



3rd Quarter Report
July 31, 2008

Enghouse Systems Limited

September 9, 2008

To our Shareholders,

Third quarter revenue was \$14.7 million, compared to \$13.8 million reported in the same period last year. Net income for the third quarter was \$1.58 million or \$0.06 per diluted share compared to the prior year's third quarter net income of \$2.04 million or \$0.08 per diluted share. On a year-to-date basis, revenue was \$38.4 million compared to \$42.3 million in the prior year, while net income was \$3.67 million compared to \$6.17 million in the prior fiscal year.

Operating expenses increased to \$7.7 million from \$7.5 million in the prior year's third quarter primarily as a result of the inclusion of incremental costs associated with the acquisitions of Gamma Projects Limited ("Gamma") completed on March 31, 2008 and Fluency Voice Technology Limited ("Fluency") completed on May 31, 2008. Also included in the operating expenses are non-cash amortization charges of \$1.6 million compared to \$1.5 million in the prior year's third quarter related to the amortization of software and intangibles including those recorded as part of the Gamma and Fluency acquisitions.

The Company generated cash flows from operations of \$2.3 million in the third quarter compared to \$4.3 million in the prior year's third quarter. On a year-to-date basis, the Company generated cash flows of \$6.3 million, closing the quarter with \$103.2 million in cash and short-term investments. The Company continues to have no long-term debt.

During the quarter Enghouse spent \$0.2 million to repurchase 39,900 of its common shares under the Company's buyback program at an average cost of \$6.06 per share and paid an eligible cash dividend of \$0.025 per share on August 29, 2008. At its meeting held today, the Board of Directors authorized the payment of an eligible quarterly dividend of \$0.025 per share payable on November 28, 2008 to shareholders of record at the close of business on November 14, 2008.

On May 31, 2008 the Company completed the acquisition of Fluency to expand its presence in the U.K. During the quarter the Fluency business was combined with Syntellect's operations.

The Company continues to have a strong financial base and operating cash flows for its regular dividend program, its share buyback program and to seek accretive acquisitions to increase shareholder value.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis has been prepared as of September 9, 2008 and should be read in conjunction with the Company's unaudited interim consolidated financial statements and the notes thereto for the periods ended July 31, 2008 and 2007, as well as the Company's audited Consolidated Financial Statements and Management's Discussion and Analysis for the fiscal year ended October 31, 2007, contained in the Company's 2007 Annual Report to Shareholders.

Accounting Policies, Accounting Standards and Estimates:

The Company's consolidated financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The preparation of the Company's consolidated financial statements is based on the selection and application of significant accounting policies, some of which require management to make significant estimates that affect the reported amounts of assets, liabilities, revenue and expenses and the related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to revenue recognition, allowance for doubtful accounts, the useful lives and recoverability of long-term assets, recoverability of goodwill and the valuation allowance on future income tax assets. The Company bases its estimates on historical experience as well as on various other assumptions that are believed to be reasonable under the circumstances at the time. Under different assumptions or conditions, the actual results would differ, potentially materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are beyond the Company's control.

The Company believes that these accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements. These policies remain substantially unchanged from those discussed in the Company's latest Management's Discussion and Analysis for the year ended October 31, 2007, contained in the Company's 2007 Annual Report to Shareholders, with the exception of new accounting standards issued by The Canadian Institute of Chartered Accountant's ("CICA") Accounting Standards Board and adopted by the Company on November 1, 2007.

Changes in accounting policy:

CICA Section 1535, *Capital Disclosures*, establishes disclosure requirements about an entity's capital and how it is managed. The purpose of the new standard is to enable users of the financial statements to evaluate objectives, policies and processes for managing capital.

CICA Sections 3862, *Financial Instruments – Disclosures*, and 3863 *Financial Instruments – Presentation*, replace Section 3861 *Financial Instruments – Disclosure and Presentation*, and revise and enhance disclosure requirements while carrying forward its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

CICA Section 1506, *Accounting Changes*, was revised in July 2006 and applies to interim and annual financial statements related to fiscal years beginning on or after January 1, 2007. The new standard requires that voluntary changes in accounting policy can only be made if the change results in financial statements that provide reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable and that prior period errors are corrected retrospectively.

The adoption of these new standards did not have a material impact on the Company's consolidated financial statements.

Recent accounting pronouncements issued and not yet applied:

CICA Section 3064, *Goodwill and Intangible Assets*, was revised in February 2008 and replaces Section 3062, *Goodwill and Intangible Assets* and Section 3450, *Research and Development Costs*. The new

section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets and is effective for the period commencing November 1, 2008. The Company is assessing the impact of the new standard on its financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan the AcSB confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP over a transition period which will end in 2011, when IFRS will be fully adopted for profit-oriented publicly accountable enterprises. The Company will be required to report its results in accordance with IFRS starting in fiscal 2012 and is assessing the potential impact of this changeover.

Results of Operations:

Total revenue for the quarter was \$14.7 million compared to \$13.8 million in the prior year's third quarter. On a year-to-date basis, revenue was \$38.4 million compared to \$42.3 million in the prior year. Revenue in the quarter includes \$3.5 million in license sales compared to \$3.1 million in the prior year's third quarter.

The Syntellect Division contributed \$11.9 million in revenue in the quarter, up from \$11.4 million in the third quarter of fiscal 2007 and includes the results of Fluency Voice Technology Limited ("Fluency") since the date of acquisition on May 31, 2008. On a year-to-date basis, the Syntellect Division has contributed revenue of \$31.3 million compared to \$35.3 million in the prior year. The year-to-date decrease is attributable to decreased license sales and to the impact of foreign exchange on the largely U.S. dollar denominated revenue stream. The Company translated its U.S. dollar denominated revenue at 1.0074 for the third quarter and 0.9968 on a year to date basis compared to 1.0800 and 1.1301 for the third quarter and year to date of fiscal 2007, respectively.

The Asset Management Division contributed \$2.8 million in revenue in the current year's third quarter, compared to \$2.4 million reported in the third quarter of fiscal 2007 for a total year-to-date revenue contribution of \$7.0 million in both the current and prior years. These results include the operations of Gamma Projects Limited ("Gamma") since the date of acquisition, March 31, 2008.

Cost of sales for the quarter increased to \$5.7 million compared to \$4.4 million in the prior year's third quarter as a result of increased third party software license sales in the quarter in the Syntellect Division. On a year-to-date basis, cost of sales was \$14.6 million compared to \$13.7 million in the prior year and reflects increased proportional contributions from lower margin services and third party software license revenue.

Operating expenses for the quarter were \$7.7 million compared to \$7.5 million reported in the third quarter of last year. On a year-to-date basis, operating expenses were \$21.5 million compared to \$23.1 million in the prior year as a result of the benefit derived from translating U.S. dollar denominated expenses into Canadian dollars at lower exchange rates in the current fiscal year. The third quarter's selling, general and administrative costs reflect incremental expenses associated with the operations of Gamma and Fluency since the dates of acquisition as well as increased headcount costs in the Syntellect Division. Operating expenses also include non-cash charges related to compensation expense attributed to stock options granted, which added \$0.1 million in both the current and prior year's third quarters and \$0.2 million year-to-date compared to \$0.3 million in the prior year.

Non-cash charges for amortization of acquired software and other intangibles related to prior acquisitions as well as to the acquisitions of Gamma and Fluency were \$1.6 million, compared to the prior year's third quarter non-cash charges of \$1.5 million. On a year-to-date basis, amortization has increased by \$0.1 million as a result of the acquisitions of Gamma and Fluency.

During the third quarter, the Company recognized interest income of \$0.7 million compared to \$1.2 million in the third quarter of fiscal 2007 as a result of declining yields on investments. The Company recorded

\$0.4 million in other income from the sale of patents in the quarter but recorded no other income in respect of gains on the sale of equity positions in either of the current or prior year's third quarters. On a year-to-date basis, the Company generated other income of \$0.8 million, which is comparable to that recorded in the prior year.

The Company established a tax provision of \$0.9 million for a 35.3% effective tax rate in the third quarter as compared to a provision of \$1.1 million and a 35.8% effective rate in the prior year's third quarter. On a year-to-date basis, the Company provided \$2.0 million in taxes compared to \$3.4 million in the prior fiscal year, at an effective tax rate of 35.6% for the year. During the third quarter, the Company paid \$0.2 million in tax installments compared to \$0.7 million in the prior year's third quarter.

Net income was \$1.58 million, or \$0.06 per diluted share in the third quarter compared to \$2.04 million or \$0.08 per share respectively in the third quarter of fiscal 2007. On a year-to-date basis, net income was \$3.67 million in the current year compared to \$6.17 million in the prior year, or \$0.14 and \$0.23 per diluted share, respectively.

Liquidity and Capital Resources:

The Company closed the quarter with cash and short-term investments of \$103.2 million, an increase from the year end balance of \$100.5 million as a result of cash generated from operations of \$6.3 million year-to-date and after payment of the acquisitions of Gamma and Fluency. In comparison, the Company generated \$14.0 million in operating cash flows in the prior year. In the third quarter, Enghouse generated \$2.3 million in cash from operations compared to \$4.3 million in the prior year's third quarter. The Company continues to have no long-term debt and has sufficient cash resources to fund both its current and future financial operating commitments. The Company's short-term investment portfolio does not include any asset-backed securities. The Company had 25,496,624 Common Shares outstanding as at September 9, 2008 and repurchased 39,900 shares of its common stock under its Normal Course Issuer Bid in the third quarter for \$0.2 million (Q3-2007 – 314,100 shares at a cost of \$2.4 million). During the current quarter the Company paid an eligible quarterly dividend of \$0.025 per share and on August 29, 2008 the Company paid a further \$0.025 per share eligible quarterly dividend.

Risks and Uncertainties:

The primary risks and uncertainties that affect or may affect the Company and its business, financial condition, and results of operations are 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, 2007, contained in the Company's 2007 Annual Report to Shareholders and all such risks and uncertainties are incorporated herein by reference.

Internal Control over Financial Reporting:

The Company's Chief Executive Officer and Vice President Finance are responsible for designing internal control 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 Canadian GAAP. There were no changes to the Company's internal control over financial reporting during the quarter ended July 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Notice of No Auditor Review of Interim Financial Statements

The accompanying unaudited interim financial statements of the Company for the three and nine months ended July 31, 2008 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.

Consolidated Balance Sheets

(in thousands of Canadian dollars)

(Unaudited)

	July 31, 2008	October 31, 2007
Assets		
Current Assets:		
Cash	\$ 7,900	\$ 11,321
Short-term investments	95,330	89,184
Accounts receivable, net	12,551	10,376
Future income taxes	1,785	1,359
Prepaid expenses and other assets	2,263	1,488
	<u>119,829</u>	<u>113,728</u>
Property and equipment	2,245	1,930
Acquired software and other intangibles	14,435	15,819
Goodwill	14,746	10,652
Future income taxes	6,574	4,128
	<u>\$ 157,829</u>	<u>\$ 146,257</u>
Liabilities		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 11,729	\$ 9,258
Income taxes payable	6,523	7,342
Dividend payable	637	629
Deferred revenue	16,006	12,602
	<u>34,895</u>	<u>29,831</u>
Future income taxes	8,794	7,964
Deferred revenue	683	953
	<u>44,372</u>	<u>38,748</u>
Shareholders' Equity		
Share capital	50,366	48,670
Contributed surplus	1,986	1,771
Retained earnings	70,329	69,931
Accumulated other comprehensive loss	(9,224)	(12,863)
	<u>113,457</u>	<u>107,509</u>
	<u>\$ 157,829</u>	<u>\$ 146,257</u>

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

Consolidated Statements of Operations and Retained Earnings

(in thousands of Canadian dollars except per share amounts)

(Unaudited)

	Three months ended July 31		Nine months ended July 31	
	2008	2007	2008	2007
Revenue				
Software licenses	\$ 3,517	\$ 3,133	\$ 7,819	\$ 8,973
Services	10,742	10,249	29,359	31,882
Hardware	434	448	1,183	1,439
	14,693	13,830	38,361	42,294
Cost of Sales				
Software licenses	995	387	2,013	1,554
Services	4,370	3,712	11,643	11,017
Hardware	353	312	964	1,101
	5,718	4,411	14,620	13,672
Gross Margin	8,975	9,419	23,741	28,622
Operating expenses				
Selling, general and administrative	3,588	3,710	10,108	11,546
Research and development	2,195	2,005	5,929	6,120
Stock based compensation	75	112	217	332
Amortization of property and equipment	263	180	691	612
Amortization of acquired software and other intangibles	1,570	1,483	4,512	4,430
	7,691	7,490	21,457	23,040
Income before the undernoted	1,284	1,929	2,284	5,582
Interest income, net	723	1,240	2,641	3,218
Other income	441	-	768	810
Income before income taxes	2,448	3,169	5,693	9,610
Provision for income taxes	864	1,134	2,024	3,445
Net income for the period	\$ 1,584	\$ 2,035	\$ 3,669	\$ 6,165
Retained Earnings, beginning of period	\$ 69,548	\$ 71,633	\$ 69,931	\$ 68,367
Dividends	(637)	(629)	(1,901)	(1,266)
Purchase and cancellation of common shares	(166)	(1,824)	(1,370)	(2,051)
Retained Earnings, end of period	\$ 70,329	\$ 71,215	\$ 70,329	\$ 71,215
Earnings per share				
Basic	\$ 0.06	\$ 0.08	\$ 0.15	\$ 0.24
Diluted	\$ 0.06	\$ 0.08	\$ 0.14	\$ 0.23
Weighted average shares outstanding during period (millions)				
- basic	25.2	25.4	25.3	25.4
- diluted	25.8	26.3	25.9	26.3

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

Consolidated Statements of Comprehensive Income (Loss)

(in thousands of Canadian dollars)

(Unaudited)

	Three months ended July 31		Nine months ended July 31	
	2008	2007	2008	2007
Net income for the period	\$ 1,584	\$ 2,035	\$ 3,669	\$ 6,165
Other comprehensive income (loss):				
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations	955	(547)	3,579	(1,358)
Transfer to net income of realized gains on available for sale investments, net of tax of nil (year-to-date \$118)	-	-	(209)	(518)
Unrealized (loss) gain on available for sale investments, net of tax of (\$69) (year-to-date - \$138)	(122)	11	244	941
Unrealized foreign currency translation gain (loss) on available for sale investments, net of tax of \$31 (year-to-date - \$14)	55	(66)	25	(56)
Other comprehensive income (loss)	\$ 888	\$ (602)	\$ 3,639	\$ (991)
Comprehensive income	\$ 2,472	\$ 1,433	\$ 7,308	\$ 5,174
Accumulated other comprehensive loss, beginning of period	\$(10,112)	\$ (6,241)	\$(12,863)	\$ (5,852)
Other comprehensive income (loss)	888	(602)	3,639	(991)
Accumulated other comprehensive loss, end of period	\$ (9,224)	\$ (6,843)	\$ (9,224)	\$ (6,843)

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

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)

	For the three months ended July 31		For the nine months ended July 31	
	2008	2007	2008	2007
Cash flows from operating activities:				
Net income for the period	\$ 1,584	\$ 2,035	\$ 3,669	\$ 6,165
Add (deduct) items not involving cash:				
Amortization of property and equipment	263	180	691	612
Amortization of acquired software and other intangibles	1,570	1,483	4,512	4,430
Stock-based compensation expense	75	112	217	332
Gain on sale of short-term investments	-	-	(327)	(810)
Gain on sale of patents	(441)	-	(441)	-
Future income taxes	(18)	199	(1,380)	203
	3,033	4,009	6,941	10,932
Changes in operating assets and liabilities				
(Increase) decrease in accounts receivable, net	(171)	546	1,140	4,916
(Increase) decrease in prepaid expenses and other assets	(36)	159	(438)	101
Increase (decrease) in accounts payable and accrued liabilities	355	(202)	(246)	(2,007)
Increase (decrease) in current income taxes payable	602	(47)	(984)	(1,301)
(Decrease) increase in deferred revenue	(818)	(306)	271	1,277
Unrealized foreign exchange (loss) gain	(654)	135	(365)	36
Cash flows from operating activities	2,311	4,294	6,319	13,954
Cash flows from investing activities				
Purchase of property and equipment	(356)	(699)	(796)	(972)
Acquisitions, net of cash acquired (Note 4)	(2,467)	-	(4,742)	(2,210)
Proceeds from sale of patents	441	-	441	-
Net (purchase) sale of short-term investments	(4,229)	(330)	(3,919)	1,178
	(6,611)	(1,029)	(9,016)	(2,004)
Cash flows from financing activities				
Issuance of share capital	1,076	110	2,285	151
Payment of cash dividend	(629)	(637)	(1,893)	(637)
Purchase and cancellation of common shares	(242)	(2,423)	(1,959)	(2,724)
	205	(2,950)	(1,567)	(3,210)
Effect of foreign exchange rate changes on cash	141	(467)	843	(779)
Net (decrease) increase in cash during the period	(3,954)	(152)	(3,421)	7,961
Cash – Beginning of period	11,854	13,715	11,321	5,602
Cash – End of period	\$ 7,900	\$ 13,563	\$ 7,900	\$13,563
Supplementary Cash Flow Information:				
Cash paid during the year for				
Income taxes	\$ 195	\$ 738	\$ 3,485	\$ 4,624

Cash excludes short-term investments

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

Notes to Interim Consolidated Financial Statements

(Unaudited)

July 31, 2008 and 2007

(in thousands of Canadian dollars)

1. Significant Accounting Policies

These unaudited interim consolidated financial statements have been prepared in Canadian dollars in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and follow the same accounting policies and methods of application as the October 31, 2007 annual audited consolidated financial statements, with the exception of accounting for certain disclosures related to new accounting policies. These interim consolidated financial statements do not conform in all respects with disclosures required for annual financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis contained in the Company's Annual Report for the fiscal year ended October 31, 2007.

(a) Changes in accounting policy:

Effective November 1, 2007 the Company adopted the following standards related to recent accounting pronouncements.

CICA Section 1535, *Capital Disclosures*, establishes disclosure requirements about an entity's capital and how it is managed. The new standard requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what an entity regards as capital and whether the entity has complied with any externally imposed capital requirements and the consequences of any non-compliance.

CICA Sections 3862, *Financial Instruments – Disclosures*, and 3863 *Financial Instruments – Presentation*, replace Section 3861 *Financial Instruments – Disclosure and Presentation*, revising and enhancing disclosure requirements while carrying forward its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

CICA Section 1506, *Accounting Changes*, was revised in July 2006 and applies to interim and annual financial statements related to fiscal years beginning on or after January 1, 2007. The new standard requires that voluntary changes in accounting policy can only be made if the change results in financial statements that provide reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable and that prior period errors are corrected retrospectively.

The adoption of these new standards did not have a material impact on the Company's consolidated financial statements. The additional disclosures, required as a result of the adoption of these standards, have been included in Note 7, Capital Disclosures and Note 8, Financial Instruments.

(b) Recent accounting pronouncements issued and not yet applied:

CICA Section 3064, *Goodwill and Intangible Assets*, was revised in February 2008 and replaces Section 3062, *Goodwill and Intangible Assets* and Section 3450, *Research and Development Costs*. The new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets and is effective for the period commencing November 1, 2008. The Company is assessing the impact of the new standard on its financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan the AcSB confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP over a transition period which will end in 2011, when IFRS will be fully adopted for profit-oriented publicly accountable enterprises. The Company will be required to report its results in accordance with IFRS starting in fiscal 2012 and is assessing the potential impact of this changeover.

Notes to Interim Consolidated Financial Statements

(Unaudited)

July 31, 2008 and 2007

(in thousands of Canadian dollars)

2. Short-term investments

Short-term investments consist of the following:

	July 31, 2008		October 31, 2007	
	Cost	Market Value	Cost	Market Value
Mutual/money market funds	\$ 43,859	\$ 43,859	\$ 19,165	\$ 19,166
Commercial paper	20,857	20,842	42,340	42,345
Banker's acceptances	18,978	18,978	1,347	1,347
Corporate bonds	10,000	10,048	25,282	25,259
Equities	1,636	1,636	1,050	1,050
Total	\$ 95,330	\$ 95,363	\$ 89,184	\$ 89,167

3. Segmented Information

The Company has two reportable segments, the Syntellect Division and Asset Management Division, 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 reportable segments each develop and market software products and provide services for their respective markets. The Syntellect Division, which also includes the operations of Fluency Voice Technology Limited since the date of acquisition, May 31, 2008 and develops, markets and integrates self-service software solutions including voice and speech based applications as well as traditional Interactive Voice Response (IVR) systems, with a vertical market focus on the financial services, media, telecommunications, public utility and healthcare industries. The Asset Management Division, which includes the results of operations of Gamma Projects Limited since the date of acquisition, March 31, 2008, develops, markets and provides services related to visual based network management software solutions to customers in the telecommunications, cable, electric, gas and public and private transit markets. The Company evaluates segment performance based on revenue and profit or loss before investment income and income taxes.

Notes to Interim Consolidated Financial Statements

(Unaudited)

July 31, 2008 and 2007

(in thousands of Canadian dollars)

	Syntellect Division	Asset Management Division	Total
Three months ended July 31, 2008			
Revenue	\$ 11,857	\$ 2,836	\$ 14,693
Amortization of property and equipment	\$ 204	\$ 59	\$ 263
Amortization of acquired software and intangibles	\$ 1,396	\$ 174	\$ 1,570
Segment profit	<u>\$ 1,561</u>	<u>\$ 136</u>	\$ 1,697
Corporate expense			(517)
Foreign exchange			104
Other income			441
Interest income			723
Interest expense			-
Income before income taxes			<u>\$ 2,448</u>
Goodwill	\$ 11,856	\$ 2,890	\$ 14,746
Other assets	\$ 34,396	\$ 13,357	47,753
Corporate assets including cash and short-term investments			95,330
Total Assets			<u>\$ 157,829</u>

	Syntellect Division	Asset Management Division	Total
Three months ended July 31, 2007			
Revenue	\$ 11,432	\$ 2,398	\$ 13,830
Amortization of property and equipment	\$ 142	\$ 38	\$ 180
Amortization of acquired software and intangibles	\$ 1,348	\$ 135	\$ 1,483
Segment profit	<u>\$ 2,364</u>	<u>\$ 42</u>	\$ 2,406
Corporate expense			(492)
Foreign exchange			15
Other income			-
Interest income			1,240
Interest expense			-
Income before income taxes			<u>\$ 3,169</u>
Goodwill	\$ 10,430	\$ 3,577	\$ 14,007
Other assets	\$ 41,368	\$ 10,089	51,457
Corporate assets including cash and short-term investments			91,758
Total Assets			<u>\$ 157,222</u>

Notes to Interim Consolidated Financial Statements

(Unaudited)

July 31, 2008 and 2007

(in thousands of Canadian dollars)

	Syntellect Division	Asset Management Division	Total
Nine months ended July 31, 2008			
Revenue	\$ 31,314	\$ 7,047	\$ 38,361
Amortization of property and equipment	\$ 537	\$ 154	\$ 691
Amortization of acquired software and intangibles	\$ 4,068	\$ 444	\$ 4,512
Segment profit	<u>\$ 3,904</u>	<u>\$ (413)</u>	\$ 3,491
Corporate expense			(1,612)
Foreign exchange			405
Other income			768
Interest income			2,641
Interest expense			-
Income before income taxes			<u>\$ 5,693</u>

	Syntellect Division	Asset Management Division	Total
Nine months ended July 31, 2007			
Revenue	\$ 35,259	\$ 7,035	\$ 42,294
Amortization of property and equipment	\$ 523	\$ 89	\$ 612
Amortization of acquired software and intangibles	\$ 4,078	\$ 352	\$ 4,430
Segment profit	<u>\$ 6,728</u>	<u>\$ 563</u>	\$ 7,291
Corporate expense			(1,627)
Foreign exchange			(82)
Other income			810
Interest income			3,218
Interest expense			-
Income before income taxes			<u>\$ 9,610</u>

4. Acquisitions

Fluency Voice Technology Limited

On May 31, 2008, Syntellect Limited, a wholly owned subsidiary of Enghouse, acquired 100% of the issued and outstanding common shares of Fluency Voice Technology Limited ("Fluency") for a nominal sum and acquired debt of \$2.2 million and incurred transaction costs of \$0.5 million. As part of the acquisition, an additional amount may be payable based on revenues recognized before December 31, 2008 from certain Fluency customers. Fluency provides on-premise and hosted packaged speech recognition solutions for call centers to improve customer service and significantly reduce costs.

Notes to Interim Consolidated Financial Statements

(Unaudited)

July 31, 2008 and 2007

(in thousands of Canadian dollars)

Gamma Projects Limited

On March 31, 2008, Enghouse UK Limited, a wholly owned subsidiary of Enghouse, acquired 100% of the issued and outstanding common shares of Gamma Projects Limited ("Gamma") for a cash purchase price of \$2.7 million including transaction costs. Of this total \$0.4 million is subject to a holdback and is payable January 1, 2009. Gamma provides network infrastructure management software solutions (collectively known as Gamma NetOne) and consultancy services for telecommunications operators and equipment vendors.

The acquisitions have been recorded under the purchase method of accounting and results have been included in the consolidated statements of operations from the acquisition dates. Accordingly, the allocation of the purchase price to assets and liabilities is based on their fair value, with the excess of the purchase price over the fair value of the assets acquired being allocated to goodwill. Management has established the preliminary purchase price allocation taking into account all relevant information at the time of preparing these notes to consolidated financial statements. However, the preliminary purchase price allocation is subject to further refinements.

Goodwill is not amortized but is assessed annually for any potential impairment in value. Other intangibles representing acquired software and customer relationships are being amortized over a period of five and seven years, respectively for Gamma and four and six years respectively for Fluency.

The Company's preliminary purchase price allocations are as follows:

	Fluency	Gamma
Cash	\$ 263	\$ 405
Accounts receivable, net	1,461	1,217
Prepays and other current assets	183	39
Property and equipment	163	67
Future income tax assets	977	505
Acquired software	698	640
Other intangibles	915	510
Goodwill	2,198	1,267
Total assets acquired	<u>6,858</u>	<u>4,650</u>
Less: Current liabilities assumed	(3,677)	(1,648)
Less: Future income tax liabilities	(452)	(322)
Total liabilities assumed	<u>(4,129)</u>	<u>(1,970)</u>
Net assets acquired	<u>\$ 2,729</u>	<u>\$ 2,680</u>

5. Dividends

In March 2007, the Company announced its plans to commence paying an eligible dividend of \$0.025 per common share per quarter. The Company has paid regular quarterly dividends since that date, commencing May 31, 2007. On June 3, 2008 the Company declared an eligible dividend, which was paid on August 29, 2008 to shareholders of record as of August 14, 2008 of \$637 which is reflected as a liability of the Company on the balance sheet as at July 31, 2008.

6. Litigation and Contingencies

Apropos Technology, Inc. ("Apropos"), an indirect wholly owned subsidiary of the Company, was named as a defendant in a shareholder class action litigation suit filed in federal court in New York City in November 2001 against Apropos and certain of its former directors and officers and the underwriters of Apropos' initial public

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offering ("IPO"). This lawsuit alleges that the prospectus and registration statement for the IPO failed to disclose that the underwriters allegedly solicited and received excessive commissions from investors and that some of the investors in the IPO allegedly agreed with the underwriters to buy additional shares in the aftermarket in order to inflate the price of Apropos' stock. The Company understands that approximately 300 other publicly traded companies and their public offering underwriters have had similar suits filed against them.

In June 2003, Apropos and certain issuer defendants entered into a proposed settlement which will be funded from participating issuers' directors and officers insurance proceeds, less any settlement amounts by the underwriter defendants.

Prior to consummation of the proposed settlement on December 5, 2006, the Third Circuit Court of Appeals issued a ruling concerning class certification that may complicate or prevent final approval of the proposed settlement by the issuer plaintiffs. The Court of Appeals concluded that no class of IPO purchasers can appropriately be certified as the issues are not common among all class members. In light of this Court of Appeals ruling, it appears that the plaintiffs would need to pursue whatever claims they have against the underwriters on an individual, non-class-action basis. A petition seeking a rehearing of this December 5, 2006 ruling was denied by the Court on April 6, 2007. All proceedings against Apropos and the 300 other publicly traded companies have been stayed pending further submissions to the Court regarding class certification. It is not expected that the Court will provide a further ruling on class certification until late 2008, at the earliest. As a result of the Court's ruling on the class certification, the viability of the proposed settlement cannot yet be determined. Apropos expects that its insurance proceeds will be sufficient to cover its allocable share of the settlement costs, if any.

General

The Company provides its customers 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. The Company is not aware of any claims or allegations having been made by any third party patent holder that a specific product offered by the Company infringes any third party patent claim. If the Company is involved in litigation, under a contractual indemnity or any other legal theory, the Company will assert all appropriate defenses.

7. Capital Disclosures

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to deploy capital to provide an appropriate return on investment to its shareholders. The capital structure of the Company consists of shareholder's equity comprised of retained earnings, share capital and accumulated other comprehensive income or loss amounts relating to available for sale securities and cumulative translation adjustments. The Company does not have any long-term debt. The Company manages its capital structure and makes adjustments to it in light of

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economic conditions and the risk characteristics of the underlying assets. The Company's primary uses of capital are to finance non-cash working capital requirements, capital expenditures and acquisitions, which are currently funded from its internally-generated cash flows.

The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital. There has been no change with respect to the overall capital risk management strategy during the quarter ended July 31, 2008.

8. Financial Instruments

Financial assets and financial liabilities are initially recorded at fair value and are subsequently measured based on their classification as described below. The Company classifies its financial instruments into various categories based on the purpose for which the financial instruments were acquired and their characteristics.

Held for trading

Financial assets that are purchased and held with the intention of generating profits in the short-term are classified as held for trading. These investments are accounted for at fair value with the change in fair value recognized in net earnings during the period. No investments are classified as held for trading as of July 31, 2008.

Held-to-maturity

Securities that have a fixed maturity date and which the Company has a positive intention and ability to hold to maturity are classified as held-to-maturity and are accounted for at amortized cost using the effective interest rate method. The Company accrues interest income over the expected life of each instrument. The Company does not recognize gains and losses arising from changes in the fair value of these instruments until the gains and losses are realized, or there is impairment in the value of an asset. When recognized, such gains and losses are recorded directly in net income. The Company's cash, banker's acceptances, mutual /money market funds, bonds and commercial paper are classified as held-to-maturity investments. The Company does not own any asset-backed commercial paper.

Available-for-sale

Available-for sale investments are carried at fair market value, except where the instrument does not have a quoted market price in an active market, with foreign exchange and revaluation gains and losses included in other comprehensive income or loss until the gains and losses are realized when equities are sold in the market or there is impairment in the value. The Company considers its portfolio equity investments to be available for sale assets. The equities held by the Company are those of publicly traded companies whose fair values are determined by the quoted market values for each investment at the balance sheet date. The fair value of the Company's equity portfolio is subject to fluctuations in equity markets and is denominated in U.S. dollars as at July 31, 2008.

Receivables

The Company's accounts receivable are classified as loans and receivables and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurement of trade receivables is at amortized cost, which usually corresponds to the amount initially recorded less any allowance for doubtful accounts.

Financial liabilities

Accounts payable, accrued liabilities and dividends payable are classified as other financial liabilities and are measured at amortized cost.

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Fair value of financial instruments

The Company has determined the fair value of its cash, accounts receivable and financial liabilities approximates their respective carrying amounts as at the balance sheet dates due to their short-term nature.

Risk management

The Company, through its financial assets and liabilities is exposed to risks of varying degrees of significance which could impact its ability to achieve its strategic growth objectives. The main objective of the Company's risk management process is to ensure that risks are properly identified and addressed.

The Company manages its short-term investment portfolio to maximize returns, maintain liquidity and diversify its credit risk exposure to safeguard its principal. To achieve this objective, the Company has established an investment committee consisting of the Company's Chief Executive Officer, Vice President Finance and Chairman of the Audit Committee. The Company has also adopted a formal investment policy to govern the management of the Company's investment portfolio, which specifies eligible investments, investment limits, minimum allowable credit ratings of investments and the permissible concentration of credit risk. The Company does not enter into any hedge transactions in its investment portfolio and is not party to any derivative financial instruments.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's accounts receivable. The amounts reported in the balance sheet are net of allowances for bad debts, estimated by the Company's management based on prior experience and their assessment of the current economic environment. The Company reviews its trade receivable accounts regularly and reduces amounts to their expected realizable values by adjusting the allowance for doubtful accounts as soon as the account is determined not to be fully collectible. The Company believes that its credit risk with respect to accounts receivable is limited for a number of reasons including dealing primarily with large companies and governmental agencies, diversifying its customer base across varying industries and geographic locations, regular management review, negotiating progress payments as contracts are executed and past experience with bad debt expenses. The Company historically has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area. Approximately 36% of the Company's receivable balances as at July 31, 2008 were from customers in Europe/Africa/Middle East, while the balance was from North American customers.

The Company's trade receivables had a carrying value of \$12,551 as at July 31, 2008, representing the maximum exposure to credit risk of those financial assets, exclusive of the allowance for doubtful accounts of \$2,020. The Company's allowance for doubtful accounts increased from \$1,173 as at April 30, 2008 to reflect allowances recorded on the acquisition of Fluency Voice Technology Limited. The definition of items that are past due is determined by reference to payment terms agreed to with individual customers, which are normally within 30 to 60 days. Approximately 31% of trade receivables were past due as at July 31, 2008, of which \$3,640 was outstanding more than 90 days, compared to 34% past due as at April, 2008. Subsequent to the quarter end \$685 of the past due balances were collected.

The Company limits its exposure to credit risks from counter-parties to financial instruments by dealing with only major financial institutions and large multi-national corporations with high credit-ratings, investing only in high grade investment products and limiting exposure to any one financial institution, commercial issuer or investment type and limits the term of maturity. Management does not expect any counter-parties to fail to meet their obligations. The carrying amount of financial assets represents the maximum credit exposure to the Company.

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Foreign exchange risk

Foreign currency risk is related to the portion of the Company's business transactions denominated in currencies other than Canadian dollars, the majority of which relates to fluctuations in the value of the Canadian dollar relative to that of the U.S. dollar. The majority of the Company's revenues are derived from sales to customers in the United States, while operating expenses incurred in U.S. dollars are primarily in the Company's Syntellect Division. The Company's head office expenses are incurred in Canadian dollars. The Company attempts, wherever possible, to match cash outlays with cash inflows in the same currency. The Company's revenue denominated in U.S. dollars generates sufficient U.S. dollars to cover its annual U.S. dollar operating costs and act as a natural hedge against exchange rate fluctuations.

For the Company's foreign currency transactions, fluctuations in the respective exchange rates relative to the Canadian dollar will create volatility in the Company's cash flows and the reported amounts for revenue and selling, general and administrative expenses on a period-to-period basis.

Additional earnings volatility arises from the translation of monetary assets and liabilities denominated in currencies other than Canadian dollars at the rates of exchange at each balance sheet date, the impact of which is reported as a foreign exchange gain or loss included in the Company's selling, general and administrative expenses. For the quarter ended July 31, 2008 the Company reported foreign exchange gains of \$0.1 million, compared to nominal gains in the third quarter of fiscal 2007. During the third quarter of fiscal 2008 the exchange rate for U.S. dollars to Canadian dollars averaged \$1.00, compared to \$1.08 in the third quarter of fiscal 2007. If exchange rates were to fluctuate by 10%, the exchange gain or loss on our net monetary assets could be valued at plus or minus \$469 due to the fluctuation and would be recorded in the consolidated statement of operations.

Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to ensure that it has sufficient liquidity to meet its obligations, mainly accounts payable, accrued liabilities and deferred revenue, when due.

The Company does not have any short-term borrowing or debt facilities and settles its financial obligations out of cash. The ability to do so relies on the Company's ability to generate cash from operations and collect accounts receivable in a timely manner and by maintaining sufficient cash on hand. As at July 31, 2008 the Company's current liabilities, all of which fall due for payment within twelve months of the balance sheet date, were \$34,895. The Company has sufficient funds to settle current liabilities.

Interest rate risk

Interest rate risk arises because of the fluctuation in interest rates. The Company is subject to interest rate risk on its cash and short-term investments. If a shift in interest rates of 10% were to occur, interest income would be increased or decreased by approximately \$91 per quarter. The Company is not exposed to interest rate risk on debt as the Company has no long-term debt.