



Third Quarter Report
July 31, 2009

Enghouse Systems Limited

September 3, 2009

To our Shareholders,

Third quarter revenue was \$23.4 million, compared to \$14.7 million reported in the same period last year, an increase of approximately 59%. Net income for the third quarter was \$2.4 million or \$0.10 per share on a diluted basis compared to the prior year's third quarter net income of \$1.6 million or \$0.06 per share. The increase in revenue was the result of increased license and services revenue in the Company's traditional Syntellect Division operations as well as incremental revenue from recent acquisitions, Trio Enterprise AB ("Trio"), acquired April 1, 2009 and Envox, acquired on October 20, 2008 and the favourable impact of foreign exchange on the conversion of U.S. dollar revenue into Canadian dollars.

Operating expenses increased to \$10.6 million from \$6.2 million in the prior year's third quarter and include incremental operating costs related to acquisitions and the impact of foreign exchange on U.S. dollar denominated operating expenses converted to Canadian dollars. Non-cash amortization charges were \$1.8 million compared to \$1.6 million in the prior year's third quarter and includes amortization charges for acquired software and other intangibles from acquired operations including Envox and Trio.

The Company generated cash flows from operations of \$7.2 million in the third quarter compared to \$2.3 million in the prior year's third quarter, closing the quarter with \$91.8 million in cash and short-term investments compared to \$94.4 million at October 31, 2008. The Company continues to have no long-term debt. Since October 2008, the Company has spent \$7.4 million on acquisitions and \$2.0 million on dividend payments. In addition, the Company remains active in its normal course issuer buyback, repurchasing 44,100 common shares in the quarter at an average cost of \$5.89 per share for a total cost of \$0.3 million. On a year to date basis the Company has repurchased 936,924 common shares for a total cost of \$4.5 million or \$4.78 per share. Total cash spent on acquisitions, share buybacks and dividends to shareholders since October 31, 2008 was \$13.9 million.

The Board of Directors today authorized an eligible quarterly dividend of \$0.03 per common share, payable on November 30, 2009 to shareholders of record at the close of business on November 16, 2009. The Company remains committed to its strategy of seeking further acquisitions to continue to diversify its revenue stream and expand its market presence.



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 3, 2009 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, 2009 and 2008, as well as the Company's audited Consolidated Financial Statements and Management's Discussion and Analysis for the fiscal year ended October 31, 2008, contained in the Company's 2008 Annual Report to Shareholders. Unless otherwise stated, all references to currency are in Canadian dollars.

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, 2008, contained in the Company's 2008 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, 2008.

Changes in accounting policy:

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

CICA Section 1400, *General Standards of Financial Statement Presentation* requires management to assess and disclose any uncertainties that cast significant doubt on an entity's ability to continue as a going concern. The adoption of this new standard did not have an impact on the Company's consolidated financial statements.

In January 2009, the CICA issued Emerging Issue Committee Abstract 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC 173")*, which requires the consideration of the Company's own credit risk and the credit risk of the Company's counterparty when determining the fair value of financial assets and liabilities. The adoption of these new recommendations has had no significant impact on the Company's unaudited consolidated interim financial statements.

Recent accounting pronouncements issued and not yet applied:

In January 2009, CICA Section 1582, *Business Combinations* was issued replacing Section 1581 *Business Combinations*. The Section establishes standards for the accounting for business combinations and provides the Canadian equivalent to the International Financial Reporting Standards ("IFRS") standard, IFRS 3 (revised), *Business Combinations*. The Section applies prospectively to business combinations for

which the acquisition date is on or after October 1, 2011 and allows for earlier application. CICA Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-Controlling Interests* were issued replacing Section 1600, *Consolidated Financial Statements*. These sections establish standards for the preparation of consolidated financial statements and accounting for non-controlling interest in a subsidiary subsequent to a business combination. The sections are equivalent to the corresponding provisions of the IFRS standard, IAS 27 (revised), *Consolidated and Separate Financial Statements*. The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after October 1, 2011 and allows for earlier adoption. The Company is currently evaluating the impact of the adoption of these new Standards.

In June 2009, the CICA amended Section 3862 *Financial Instruments – Disclosures*, to include additional disclosure requirements about fair value measurements of financial instruments and enhanced liquidity risk disclosures. The amendments to the Section apply to annual financial statements for fiscal years ending after September 30, 2009. The Company is currently assessing the impact of the adoption of these amendments on its consolidated 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 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 \$23.4 million compared to \$14.7 million in the prior year’s third quarter and includes license revenue of \$7.9 million compared to \$3.5 million in the prior year’s third quarter. Services revenue was \$13.7 million compared to \$10.7 million in the prior year’s third quarter. The increase in revenue is attributable to contributions from the acquisitions of Envov and Trio Enterprise AB (“Trio”), acquired October 20, 2008 and April 1, 2009 respectively, and to the favourable impact of foreign exchange on the conversion of U.S. dollar revenue into Canadian dollars compared to the prior year’s third quarter. During the third quarter the average foreign exchange rate used to convert U.S. dollars to Canadian dollars was \$1.15 compared to \$1.01 in the prior year’s third quarter. On a year to date basis, revenue was \$58.4 million compared to \$38.4 million in the prior year and reflects incremental revenue from acquisitions.

The Syntellect Division contributed \$20.9 million in revenue in the quarter, compared to \$11.9 million reported in the third quarter of fiscal 2008. The increase is attributable to incremental revenue contributions from Trio and Envov as well as the impact of the stronger U.S. dollar on revenue translated into Canadian dollars. The Asset Management Division contributed revenue of \$2.5 million in the third quarter, compared to \$2.8 million reported in the third quarter of fiscal 2008 as a result of weaker services revenue.

Cost of sales for the quarter was \$7.6 million or 32.7% of revenue compared to \$5.7 million or 38.9% of revenue in the prior year’s third quarter. The improvement in gross margins is attributable to a larger proportionate contribution from license revenue in the quarter and improved margins on the resale of third party software and hardware. On a year to date basis cost of sales was \$20.3 million or 34.7% compared to \$14.6 million or 38.1%

Operating expenses for the quarter were \$10.6 million, compared to \$6.2 million reported in the third quarter of last year and include the operating costs of Trio and Envov which were not included in the prior year’s third quarter results. The majority of operating expenses continue to be denominated in U.S. dollars and reflect the cost of translating these expenses into Canadian dollars at higher exchange rates than in the third quarter of 2008. On a year to date basis operating expenses were \$27.7 million compared to \$17.4 million, and include increased operating costs of acquisitions.

Non-cash charges for amortization of acquired software and other intangibles related to acquisitions were \$1.8 million, an increase from \$1.6 million in the prior year's third quarter. On a year to date basis, amortization was \$5.5 million compared to \$4.5 million in the prior year and reflects incremental amortization charges related to Gamma, Fluency, Envoy and Trio. The Company recorded foreign exchange gains in both the current and prior year's third quarter of approximately \$0.1 million.

During the third quarter the Company recognized net interest income of \$0.2 million compared to \$0.7 million in the third quarter of fiscal 2008 consistent with the significant decline in interest rates and returns available in the market. The Company reported nominal other income from the sale of equities in the quarter, compared to \$0.4 million in gains reported from the sale of patents in the prior year.

During the quarter, the Company established a tax provision of \$1.2 million or a 33.3% effective tax rate as compared to a provision of \$0.9 million or 35.3% in the prior year's third quarter. The Company paid \$0.3 million in tax installments in the third quarter (\$1.7 million year to date), compared to \$0.2 million in the third quarter of fiscal 2008 (\$3.5 million year to date in 2008).

Net income was \$2.4 million or \$0.10 per share on a diluted basis in the third quarter compared to \$1.6 million and \$0.06 per share respectively in the third quarter of fiscal 2008 as a result of increased license revenue. On a year to date basis, net income was \$4.2 million or \$0.17 per diluted share compared to \$3.7 million or \$0.14 per share in the prior year.

Liquidity and Capital Resources:

The Company closed the quarter with cash of \$91.8 million, compared to the year end balance of \$94.4 million, which is after payment of \$7.1 million for the acquisition of Trio and \$4.5 million for the cost of repurchasing shares. 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 dividend obligations. During the quarter the Company generated cash flow from operations of \$7.2 million compared to \$2.3 million in the third quarter of 2008. The Company repurchased 44,100 shares of its common stock in the third quarter for \$0.3 million at an average price of approximately \$5.89 under its Normal Course Issuer Bid (Q3-2008 – 39,900, \$0.2 million). On a year to date basis, the Company has repurchased 936,924 shares at a total cost of \$4.5 million (\$4.78 per share) compared to 308,500 shares at a cost of \$2.0 million (\$6.35 per share) in the prior fiscal year to date. The Company had 24,878,300 Common Shares issued and outstanding as at September 3, 2009. During the third quarter 2,000 stock options were exercised contributing nominal capital compared to 368,000 options exercised in the third quarter of fiscal 2008, which contributed additional capital of \$1.1 million.

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, 2008, contained in the Company's 2008 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, 2009 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 consolidated interim financial statements of the Company for the three and nine months ended July 31, 2009 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, 2009	October 31, 2008
Assets		
Current		
Cash	\$ 32,235	\$ 12,331
Short-term investments (Note 2)	59,532	82,099
Accounts receivable, net	16,078	17,515
Future income taxes	779	1,895
Prepaid expenses and other assets	2,899	2,947
	<u>111,523</u>	<u>116,787</u>
Property and equipment, net	1,839	2,471
Acquired software and other intangibles, net	24,621	27,373
Goodwill (Note 3)	20,360	21,953
Future income taxes	3,705	3,228
	<u>\$ 162,048</u>	<u>\$ 171,812</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 17,157	\$ 16,490
Income taxes payable	1,394	4,958
Dividend payable (Note 4)	746	636
Deferred revenue	18,029	18,585
	<u>37,326</u>	<u>40,669</u>
Future income taxes	7,360	7,945
Long-term income taxes payable	1,043	1,321
Deferred revenue	218	686
	<u>45,947</u>	<u>50,621</u>
Shareholders' Equity		
Share capital (Note 5)	49,734	50,568
Contributed surplus (Note 5)	1,996	1,827
Retained earnings	71,375	72,015
Accumulated other comprehensive loss	(7,004)	(3,219)
	<u>116,101</u>	<u>121,191</u>
	<u>\$ 162,048</u>	<u>\$ 171,812</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	
	2009	2008	2009	2008
Revenue				
Software licenses	\$ 7,889	\$ 3,517	\$ 17,450	\$ 7,819
Services	13,747	10,742	37,810	29,359
Hardware	1,717	434	3,155	1,183
	23,353	14,693	58,415	38,361
Cost of sales				
Software licenses	1,517	995	3,029	2,013
Services	4,883	4,370	14,751	11,643
Hardware	1,238	353	2,518	964
	7,638	5,718	20,298	14,620
Gross margin	15,715	8,975	38,117	23,741
Operating expenses				
Selling, general and administrative	7,118	3,767	17,649	10,728
Research and development	3,152	2,195	9,117	5,931
Amortization of property and equipment	320	263	979	691
	10,590	6,225	27,745	17,350
Income before the undernoted	5,125	2,750	10,372	6,391
Amortization of acquired software and other intangibles	(1,840)	(1,570)	(5,505)	(4,512)
Foreign exchange (loss) gain	107	104	182	405
Interest income, net	228	723	1,175	2,641
Other income	24	441	24	768
Income before income taxes	3,644	2,448	6,248	5,693
Provision for income taxes				
Current	373	937	1,419	2,408
Future	840	(73)	666	(384)
Net income for the period	\$ 2,431	\$ 1,584	\$ 4,163	\$ 3,669
Retained earnings, beginning of period	\$ 69,865	\$ 69,548	\$ 72,015	\$ 69,931
Dividends	(746)	(637)	(2,115)	(1,901)
Purchase and cancellation of common shares	(175)	(166)	(2,688)	(1,370)
Retained earnings, end of period	\$ 71,375	\$ 70,329	\$ 71,375	\$ 70,329
Earnings per share				
Basic	\$ 0.10	\$ 0.06	\$ 0.17	\$ 0.15
Diluted	\$ 0.10	\$ 0.06	\$ 0.17	\$ 0.14
Weighted average shares outstanding during period (millions)				
- basic	24.9	25.2	25.0	25.3
- diluted	25.2	25.8	25.1	25.9

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

**Consolidated Statements of Comprehensive Income and Accumulated Other
Comprehensive Loss**

(in thousands of Canadian dollars)
(Unaudited)

	Three months ended July 31		Nine months ended July 31	
	2009	2008	2009	2008
Net income for the period	\$ 2,431	\$ 1,584	\$ 4,163	\$ 3,669
Other comprehensive (loss) income:				
Unrealized (loss) gain on translating financial statements of self-sustaining foreign operations	(2,891)	955	(3,839)	3,579
Transfer to net income of realized gains on available for sale investments, net of tax of \$8 (nine months - \$88)	(16)	-	(172)	(209)
Unrealized gain (loss) on available for sale investments, net of tax of (\$220) (nine months - (\$259))	429	(122)	(505)	244
Unrealized foreign currency translation gain on available for sale investments, net of tax of \$36 (nine months - \$376)	71	55	731	25
Other comprehensive (loss) income	\$ (2,407)	\$ 888	\$ (3,785)	\$ 3,639
Comprehensive income	\$ 24	\$ 2,472	\$ 378	\$ 7,308
Accumulated other comprehensive loss, beginning of period	\$ (4,597)	\$(10,112)	\$ (3,219)	\$(12,863)
Other comprehensive (loss) income	(2,407)	888	(3,785)	3,639
Accumulated other comprehensive loss, end of period	\$ (7,004)	\$ (9,224)	\$ (7,004)	\$ (9,224)

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	
	2009	2008	2009	2008
Cash flows from operating activities				
Net income for the period	\$ 2,431	\$ 1,584	\$ 4,163	\$ 3,669
Add (deduct) items not involving cash				
Amortization of property and equipment	320	263	979	691
Amortization of acquired software and other intangibles	1,840	1,570	5,505	4,512
Stock-based compensation expense	88	75	169	217
Gain on sale of short-term investments	(24)	-	(24)	(327)
Gain on sale of patents	-	(441)	-	(441)
Future income taxes	840	(73)	666	(384)
Cash flows before changes in operating assets and liabilities	5,495	2,978	11,458	7,937
Changes in operating assets and liabilities				
(Increase) decrease in accounts receivable, net	(1,144)	(171)	3,126	1,140
Decrease (increase) in prepaid expenses and other assets	353	(36)	269	(438)
Increase (decrease) in accounts payable and accrued liabilities	4,103	355	1,622	(246)
Increase (decrease) in current income taxes payable	133	657	(2,377)	(1,980)
(Decrease) increase in deferred revenue	(1,932)	(818)	(60)	271
Unrealized foreign exchange loss (gain)	164	(654)	(144)	(365)
Cash flows from operating activities	7,172	2,311	13,894	6,319
Cash flows from investing activities				
Purchase of property and equipment, net	(98)	(356)	(354)	(796)
Acquisitions, net of cash acquired (Note 6)	(75)	(2,467)	(6,935)	(4,742)
Proceeds from sale of patents	-	441	-	441
Proceeds (purchase) of short-term investments	888	(4,229)	21,168	(3,919)
	715	(6,611)	13,879	(9,016)
Cash flows from financing activities				
Issuance of share capital	5	1,076	955	2,285
Payment of cash dividend	(748)	(629)	(2,005)	(1,893)
Purchase and cancellation of common shares	(259)	(242)	(4,477)	(1,959)
	(1,002)	205	(5,527)	(1,567)
Effect of foreign exchange rate changes on cash	(1,952)	141	(2,342)	843
Net increase (decrease) in cash during the period	4,933	(3,954)	19,904	(3,421)
Cash – beginning of period	27,302	11,854	12,331	11,321
Cash – end of period	\$ 32,235	\$ 7,900	\$ 32,235	\$ 7,900
Supplementary cash flow information:				
Cash paid during the period for income taxes	\$ 289	\$ 195	\$ 1,665	\$ 3,485

Note: Cash excludes short-term investments (Note 2)

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

Notes to Interim Consolidated Financial Statements

(Unaudited)

July 31, 2009 and 2008

(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, 2008 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, 2008.

(a) Changes in accounting policy:

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

CICA Section 1400, *General Standards of Financial Statement Presentation* requires management to assess and disclose any uncertainties that cast significant doubt on an entity's ability to continue as a going concern. The adoption of this new standard did not have an impact on the Company's consolidated financial statements.

In January 2009, the CICA issued Emerging Issue Committee Abstract 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC 173")*, which requires the consideration of the Company's own credit risk and the credit risk of the Company's counterparty when determining the fair value of financial assets and liabilities. The adoption of these new recommendations has had no significant impact on the Company's unaudited consolidated interim financial statements.

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

In January 2009, CICA Section 1582, *Business Combinations* was issued replacing Section 1581 *Business Combinations*. The Section establishes standards for the accounting for business combinations and provides the Canadian equivalent to the International Financial Reporting Standards ("IFRS") standard, IFRS 3 (revised), *Business Combinations*. The Section applies prospectively to business combinations for which the acquisition date is on or after October 1, 2011 and allows for earlier application. CICA Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-Controlling Interests* were issued replacing Section 1600, *Consolidated Financial Statements*. These sections establish standards for the preparation of consolidated financial statements and accounting for non-controlling interest in a subsidiary subsequent to a business combination. The sections are equivalent to the corresponding provisions of the IFRS standard, IAS 27 (revised), *Consolidated and Separate Financial Statements*. The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after October 1, 2011 and allows for earlier adoption. The Company is currently evaluating the impact of the adoption of these new Standards.

In June 2009, the CICA amended Section 3862 *Financial Instruments – Disclosures*, to include additional disclosure requirements about fair value measurements of financial instruments and enhanced liquidity risk disclosures. The amendments to the Section apply to annual financial statements for fiscal years ending after September 30, 2009. The Company is currently assessing the impact of the adoption of these amendments on its consolidated financial statements.

Notes to Interim Consolidated Financial Statements

(Unaudited)

July 31, 2009 and 2008

(in thousands of Canadian dollars)

2. Short-term investments

Short-term investments consist of the following:

	July 31, 2009		October 31, 2008	
	Carrying Value	Market Value	Carrying Value	Market Value
Mutual funds	\$ 34,212	\$ 34,212	\$ 40,457	\$ 40,456
Banker's acceptances	22,139	22,161	30,073	30,077
Corporate bonds	-	-	10,088	10,142
Equities	3,181	3,180	1,481	1,481
Total	\$ 59,532	\$ 59,553	\$ 82,099	\$ 82,156

3. Goodwill

The Continuity of goodwill by reportable segment is as follows:

	July 31, 2009			October 31, 2008		
	Syntellect Division	Asset Management Division	Total	Syntellect Division	Asset Management Division	Total
Opening Balance	\$ 18,919	\$ 3,034	\$ 21,953	\$ 9,017	\$ 1,635	\$ 10,652
Additions, Net	2,210	-	2,210	7,628	1,462	9,090
Acquired tax benefit adjustment	(2,200)	-	(2,200)	(294)	-	(294)
Purchase price adjustments	347	-	347	-	(9)	(9)
Goodwill impairment	-	-	-	-	-	-
Foreign exchange	(2,004)	54	(1,950)	2,568	(54)	2,514
Ending balance	\$ 17,272	\$ 3,088	\$ 20,360	\$ 18,919	\$ 3,034	\$ 21,953

During the nine months ended July 31, 2009 and the twelve months ended October 31, 2008, adjustments for previously unrecognized tax benefits from earlier acquisitions were accounted for as a credit to goodwill. Certain adjustments to the preliminary purchase price allocation related to the acquisition of Envov were booked in the year and resulted in a \$347 increase to goodwill and offsetting reduction to acquired software and customer intangibles.

4. Dividends

The Company's policy is to pay quarterly dividends subject to Board approval, based on the Company's financial results. The Board of Directors determines if and when dividends should be declared and paid based on all relevant circumstances at the relevant time. In March 2007, the Company announced its plans to commence paying an eligible dividend of \$0.025 per common share per quarter, and has paid regular quarterly dividends since that date, commencing May 31, 2007. The Company increased the quarterly eligible dividend to \$0.03 per common share effective for the May 29, 2009 dividend payment. On June 3, 2009 the Company declared an eligible dividend of \$0.03 per common share, which was paid on August 28, 2009 to shareholders of record as of August 15, 2009 of \$746, which is reflected as a liability of the Company on the balance sheet as at July 31, 2009.

Notes to Interim Consolidated Financial Statements

(Unaudited)

July 31, 2009 and 2008

(in thousands of Canadian dollars)

5. Share capital

(A) Authorized

Unlimited common shares

Unlimited Class A, redeemable, retractable, non-voting, non-cumulative, preference shares

Unlimited Class B, redeemable, retractable, non-voting, preference shares

(B) Issued and outstanding

	Number of Common Shares	Share Capital Amount	Contributed Surplus Amount
Balance – October 31, 2007	25,171,124	\$ 48,670	\$ 1,771
Stock options exercised (C)	634,000	2,497	(212)
Stock options expensed (D)	-	-	268
Shares repurchased and cancelled under common share re-purchase plan (E)	(312,400)	(599)	-
Balance – October 31, 2008	25,492,724	\$ 50,568	\$ 1,827
Stock options exercised (C)	322,500	955	-
Stock options expensed (D)	-	-	169
Shares repurchased and cancelled under common share re-purchase plan (E)	(936,924)	(1,789)	-
Balance – July 31, 2009	24,878,300	\$ 49,734	\$ 1,996

There were no Class A and no Class B preference shares issued and outstanding as at July 31, 2009 or October 31, 2008.

(C) Common share purchase options

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 2,120,800 (2008 – 2,443,300) 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 to ten 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 July 31, 2009 and October 31, 2008, and changes during the nine and twelve months ended respectively on those dates is presented as follows:

Notes to Interim Consolidated Financial Statements

(Unaudited)

July 31, 2009 and 2008

(in thousands of Canadian dollars)

	July 31, 2009		October 31, 2008	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of period	1,575,600	\$ 5.54	2,209,600	\$ 5.03
Granted	260,000	5.00	40,000	6.40
Exercised	(322,500)	2.96	(634,000)	3.61
Forfeited	(174,000)	7.37	(40,000)	8.67
Outstanding at end of period	1,339,100	\$ 5.82	1,575,600	\$ 5.54
Options exercisable at end of period	1,020,100	\$ 5.91	1,411,600	\$ 5.28

(D) Stock-based compensation

The Company uses the fair value method for recording compensation expense related to equity instruments awarded to employees, officers and directors in accordance with CICA 3870. For the purposes of expensing stock options, the estimated fair value of the options is amortized to expense over the vesting period of the options on a straight-line basis with a corresponding credit to contributed surplus. During the first three quarters of 2009, the Company recorded a non-cash charge of \$169 (Fiscal 2008 - \$268). The fair value of each stock option on the date of the grant was estimated using the Black-Scholes option pricing model.

(E) Common share repurchase plan

On April 14, 2009, the Company renewed its common share repurchase plan, whereby it may repurchase up to a maximum of 1,655,470 common shares of the Company, expiring on April 13, 2010. During the third quarter of fiscal 2009, the Company repurchased 44,100 common shares (Fiscal 2008 – 312,400) for cancellation for \$259 (Fiscal 2008 - \$1,980), of which \$84 (Fiscal 2008 - \$599) was allocated to share capital and the remainder offset against retained earnings. On a year to date basis the Company repurchased 936,924 common shares for cancellation for \$4,477 of which \$1,789 was allocated to share capital and the remainder offset against retained earnings.

6. Acquisitions

Trio

On April 1, 2009, Enghouse acquired the business and shares of Trio Enterprise AB (“Trio”) for a cash purchase price of \$7.1 million and incurred transaction costs of \$0.3 million. Trio provides Enterprise Communication, presence, call and message management solutions in Northern Europe.

Envox

On October 20, 2008, Enghouse and certain of its subsidiaries including Syntellect Inc. acquired the business and assets of Envov Group AB (“Envov”) for a purchase price of US\$14 million and incurred transaction costs of \$0.2 million. As part of the acquisition US\$11.5 million was paid on closing with the balance of US\$2.5 million payable post closing in two installments. The conditions for the payment of the first installment of US\$0.4 million to the vendors were not met so payment was not made. Payment of the second installment of US\$2.1 million is subject to certain conditions and adjustments and is payable December 15, 2009. Envov provides IP-based voice self-service and contact center solutions to optimize customer contact center performance.

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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 \$0.5 million including transaction costs and acquired debt of \$2.2 million. As part of the acquisition, an additional amount was payable based on revenues recognized before December 31, 2008 from certain Fluency customers. However, no such revenues were recognized so payment was not made. Fluency provides on-premise and hosted packaged speech recognition solutions for call centers to improve customer service and significantly reduce costs.

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 was subject to a holdback which has now been released. Gamma provides network infrastructure management software solutions (collectively known as Gamma NetOne) and consultancy services for telecommunications operators and equipment vendors.

These 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 allocations of the purchase price to assets and liabilities are 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 allocations taking into account all relevant information at the time of preparing these notes to consolidated financial statements. The Trio and Envov purchase price allocations have not been finalized subject to the completion of the fair value assessment of intangible assets and certain other assets and liabilities and are 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 periods, respectively, of three and six years for Trio, five and eight years for Envov, four and six years for Fluency and five and seven years for Gamma. Patents acquired in the Trio acquisition are being amortized over ten years.

The Company's purchase price allocations are as follows:

	Trio	Envov	Fluency	Gamma
Cash	\$ 780	\$ 625	\$ 263	\$ 405
Accounts receivable, net	3,279	3,063	1,461	1,217
Prepays and other current assets	528	526	183	39
Property and equipment	86	107	163	67
Future income tax assets	1,374	920	941	555
Acquired software	1,680	9,521	374	510
Other intangibles	2,498	5,102	502	300
Goodwill	2,222	5,227	2,748	1,462
Total assets acquired	<u>\$ 12,447</u>	<u>\$ 25,091</u>	<u>\$ 6,635</u>	<u>\$ 4,555</u>
Less: Current liabilities assumed	\$ (5,090)	\$ (5,792)	\$ (3,677)	\$ (1,648)
Less: Future income tax liabilities	-	(3,168)	(229)	(228)
Total liabilities assumed	<u>(5,090)</u>	<u>(8,960)</u>	<u>(3,906)</u>	<u>(1,876)</u>
Net assets acquired	<u>\$ 7,357</u>	<u>\$ 16,131</u>	<u>\$ 2,729</u>	<u>\$ 2,679</u>

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7. 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 acquired operations since their respective dates of acquisition including, Fluency Voice Technology Limited (May 31, 2008), Envoy (October 20, 2008) and Trio (April 1, 2009), 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.

	Syntellect Division	Asset Management Division	Total
Three months ended July 31, 2009			
Revenue	\$ 20,872	\$ 2,481	\$ 23,353
Operating expenses, excluding non-cash charges	(14,848)	(2,364)	(17,212)
Amortization of property and equipment	(293)	(27)	(320)
Amortization of acquired software and intangibles	(1,661)	(179)	(1,840)
Segmented profit	\$ 4,070	\$ (89)	\$ 3,981
Corporate expenses			(696)
Foreign exchange			107
Other income			24
Interest income			228
Income before income taxes			\$ 3,644
Goodwill	\$ 17,272	\$ 3,088	\$ 20,360
Other assets	62,614	19,542	82,156
Short-term investments			59,532
Total assets			\$ 162,048

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	Syntellec Division	Asset Management Division	Total
Three months ended July 31, 2008			
Revenue	\$ 11,857	\$ 2,836	\$ 14,693
Operating expenses, excluding non-cash charges	(8,696)	(2,467)	(11,163)
Amortization of property and equipment	(204)	(59)	(263)
Amortization of acquired software and intangibles	(1,396)	(174)	(1,570)
Segmented profit	\$ 1,561	\$ 136	\$ 1,697
Corporate expenses			(517)
Foreign exchange			104
Other Income			441
Interest income			723
Income before income taxes			\$ 2,448
Goodwill	\$ 11,856	\$ 2,890	\$ 14,746
Other assets	34,396	13,357	47,753
Short-term investments			95,330
Total assets			\$ 157,829
Nine months ended July 31, 2009			
Revenue	\$ 51,194	\$ 7,221	\$ 58,415
Operating expenses, excluding non-cash charges	(38,181)	(7,059)	(45,240)
Amortization of property and equipment	(914)	(65)	(979)
Amortization of acquired software and intangibles	(4,968)	(537)	(5,505)
Segmented profit	\$ 7,131	\$ (440)	\$ 6,691
Corporate expenses			(1,824)
Foreign exchange			182
Other income			24
Interest income			1,175
Income before income taxes			\$ 6,248
Nine months ended July 31, 2008			
Revenue	\$ 31,314	\$ 7,047	\$ 38,361
Operating expenses, excluding non-cash charges	(22,805)	(6,862)	(29,667)
Amortization of property and equipment	(537)	(154)	(691)
Amortization of acquired software and intangibles	(4,068)	(444)	(4,512)
Segmented profit	\$ 3,904	\$ (413)	\$ 3,491
Corporate expenses			(1,612)
Foreign exchange			405
Other income			768
Interest income			2,641
Income before income taxes			\$ 5,693

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8. 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 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 would have been funded from participating issuers' directors and officers insurance proceeds, less any settlement amounts by the underwriter defendants.

Prior to consummation of the proposed issuer settlement on December 5, 2006, the Second Circuit Court of Appeals issued a ruling concerning class certification, in which it concluded that the proposed class of IPO purchasers could not be certified, as the issues were not common among all class members. A petition seeking a rehearing of this December 5, 2006 ruling was denied by the Court on April 6, 2007. In light of this Court of Appeals ruling, the District Court entered an order on June 25, 2007 terminating the proposed settlement between the plaintiffs and the issuers, including Apropos.

In February 2009, an agreement to settle the litigation in its entirety was reached and definitive settlement documents filed with the District Court, which received preliminary approval. The settlement is subject to final approval by the District Court. It is uncertain whether the settlement will receive final court approval. If the settlement does not receive final court approval, and litigation against the Company continues, Apropos will continue to defend the action vigorously. Apropos expects that its insurance proceeds will be sufficient to cover any outcome of this litigation, including its allocable share of any settlement.

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. However, the Company is currently subject to two actions 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 vigorously assert all appropriate defenses.

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9. Comparative consolidated financial statements

Certain comparative figures have been reclassified to conform to the current period's consolidated financial statement presentation.