Corporate expenses			(1,042)
Amortization of acquired software and customer relationships	(3,280)	(596)	(3,876)
Finance income			94
Finance expenses			(96)
Other income			448
Income before income taxes			**$ 6,238**

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended April 30, 2014 and 2013

(Unaudited, in thousands of Canadian dollars, except as indicated)

	Interactive Management Group	Asset Management Group	Total
Six months April 30, 2014			
Revenue	$ 81,697	$ 20,746	$ 102,443
Operating expenses excluding non-cash charges	(59,107)	(15,581)	(74,688)
Depreciation of property, plant and equipment	(885)	(210)	(1,095)
Segmented profit	**$ 21,705**	**$ 4,955**	**$ 26,660**
Corporate expenses			(2,658)
Amortization of acquired software and customer relationships			(8,141)
Finance income			267
Finance expenses			(133)
Other income			8
Income before income taxes			**$ 16,003**
Goodwill	$ 73,789	$ 17,051	$ 90,840
Other assets	147,981	55,091	203,072
Short-term investments			18,212
Total assets	**$ 221,770**	**$ 72,142**	**$ 312,124**
Capital Expenditures	$ 622	$ 166	$ 788

	Interactive Management Group	Asset Management Group	Total
Six months April 30, 2013			
Revenue	$ 72,979	$ 13,489	$ 86,468
Operating expenses excluding non-cash charges	(55,180)	(11,515)	(66,695)
Depreciation of property, plant and equipment	(760)	(118)	(878)
Segmented profit	**$ 17,039**	**$ 1,856**	**$ 18,895**
Corporate expenses			(1,908)
Amortization of acquired software and customer relationships	(6,559)	(901)	(7,460)
Finance income			427
Finance expenses			(177)
Other income			809
Income before income taxes			**$ 10,586**
Goodwill	$ 59,738	$ 14,775	$ 74,513
Other assets	119,027	47,169	166,196
Short-term investments			20,881
Total assets	**$ 178,765**	**$ 61,944**	**$ 261,590**
Capital Expenditures	$ 720	$ 251	$ 971

(Unaudited, in thousands of Canadian dollars, except as indicated)

12. Commitments and contingencies

Southern California Gas Company v. Syntellect, Inc.: Southern California Gas Company ("SoCal") filed a lawsuit against a wholly owned subsidiary of the Company relating to the indemnification provisions in a contract between the parties. The United States District Court, Southern District of California, issued a judgment in favor of SoCal. However, the judgment was appealed to the United States Ninth Circuit Court of Appeals. That court affirmed aspects of the judgment, but reversed the finding that evidence of apportionment of damages should be excluded and directed the district court to consider the apportionment issue. Subsequently, the district court issued an order granting a motion brought by SoCal that apportionment was not appropriate and that the Company is responsible for 100% of SoCal's damages and a judgment (together with the order, the "Judgment") in favour of SoCal which, together with certain additional SoCal costs and interest, amounts to U.S. $9.45 million (the "Award"). The Company has appealed the Judgment to the United States Ninth Circuit Court of Appeals, and a standby letter of credit in the full amount of the Award has been posted, pending the outcome of the appeal. SoCal will receive payment of all or part of the Award, plus any additional SoCal costs and interest, if it is ultimately successful in the lawsuit, at which time the expense related to such payment will be determined and recorded in the Company's financial statements.

General

The Company provides its customers with a qualified indemnity against the infringement of third party intellectual property rights. From time to time, various owners of patents and copyrighted works send the Company or its customers letters alleging that the Company's products do or might infringe upon the owner's intellectual property rights, and/or suggesting that the Company or its customers should negotiate a license agreement with the owner. The Company's policy is to never knowingly infringe upon any third party's intellectual property rights. Accordingly, where appropriate, the Company forwards any such allegation or licensing request to its outside legal counsel for review. The Company generally attempts to resolve any such matter by informing the owner of the Company's position concerning non-infringement or invalidity. Even though the Company attempts to resolve these matters without litigation, it is always possible that the owner of a patent or copyrighted work will sue the Company.

In response to correspondence from and, in a few instances, litigation instigated by, third party patent holders, a few of the Company's customers have attempted to tender to the Company the defense of its products under contractual indemnity provisions. The Company does not believe that it currently has any obligation to provide such a defense or that the Company's products infringe any third party patent. However, as described above, the Company is currently subject to one action on the suggested basis of contractual indemnity. With respect to this litigation, and any other litigation the Company becomes involved with, under a contractual indemnity or any other legal theory, the Company has and will continue to consider all its options for resolution and vigorously assert all appropriate defenses.

13. Changes in non-cash operating working capital

	Three months ended April 30,		Six months ended April 30,	
	2014	**2013**	**2014**	**2013**
Decrease in accounts receivable, net	$ 3,798	$ 6,058	$ 1,302	$ 3,175
Increase in prepaid expenses and other assets	(28)	(634)	(808)	(872)
Decrease in accounts payable & accrued liabilities	(1,477)	(2,127)	(7,121)	(2,955)
Increase in income taxes payable	228	500	67	263
Increase (decrease) in deferred revenue	353	(4,341)	7,774	(84)
	$ 2,874	**$ (544)**	**$ 1,214**	**$ (473)**