



Enghouse Systems

Software engineered for results

Enghouse Releases Third Quarter Results

FOR IMMEDIATE RELEASE

Markham, Ontario – (September 10, 2013) – Enghouse Systems Limited (TSX:ESL) today announced its unaudited third quarter financial results for the period ended July 31, 2013.

Third quarter revenue was \$46.3 million, an increase of 31% over revenue of \$35.4 million in the third quarter last year, with incremental revenue coming primarily from acquisitions. Revenue includes recurring hosted and maintenance services contributions of \$23.5 million in the quarter, an increase of 21% over last year's revenue of \$19.5 million. Adjusted EBITDA for the quarter was \$12.2 million or \$0.46 per diluted share compared to \$9.2 million or \$0.35 per diluted share in last year's third quarter. Results from operating activities for the quarter were \$11.7 million compared to \$8.3 million in the prior year's third quarter and include special charges booked on acquisitions of \$0.1 million in the quarter. Net income for the third quarter was \$6.3 million or \$0.24 per diluted share compared to the prior year's third quarter net income of \$4.3 million or \$0.16 per share. On a year to date basis, revenue was \$132.7 million compared to \$97.4 million, an increase of 36%. Adjusted EBITDA for the year to date was \$32.5 million or \$1.23 per diluted share compared to \$24.9 million or \$0.96 per share.

Operating expenses increased to \$21.2 million from \$17.5 million in the prior year's third quarter and include incremental operating costs related to acquisitions as well as special charges related to restructuring of acquired operations. Non-cash amortization charges in the quarter were \$4.0 million compared to \$2.9 million in the prior year's third quarter and includes amortization charges for acquired software and customer relationships including operations acquired in the current year.

Enghouse closed the quarter with \$92.0 million in cash, cash equivalents and short-term investments, compared to \$80.9 million at April 30, 2013 and \$83.7 million at October 31, 2012. This reflects cash paid in the quarter of approximately \$3.0 million related to holdbacks for the acquisitions of Zeacom and Locus. It also reflects a cash dividend of \$2.1 million paid in June 2013. The Company continues to have no long-term debt.

During the quarter, the corporate management team was strengthened with the additions of Craig Wallace as Chief Operations Officer and Geoff Bartle as Corporate Vice President, Information Systems. The additional corporate management was needed to take the Company to the next level of its development.

On September 6, 2013, the Company acquired Safeharbor Knowledge Systems, LLC. Based in Satsop (Seattle), Washington, Safeharbor delivers a SaaS based, unified knowledge base and community forum platform with proven scalability, augmenting the Company's Interactive Management solutions portfolio.

The Board of Directors has approved an eligible quarterly dividend of \$0.08 per common share, payable on November 29, 2013 to shareholders of record at the close of business on November 15, 2013.

Enghouse continues to seek further acquisitions to grow its market share.

A conference call to discuss the results will be held on Wednesday, September 11, 2013 at 8:45 a.m. EST. To participate, please call 416-849-8296 (PIN 89681544#) in Toronto or North American Toll-Free 1-866-551-3680 (PIN 89681544#).

About Enghouse

Enghouse Systems Limited is a leading global provider of enterprise software solutions serving a variety of distinct vertical markets. Its strategy is to build a larger and more diverse software company through strategic acquisitions and managed growth. Enghouse shares are listed on the Toronto Stock Exchange under the symbol "ESL". Further information about Enghouse may be obtained from the Company's web site at www.enghouse.com.

Non-IFRS Measures

The Company uses non-IFRS measures to assess its operating performance. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS 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 results from operating activities and Adjusted EBITDA as a measure of operating performance. Therefore, results from operating activities and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Results from operating activities are calculated as net income before amortization of acquired software and customer relationships, finance income, finance expenses, other income, and the provision for income taxes. Results from Adjusted EBITDA are calculated as net income before depreciation of property, plant and equipment, amortization of acquired software and customer relationships, finance income, finance expenses, other income, the provision of income tax and special charges for acquisition related restructuring and transaction costs. Management uses results from operating activities and Adjusted EBITDA to evaluate operating performance as they exclude 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.

Adjusted EBITDA:

The table below reconciles Adjusted EBITDA to net income:

	Three Months ended		Nine Months ended	
	July 31, 2013	July 31, 2012	July 31, 2013	July 31, 2012
Total Revenue	\$ 46,247	\$ 35,427	\$ 132,715	\$ 97,416
Net income for the period	6,297	4,288	14,635	12,528
Provision for income taxes	1,723	1,244	3,971	3,873
Depreciation of property, plant and equipment	425	377	1,303	942
Amortization of acquired software and customer relationships	4,025	2,949	11,485	7,770
Finance income	(90)	(194)	(517)	(698)
Finance expenses	81	72	258	183
Other income	(307)	(13)	(1,116)	(168)
Special charges	77	491	2,491	491
Adjusted EBITDA	\$ 12,231	\$ 9,214	\$ 32,510	\$ 24,921
Adjusted EBITDA margin	26%	26%	24%	26%
Adjusted EBITDA per diluted share	\$ 0.46	\$ 0.35	\$ 1.23	\$ 0.96

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)

(Unaudited)

	July 31, 2013	October 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 58,792	\$ 59,544
Short-term investments	33,245	24,108
Accounts receivable, net	30,971	31,368
Prepaid expenses and other assets	5,593	3,853
	128,601	118,873
Non-current assets:		
Property, plant and equipment	3,651	3,365
Intangibles	121,696	106,995
Deferred income tax assets	7,637	10,477
	132,984	120,837
Total assets	\$ 261,585	\$ 239,710
Liabilities		
Current liabilities:		
Trade payables	\$ 29,556	\$ 26,053
Income taxes payable	303	2,008
Dividends payable	2,079	1,676
Accrued provisions	3,292	1,621
Deferred revenue	41,797	35,935
	77,027	67,293
Non-current liabilities:		
Deferred income tax liabilities	13,502	13,241
Deferred revenue	1,750	1,236
Total liabilities	92,279	81,770
Shareholders' Equity		
Share capital	57,879	55,751
Contributed surplus	3,007	2,847
Retained earnings	108,171	99,371
Accumulated other comprehensive gain (loss)	249	(29)
Total shareholders' equity	169,306	157,940
Total liabilities and shareholders' equity	\$ 261,585	\$ 239,710

Enhouse Systems Limited

Condensed Consolidated Interim Statements of Operations and Comprehensive Income

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

	Three months ended July 31		Nine months ended July 31	
	2013	2012	2013	2012
Revenue				
Software licenses	\$ 15,189	\$ 10,853	\$ 43,877	\$ 32,001
Hosted and maintenance services	23,543	19,475	67,500	51,494
Professional services	6,013	4,727	17,581	12,873
Hardware	1,502	372	3,757	1,048
	46,247	35,427	132,715	97,416
Direct costs				
Software licenses	1,113	808	3,191	2,583
Services	11,243	8,567	31,719	22,549
Hardware	941	242	2,538	726
	13,297	9,617	37,448	25,858
Revenue, net of direct costs	32,950	25,810	95,267	71,558
Operating expenses				
Selling, general and administrative	13,298	11,255	40,221	31,092
Research and development	7,421	5,341	22,536	15,545
Depreciation of property, plant and equipment	425	377	1,303	942
Special charges	77	491	2,491	491
	21,221	17,464	66,551	48,070
Results from operating activities	11,729	8,346	28,716	23,488
Amortization of acquired software and customer relationships	(4,025)	(2,949)	(11,485)	(7,770)
Finance income	90	194	517	698
Finance expenses	(81)	(72)	(258)	(183)
Other income	307	13	1,116	168
	8,020	5,532	18,606	16,401
Income before income taxes	8,020	5,532	18,606	16,401
Provision for income taxes	1,723	1,244	3,971	3,873
Net income for the period	\$ 6,297	\$ 4,288	\$ 14,635	\$ 12,528
<u>Items that are or may be reclassified subsequently to profit or loss:</u>				
Foreign currency translation differences from foreign operations	(162)	(373)	221	(1,664)
Transfer to net income of realized gains on available for sale investments, net of tax of (\$177); nine months – (\$291)	(1,156)	-	(1,910)	(132)
Unrealized gain (loss) on available for sale investments, net of tax of \$169; nine months–\$300	1,106	(291)	1,967	(883)
	(212)	(664)	278	(2,679)
Other comprehensive (loss) income	(212)	(664)	278	(2,679)
Comprehensive income	\$ 6,085	\$ 3,624	\$ 14,913	\$ 9,849
Earnings per share				
Basic	\$ 0.24	\$ 0.17	\$ 0.57	\$ 0.49
Diluted	\$ 0.24	\$ 0.16	\$ 0.55	\$ 0.48

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Changes in Equity

(in thousands of Canadian dollars)

(Unaudited)

	Number of common shares	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Retained earnings \$	Total \$
Balance – November 1, 2012	25,780,562	55,751	2,847	(29)	99,371	157,940
Net income	-	-	-	-	14,635	14,635
Other Comprehensive Income (net of tax):						
Cumulative Translation Adjustment	-	-	-	221	-	221
Transfer to net income of realized gains on available-for-sale investments, net of tax	-	-	-	(1,910)	-	(1,910)
Unrealized gain on available-for-sale investments, net of tax	-	-	-	1,967	-	1,967
Comprehensive income (loss) for the period	-	-	-	278	14,635	14,913
Employee share options:						
Value of services recognized	-	-	704	-	-	704
Proceeds on issuing shares	207,400	2,128	(544)	-	-	1,584
Dividends	-	-	-	-	(5,835)	(5,835)
Balance – July 31, 2013	25,987,962	57,879	3,007	249	108,171	169,306
Balance – November 1, 2011	25,337,262	52,134	2,970	1,035	84,782	140,921
Net income	-	-	-	-	12,528	12,528
Other Comprehensive Income (net of tax):						
Cumulative Translation Adjustment	-	-	-	(1,664)	-	(1,664)
Transfer to net income of realized gain on available-for-sale investments, net of tax	-	-	-	(132)	-	(132)
Unrealized (loss) on available-for-sale investments, net of tax	-	-	-	(883)	-	(883)
Comprehensive income (loss) for the period	-	-	-	(2,679)	12,528	9,849
Employee share options:						
Value of services recognized	-	-	502	-	-	502
Proceeds on issuing shares	332,300	2,951	(634)	-	-	2,317
Dividends	-	-	-	-	(4,608)	(4,608)
Balance – July 31, 2012	25,669,562	55,085	2,838	(1,644)	92,702	148,981

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)

	Three months ended July 31		Nine months ended July 31	
	2013	2012	2013	2012
Cash flows from operating activities				
Net income	\$ 6,297	\$ 4,288	\$ 14,635	\$ 12,528
Adjustments for:				
Depreciation of property, plant and equipment	425	377	1,303	942
Amortization of acquired software and customer relationships	4,025	2,949	11,485	7,770
Stock-based compensation expense	281	216	704	502
Income tax expense	1,723	1,244	3,971	3,873
Finance expenses and other income	(226)	59	(858)	15
	12,525	9,133	31,240	25,630
Changes in non-cash operating working capital	2,725	990	2,475	(3,476)
Income tax paid	(724)	(1,360)	(3,510)	(3,188)
Net cash flows from operating activities	14,526	8,763	30,205	18,966
Cash flows from investing activities				
Purchase of property, plant and equipment, net	(194)	(224)	(1,165)	(1,893)
Acquisitions, net of cash acquired of \$3,617	(2,974)	(26,651)	(19,805)	(32,453)
Net (purchase) sale of short-term investments	(10,773)	2,371	(6,058)	(8,692)
Net cash flows used in investing activities	(13,941)	(24,504)	(27,028)	(43,038)
Cash flows from financing activities				
Issuance of share capital	209	441	1,584	2,317
Payment of cash dividend	(2,076)	(1,664)	(5,432)	(4,206)
Net cash flows used in financing activities	(1,867)	(1,223)	(3,848)	(1,889)
Effect of currency translation adjustments on cash and cash equivalents	15	440	(81)	200
Net decrease in cash and cash equivalents during the period	(1,267)	(16,524)	(752)	(25,761)
Cash and cash equivalents- beginning of period	60,059	56,387	59,544	65,624
Cash and cash equivalents - end of period	\$ 58,792	\$ 39,863	\$ 58,792	\$ 39,863

Enghouse Systems Limited
Selected Segment Reporting Information

(in thousands of Canadian dollars)
(Unaudited)

	For the three months ended		For the nine months ended	
	July 31		July 31	
	2013	2012	2013	2012
Revenue:				
Asset Management Group	\$ 9,983	\$ 4,725	\$ 23,472	\$ 11,519
Interactive Management Group	36,264	30,702	109,243	85,897
Total	\$ 46,247	\$ 35,427	\$132,715	\$ 97,416
Segment Profit (EBIT):				
Asset Management Group	\$ 2,001	\$ 1,016	\$ 2,957	\$ 1,918
Interactive Management Group	6,961	5,383	17,440	16,430
Corporate expenses	(1,258)	(1,002)	(3,166)	(2,630)
Finance income	90	194	517	698
Finance expenses	(81)	(72)	(258)	(183)
Other income	307	13	1,116	168
Total	\$ 8,020	\$ 5,532	\$ 18,606	\$ 16,401

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