Second Quarter Report
April 30, 2013

Enghouse Systems

Software engineered for results

June 5, 2013

To our Shareholders,

Second quarter revenue was $44.5 million, an increase of 41% over revenue of $31.5 million in the second quarter last year, with incremental revenue coming from acquisitions. Revenue includes hosted and maintenance services contributions of $23.4 million in the quarter, an increase of 46% over last year's revenue of $16.0 million. Adjusted EBITDA for the quarter was $10.7 million or $0.40 per diluted share compared to $7.8 million or $0.30 per diluted share in last year's second quarter. Results from operating activities for the quarter were $9.7 million compared to $7.6 million in the prior year's second quarter and include special charges booked on acquisitions of $0.6 million in the quarter. Excluding special charges related to restructuring of acquisitions, results from operating activities would be $10.3 million, an increase of 36% over the prior year. Net income for the second quarter was $4.9 million or $0.19 per diluted share compared to the prior year's second quarter net income of $4.2 million or $0.16 per share. On a year to date basis, revenue was $86.5 million compared to $62.0 million, an increase of 39%. Adjusted EBITDA for the year to date was $20.3 million or $0.77 per diluted share compared to $15.7 million or $0.60 per share.

Operating expenses increased to $22.3 million from $15.7 million in the prior year's second quarter and include incremental operating costs related to acquisitions as well as special charges related to restructuring of acquired operations. Non-cash amortization charges in the quarter were $3.9 million compared to $2.4 million in the prior year's second quarter and include amortization charges for acquired software and customer relationships including operations acquired in the current year.

On March 1, 2013 the Company completed the acquisition of Locus Holdings AS ("Locus") of Norway for a cash purchase price of approximately $12.7 million, subject to certain price adjustments. Locus is a leading supplier of fleet management solutions for the Public Safety and Transport & Logistics (including Security) sectors in the Scandinavian market and has a dominant position in the Norwegian Public Safety sector. Its products are installed in police cars, ambulances, rescue helicopters and fire brigades. Locus's transportation, logistics and M2M products are also well established in these markets.

Enghouse closed the quarter with $80.9 million in cash, cash equivalents and short-term investments, compared to $80.1 million at January 31, 2013 and $83.7 million at October 31, 2012. This reflects cash paid in the quarter of approximately $10.2 million on the acquisition of Locus. It also reflects a cash dividend of $1.7 million paid in March 2013. The Company continues to have no long-term debt.

The Board of Directors has approved an eligible quarterly dividend to $0.08 per common share, payable on August 31, 2013 to shareholders of record at the close of business on August 17, 2013.

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

S Sadler

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis ("MD&A") has been prepared as of June 5, 2013 and all information contained herein is current as of that date. For a complete understanding of our business environment, risks, trends and uncertainties and the effect of critical accounting policies and estimates on our results, this MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and the notes thereto for the periods ended April 30, 2013 and 2012, as well as the Company's audited Consolidated Financial Statements and Management's Discussion and Analysis for the fiscal year ended October 31, 2012, contained in the Company's 2012 Annual Report to Shareholders. This MD&A covers the consolidated results of operations, financial condition and cash flows of Enghouse Systems Limited (the "Company" or "Enghouse") and its subsidiaries, all wholly owned, for the second quarter ended April 30, 2013. Unless otherwise noted, the results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, stated in thousands, except per share amounts.

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

Non-IFRS Measures

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

Forward-looking Statements

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

For additional information with respect to certain of these risks or factors, reference should be made to section "Risks and Uncertainties" of the MD&A and notes to the consolidated financial statements for the year ended October 31, 2012, as well as to the Company's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, copies of which are filed electronically on SEDAR at www.sedar.com.

Corporate Overview

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

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

Quarterly Results of Operations

The following table sets forth certain unaudited information for each of the eight most recent quarters (the last of which ended April 30, 2013). Historically, the Company's operating results have fluctuated on a quarterly basis, which the Company expects will continue in the future. Fluctuations in results continue to relate to the timing of software license and hardware sales, which may result in large sales orders in any one quarter, movements in foreign currency exchange rates and to the timing of acquisitions, staffing and infrastructure changes. See "Risks and Uncertainties" for more details.

For the three months ending	Total revenue	Net income	Earnings per share – basic	Earnings per share – diluted	Cash and short-term investments	Total assets
April 30, 2013	$ 44,511	$ 4,903	$ 0.19	$ 0.19	$ 80,940	$ 261,590
January 31, 2013	41,957	3,435	0.13	0.13	80,051	251,829
October 31, 2012	38,952	8,345^	0.32	0.32	83,652	239,710
July 31, 2012	35,427	4,288	0.17	0.16	79,700	238,574
April 30, 2012	31,456	4,180	0.16	0.16	100,403	222,961
January 31, 2012	30,533	4,060	0.16	0.16	100,491	215,797
October 31, 2011	31,836	13,345*	0.53	0.52	99,591	211,118
July 31, 2011	31,820	4,577	0.18	0.18	87,955	194,422

^Includes credit adjustment to tax provision of $2.5 million on set-up of deferred tax losses related to non-capital losses
*Includes credit adjustment to tax provision of $7.9 million on transition to IFRS

Results of Operations:
(in thousands of Canadian dollars except per share amounts)

	Q2/2013	Q2/2012	Year over year change $	%
Interactive Management Group	$ 36,268	$ 27,733	8,535	30.8
Asset Management Group	8,243	3,723	4,520	121.4
Total revenue	**44,511**	**31,456**	**13,055**	**41.5**
Direct costs	12,545	8,230	4,315	52.4
Revenue, net of direct costs	**31,966**	**23,226**	**8,740**	**37.6**
Operating expenses	21,699	15,664	6,035	38.5
Special charges	599	-	599	100.0
Results from operating activities	**9,668**	**7,562**	**2,106**	**27.8**
Amortization of acquired software and customer relationships	(3,876)	(2,383)	(1,493)	(62.7)
Finance income	94	261	(167)	(64.0)
Finance expense	(96)	(70)	(26)	(37.1)
Other income	448	157	291	185.4
Income before taxes	6,238	5,527	711	12.9
Provision for income taxes	1,335	1,347	(12)	(0.9)
Net Income	**$ 4,903**	**$ 4,180**	**723**	**17.3**
Earnings per share – basic and diluted	$ 0.19	$ 0.16	$ 0.03	18.8
Cash flow from operating activities	$ 8,860	$ 7,160	1,700	23.7
Cash flow from operating activities excluding changes in working capital	$10,458	$ 8,230	2,228	27.1

Adjusted EBITDA:

The table below reconciles Adjusted EBITDA to net income:

	Three Months ended		Six Months ended	
	April 30, 2013	April 30, 2012	April 30, 2013	April 30, 2012
Total Revenue	**$ 44,511**	**$ 31,456**	**$ 86,486**	**$ 61,989**
Net income for the period	4,903	4,180	8,338	8,240
Provision for income taxes	1,335	1,347	2,248	2,629
Depreciation of property, plant and equipment	410	287	878	565
Amortization of acquired software and customer relationships	3,876	2,383	7,460	4,821
Finance income	(94)	(261)	(427)	(504)
Finance expenses	96	70	177	111
Other income	(448)	(157)	(809)	(155)
Special charges	599	-	2,414	-
Adjusted EBITDA	**$ 10,677**	**$ 7,849**	**$ 20,279**	**$ 15,707**
Adjusted EBITDA margin	**24%**	**25%**	**23%**	**25%**
Adjusted EBITDA per diluted share	**$ 0.40**	**$ 0.30**	**$ 0.77**	**$ 0.60**

Revenue

Total revenue for the quarter was $44.5 million compared to $31.5 million in the prior year's second quarter, a 41.5% increase over the prior year. Hosted services and maintenance revenue continues to be the most significant component of revenue at $23.4 million in the quarter, an increase of 45.8% over last year. This includes maintenance revenue of $20.3 million in the quarter compared to $14.5 million in the prior year's second quarter and reflects incremental maintenance revenue from license sales in the past fiscal year as well as contributions from acquired operations. Recurring revenue is important to the Company as it increases the predictability of future cash flows and accounted for 52.6% of revenue in the quarter compared to 51.0% in Q2/12. Total license revenue was $13.6 million compared to $10.6 million in the prior year's second quarter, representing a 28.1% increase and also includes licenses sold on a subscription basis. Revenue for the fiscal year to date was $86.5 million compared to $62.0 million and includes license revenue of $28.7 million compared to $21.1 million in fiscal 2012. For the fiscal year to date, hosted and services revenue grew by 37.3% to $44.0 million, consistent with the Company's focus on recurring revenue.

The Interactive Management Group contributed $36.3 million in revenue in the quarter, compared to $27.7 million reported in the second quarter of fiscal 2012. The increase is attributable to incremental revenue contributions from acquisitions which were not included in the comparative quarter, including Visionutveckling AB ("Vision"), which contributed $3.3 million and Zeacom, which added $6.1 million in the quarter. For the year to date, the Group reported revenue of $73.0 million compared to $55.2 million, an increase of 32%. The Asset Management Group generated revenue of $8.2 million in the quarter, compared to $3.7 million reported in the second quarter of fiscal 2012, and reflects a full quarter of hosted services contributions from CustomCall Data Systems, Inc. as well as incremental contributions from Albatross Scandinavia AB ("Albatross"), which was acquired on December 1, 2012. Revenue also includes the operations of Locus Holdings AS ("Locus") acquired on March 1, 2013. Locus contributed $3.6 million in revenue to the Asset Management Group since acquisition and has a strong subscription and maintenance revenue base. Revenue for the year to date for this group was $13.5 million, an increase of 98.5% over last year related primarily to acquisitions.

As in recent quarters, revenue was not significantly impacted by foreign exchange as the U.S. dollar compared to the Canadian dollar averaged $1.01 in the current year and $1.00 in the prior year's second quarter. The Pound Sterling averaged $1.56 in the current year compared to $1.58 in the prior year's second quarter, while the Swedish Kronor averaged $0.16 in the current year's second quarter and $0.15 in the prior year's second quarter.

Direct Costs

Direct costs for the quarter were $12.5 million or 28.2% of revenue compared to $8.2 million or 26.2% of revenue in the prior year's second quarter. The increase in costs is related to increased third party hardware costs on incremental hardware sales in the Locus operations as well as incremental third party services costs. Direct costs for the fiscal year to date were $24.2 million or 27.9% of revenue compared to $16.2 million or 26.2% of revenue consistent with the Company's growth of its services revenue base and capacity.

Operating Expenses

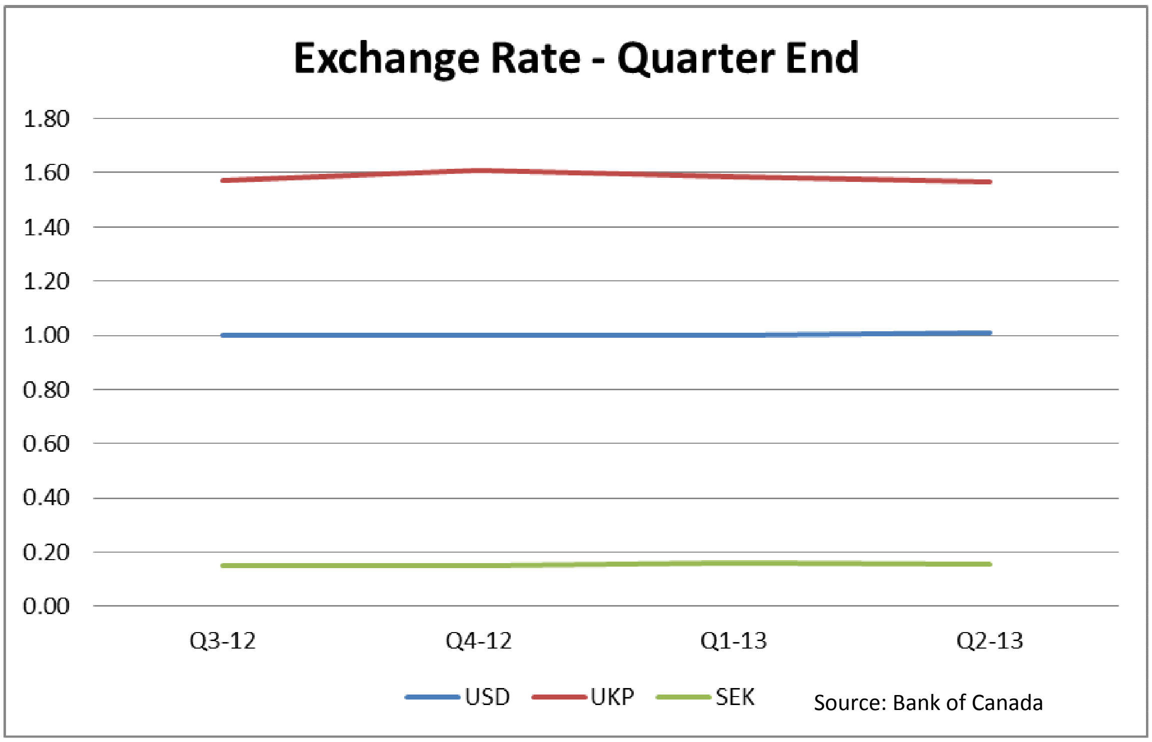
Operating expenses for the quarter were $22.3 million, compared to $15.7 million reported in the second quarter of last year and include special charges related to restructuring initiatives undertaken on acquired operations totalling $0.6 million in the second quarter as well as incremental operating costs related to newly acquired operations. Operating costs, excluding special charges, as a percentage of total revenue decreased from 49.8% to 48.7% in the quarter as a result of operational restructuring initiatives taken to reduce headcount in the fiscal year. On a year to date basis, operating costs, net of special charges, were $42.9 million or 49.6% of revenue compared to $30.6 million or 49.4% of revenue in the prior fiscal year. The Company continues to invest in R&D for future growth. R&D as a percentage of revenue in the quarter was 17.5% in the quarter and year to date compared to 16.8% and 16.5% respectively in the prior year.

Non-cash charges for amortization of acquired software and customer relationships related to acquisitions were $3.9 million, an increase from the prior year's second quarter expense of $2.4 million as a result of incremental amortization charges related to the acquisitions of Zeacom, Vision, Albatross and Locus. On a year to date basis, amortization was $7.5 million, an increase of 54.7% over last year.

Foreign Exchange

The Company continues to transact a significant portion of its business activities in foreign currencies including U.S. Dollars, Pounds Sterling and increasingly, in Swedish Kronor. The Company has both revenue and operating expenses denominated in these currencies, which act as a natural hedge. However, the fluctuation in these currencies against the Canadian dollar impacts the amount of recorded revenue and expenses for the Company. The Company records foreign exchange gains and losses in selling, general and administrative expenses in the unaudited condensed consolidated interim statements of operations and comprehensive income.

The Company recorded foreign exchange losses of $0.1 million in the quarter compared to a gain of $0.1 million in Q2-2012 as the Canadian dollar weakened marginally against the U.S. dollar and Swedish Kronor, but strengthened slightly against the Pound Sterling. The table below outlines the movement in foreign exchange rates relative to the Canadian dollar.



Finance and Other Income

During the quarter, the Company recognized finance and other income of $0.5 million compared to $0.4 million in the second quarter of fiscal 2012 as a result of gains recognized on the sale of equity positions held, which mitigated lower yields on invested cash.

Income Tax Expense

During the quarter, the Company established a tax provision of $1.3 million or a 21.4% effective tax rate as compared to a provision of $1.3 million or 24.3% in the prior year's second quarter. The decrease in the effective tax rate relates to reductions in statutory tax rates in a number of jurisdictions and the change in the Company's profit mix by country. The Company paid $0.6 million in tax installments in the quarter, compared to $1.3 million in the second quarter of fiscal 2012.

Net Income

Net income was $4.9 million or $0.19 per share on a diluted basis in the quarter compared to $4.2 million and $0.16 per share respectively in the second quarter of fiscal 2012, as a result of stronger operating profits on increased revenue from acquisitions. On a year to date basis, net income was $8.3 million or

$0.32 per diluted share compared to $8.2 million ($0.32 per share) in the prior fiscal year and reflects incremental amortization and restructuring charges related to acquisitions completed this year.

Liquidity and Capital Resources:

The Company closed the quarter with cash reserves of $80.9 million, compared to the October 31, 2012 balance of $83.7 million, which is after the acquisitions of Vision, Albatross and Locus in the fiscal year to date for an aggregate purchase price of $24.6 million, including holdbacks of $4.6 million. The Company continues to have no long-term debt and has sufficient cash resources to fund both its current and future financial operating commitments as well as its dividend strategy. During the quarter the Company generated cash flow from operating activities of $8.9 million compared to $7.2 million in the second quarter of 2012 and $15.7 million for the year to date compared to $9.7 million in fiscal 2012. The Company had 25,952,962 Common Shares issued and outstanding as at June 5, 2013. During the second quarter, 102,000 stock options were exercised contributing $0.9 million in cash to the Company. In comparison, 105,000 options were exercised in the prior year's second quarter adding $0.7 million in cash. The Company granted 120,000 options in the second quarter of the fiscal year compared to 215,000 in the second quarter last year. Enghouse did not repurchase any shares of its common stock in either second quarter under its Normal Course Issuer Bid, but did renew the bid for a further year to April 15, 2014.

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

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

Basis of Preparation and Significant Accounting Policies

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies disclosed in Note 3 of the Company's 2012 annual consolidated financial statements.

The policies applied in these unaudited condensed consolidated interim financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as of June 5, 2013, the date the Board of Directors approved the unaudited condensed consolidated interim financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending October 31, 2013 could result in a restatement of these unaudited condensed consolidated interim financial statements.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's 2012 annual consolidated financial statements.

Risks and Uncertainties

The primary risks and uncertainties that affect or may affect the Company and its business, financial condition, and results of operations 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, 2012, contained in the Company's 2012 Annual Report to Shareholders and all such risks and uncertainties are incorporated herein by reference.

Controls and Procedures

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

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed under the supervision of the CEO and Vice President Finance, with the participation of other management, to provide reasonable assurance that all relevant information required to be disclosed by the Company is recorded, processed, summarized and reported on a timely basis to senior management, as appropriate, to allow timely decisions regarding required public disclosure. Pursuant to NI 52-109, as of October 31, 2012, an evaluation of the effectiveness of the Company's disclosure controls and procedures was carried out under the supervision of the CEO and Vice President Finance. Based on this evaluation, the CEO and the Vice President Finance concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation considered the Company's disclosure policy, a sub-certification process and the functioning of the Company's Disclosure Committee.

Internal Controls over Financial Reporting

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

At October 31, 2012, an evaluation was carried out of the effectiveness of the design and operation of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting. Based on that evaluation, the Company's CEO and Vice President Finance have concluded that, as at October 31, 2012, the design and operation of controls over financial reporting was effective. These evaluations were conducted in accordance with the standards established in "Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission", and the requirements of NI 52-109.

There were no changes to the Company's internal control over financial reporting during the quarter ended April 30, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional Information

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

Notice of No Auditor Review of Interim Financial Statements

The accompanying unaudited condensed consolidated interim financial statements of the Company for the three and six months ended April 30, 2013 have been prepared by and are the responsibility of the Company's management.

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

Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)
(Unaudited)

	April 30, 2013	October 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 60,059	$ 59,544
Short-term investments	20,881	24,108
Accounts receivable, net	34,674	31,368
Income tax receivable	369	-
Prepaid expenses and other assets	5,785	3,853
	121,768	**118,873**
Non-current assets:		
Property, plant and equipment	4,007	3,365
Intangibles (Note 4)	126,488	106,995
Deferred income taxes	9,327	10,477
Total assets	**$ 261,590**	**$ 239,710**
Liabilities		
Current liabilities:		
Trade payables	$ 34,616	$ 26,053
Income taxes payable	-	2,008
Dividends payable	2,076	1,676
Accrued provisions (Note 5)	2,531	1,621
Deferred revenue	41,331	35,935
	80,554	**67,293**
Non-current liabilities:		
Deferred income tax liabilities	14,876	13,241
Deferred revenue	1,350	1,236
Total liabilities	**96,780**	**81,770**
Shareholders' Equity		
Share capital (Note 6)	57,615	55,751
Contributed surplus	2,781	2,847
Retained earnings	103,953	99,371
Accumulated other comprehensive gain (loss)	461	(29)
Total shareholders' equity	**164,810**	**157,940**
Total liabilities and shareholders' equity	**$ 261,590**	**$ 239,710**
Commitments and contingencies (Note 12)		

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

Condensed Consolidated Interim Statements of Operations and Comprehensive Income

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

	Three months ended April 30		Six months ended April 30	
	2013	**2012**	**2013**	**2012**
Revenue				
Software licenses	$ 13,624	$ 10,630	$ 28,688	$ 21,148
Hosted and maintenance services	23,394	16,040	43,957	32,019
Professional services	6,077	4,406	11,568	8,146
Hardware	1,416	380	2,255	676
	44,511	**31,456**	**86,468**	**61,989**
Direct costs				
Software licenses	649	866	2,078	1,775
Services	10,892	7,086	20,476	13,982
Hardware	1,004	278	1,597	484
	12,545	**8,230**	**24,151**	**16,241**
Revenue, net of direct costs	**31,966**	**23,226**	**62,317**	**45,748**
Operating expenses				
Selling, general and administrative	13,517	9,976	26,923	19,837
Research and development	7,772	5,401	15,115	10,204
Depreciation of property, plant and equipment	410	287	878	565
Special charges (Note 5)	599	-	2,414	-
	22,298	**15,664**	**45,330**	**30,606**
Results from operating activities	**9,668**	**7,562**	**16,987**	**15,142**
Amortization of acquired software and customer relationships	(3,876)	(2,383)	(7,460)	(4,821)
Finance income	94	261	427	504
Finance expenses	(96)	(70)	(177)	(111)
Other income	448	157	809	155
Income before income taxes	**6,238**	**5,527**	**10,586**	**10,869**
Provision for income taxes (Note 8)	1,335	1,347	2,248	2,629
Net income for the period	**$ 4,903**	**$ 4,180**	**$ 8,338**	**$ 8,240**
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation differences from foreign operations	(478)	(709)	383	(1,291)
Transfer to net income of realized gains on available for sale investments, net of tax of ($58); six months – ($114)	(385)	(132)	(754)	(132)
Unrealized gain (loss) on available for sale investments, net of tax of $28; six months–$236	182	14	861	(592)
Other comprehensive (loss) income	**(681)**	**(827)**	**490**	**(2,015)**
Comprehensive income	**$ 4,222**	**$ 3,353**	**$ 8,828**	**$ 6,225**
Earnings per share				
Basic and diluted	$0.19	$0.16	$0.32	$0.32

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

Condensed Consolidated Interim Statements of Changes in Equity

(in thousands of Canadian dollars)
(Unaudited)

	Share Capital -number	Share capital $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Retained earnings $	Total $
Balance – November 1, 2012	**25,780,562**	**55,751**	**2,847**	**(29)**	**99,371**	**157,940**
Net income	-	-	-	-	8,338	8,338
Other Comprehensive Income (net of tax):						
Cumulative Translation Adjustment	-	-	-	383	-	(383)
Transfer to net income of realized gains on available-for-sale investments, net of tax	-	-	-	(754)	-	(754)
Unrealized gain (loss) on available-for-sale investments, net of tax	-	-	-	861	-	861
Comprehensive income (loss) for the period	**-**	**-**	**-**	**490**	**8,338**	**8,828**
Employee share options:						
Value of services recognized			423	-	-	423
Proceeds on issuing shares	172,400	1,864	(489)	-	-	1,375
Dividends				-	(3,756)	(3,756)
Balance – April 30, 2013	**25,952,962**	**57,615**	**2,781**	**461**	**103,953**	**164,810**
Balance – November 1, 2011	**25,337,262**	**52,134**	**2,970**	**1,035**	**84,782**	**140,921**
Net income	-	-	-	-	8,240	8,240
Other Comprehensive Income (net of tax):						
Cumulative Translation Adjustment	-	-	-	(1,291)	-	(1,291)
Transfer to net income of realized gain on available-for-sale investments, net of tax	-	-	-	(132)	-	(132)
Unrealized gain (loss) on available-for-sale investments, net of tax	-	-	-	(592)	-	(592)
Comprehensive income (loss) for the period	**-**	**-**	**-**	**(2,015)**	**8,240**	**6,225**
Employee share options:						
Value of services recognized	-	-	286	-	-	286
Proceeds on issuing shares	268,300	2,398	(522)	-	-	1,876
Dividends	-	-	-	-	(2,939)	(2,939)
Balance – April 30, 2012	**25,605,562**	**54,532**	**2,734**	**(980)**	**90,083**	**146,369**

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

Condensed Consolidated Interim Statements of Cash Flows

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

	Three months ended April 30		Six months ended April 30	
	2013	**2012**	**2013**	**2012**
Cash flows from operating activities				
Net income	$ 4,903	$ 4,180	$ 8,338	$ 8,240
Adjustments for:				
Depreciation of property, plant and equipment	410	287	878	565
Amortization of acquired software and customer relationships	3,876	2,383	7,460	4,821
Stock-based compensation expense	286	120	423	286
Income tax expense	1,335	1,347	2,248	2,629
Finance expenses and other income	(352)	(87)	(632)	(44)
	10,458	**8,230**	**18,715**	**16,497**
Changes in non-cash operating working capital (Note 13)	(997)	225	(250)	(4,970)
Income tax paid	(601)	(1,295)	(2,786)	(1,828)
Net cash flows from operating activities	**8,860**	**7,160**	**15,679**	**9,699**
Cash flows from investing activities				
Purchase of property, plant and equipment, net	(677)	(1,178)	(971)	(1,669)
Acquisitions, net of cash acquired of $3,617 (Note10)	(6,846)	(5,802)	(16,831)	(5,802)
Net sale (purchase) of short-term investments	8,817	(9,583)	4,715	(10,559)
Net cash flows used in investing activities	**1,294**	**(16,563)**	**(13,087)**	**(18,030)**
Cash flows from financing activities				
Issuance of share capital	850	749	1,375	1,876
Payment of cash dividend	(1,680)	(1,275)	(3,356)	(2,542)
Net cash flows used in financing activities	**(830)**	**(526)**	**(1,981)**	**(666)**
Effect of currency translation adjustments on cash and cash equivalents	200	(655)	(96)	(240)
Net increase (decrease) in cash and cash equivalents during the period	**9,524**	**(10,584)**	**515**	**(9,237)**
Cash and cash equivalents- beginning of period	50,535	66,971	59,544	65,624
Cash and cash equivalents - end of period	**$ 60,059**	**$ 56,387**	**$ 60,059**	**$ 56,387**

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

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended April 30, 2013 and 2012

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

1. Description of the business and reporting entity

Enghouse Systems Limited and its wholly owned subsidiaries (together the “Company” or “Enghouse”) develop enterprise software solutions for a variety of vertical markets. The Company is organized around two business segments: the Interactive Management Group and the Asset Management Group. The Interactive Management Group specializes in communications software and services that are designed to enhance customer service, increase efficiency and improve person-to-person communications across the enterprise. Core technologies include contact center, attendant console, interactive voice response, call recording and workforce optimization solutions that support any telephony environment, on-premise or in the cloud. The Asset Management Group provides telecom billing, data conversion and visual-based software solutions for the design and management of complex network infrastructures to the telecommunications, utilities, public and private transportation and oil and gas sectors. Enghouse is incorporated and domiciled in Canada. The address of its registered office is 80 Tiverton Court, Suite 800, Markham, Ontario, L3R 0G4. The Company has offices around the world including the United States, the United Kingdom, Sweden, Norway, Denmark, Australia, New Zealand, Israel and Croatia.

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, ‘Interim financial reporting’. The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended October 31, 2012, which have been prepared in accordance with IFRS.

These condensed consolidated interim financial statements were approved for issue on June 5, 2013.

(b) Basis of measurement

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

(c) Functional and presentation of currency

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

(d) Use of estimates and judgements

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended October 31, 2012, with the exception of changes in estimates that are required in determining the provision for income taxes.

3. Significant accounting policies

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

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

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended April 30, 2013 and 2012
(Unaudited, in thousands of Canadian dollars, except per share amounts)

4. Intangible assets

	Acquired Software	Customer Relationships	Goodwill	Total
	$	$	$	$
At November 1, 2012				
Cost	73,228	34,449	64,358	172,035
Accumulated depreciation	(48,366)	(16,674)	-	(65,040)
Net book value	**24,862**	**17,775**	**64,358**	**106,995**
Period ended April 30, 2013				
Opening net book value	24,862	17,775	64,358	106,995
Acquisition	7,314	9,660	9,373	26,347
Disposals	(45)	-	-	(45)
Amortization	(4,843)	(2,617)	-	(7,460)
Exchange difference	(48)	(83)	782	651
Closing net book value	**27,240**	**24,735**	**74,513**	**126,488**
At April 30, 2013				
Cost	80,497	44,109	74,513	199,119
Accumulated amortization	(53,257)	(19,374)	-	(72,631)
Net book value	**27,240**	**24,735**	**74,513**	**126,488**

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

	Total
At November 1, 2012	**$ 1,621**
Additional provisions	2,414
Unused amounts reversed	-
Utilized during the period	(1,584)
Effect of movements in foreign exchange	80
At April 30, 2013	**$ 2,531**

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

Capital Stock
The authorized share capital of the Company consists of an unlimited number of common shares, an unlimited amount of Class A, redeemable, retractable, non-voting, non-cumulative, preference shares and an unlimited number of Class B, redeemable, retractable, non-voting, preference shares. There were 25,952,962 common shares outstanding as at April 30, 2013. There were no Class A and no Class B preference shares issued and outstanding as at either October 31, 2012 or April 30, 2013.

Common share repurchase plan
On April 16, 2013, the Company renewed its common share repurchase plan, whereby it may repurchase up to a maximum of 1,745,206 common shares of the Company, expiring on April 15, 2014. The Company did not repurchase any common shares in either fiscal 2013 or 2012.

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

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended April 30, 2013 and 2012
(Unaudited, in thousands of Canadian dollars, except per share amounts)

Cumulative translation account
The cumulative translation account comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Unrealized gains/losses on available-for-sale financial assets
Available-for-sale differences comprise the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or impaired.

Dividends
During the three months ended April 30, 2013, the Company paid dividends of $0.065 per common share (three months ended April 30, 2012 - $0.05 per common share).

7. Stock-based Compensation
The Company has granted options to purchase common shares to certain directors, officers and employees of the Company, pursuant to the terms of the Company's stock option plan (the "Plan"). The Plan provides that a total of 2,428,700 (April 30, 2012 – 2,076,100) common shares are reserved for options and that the shares reserved for options, which could become exercisable in any one year, will not exceed more than 10% of the issued and outstanding common shares of the Company at the time such options may be exercisable. These options vest at various times over four years and expire seven 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 April 30, 2013 and April 30, 2012, and changes during the three months and six months ended respectively on those dates is presented as follows:

Three months ended:	**April 30, 2013**		**April 30, 2012**	
	Number of Options	**Weighted Average Exercise Price in $**	**Number of Options**	**Weighted Average Exercise Price in $**
Outstanding at beginning of period	1,390,000	10.47	1,464,400	7.75
Granted	120,000	19.07	215,000	14.18
Exercised	(102,000)	8.34	(105,000)	7.14
Forfeited	-	-	(75,000)	7.16
Outstanding at end of period	**1,408,000**	**11.36**	**1,499,400**	**8.75**
Options exercisable at end of period	**679,000**	**8.00**	**792,900**	**7.07**

Six months ended:	**April 30, 2013**		**April 30, 2012**	
	Number of Options	**Weighted Average Exercise Price in $**	**Number of Options**	**Weighted Average Exercise Price in $**
Outstanding at beginning of period	1,354,400	9.43	1,487,700	7.32
Granted	315,000	17.89	355,000	13.08
Exercised	(172,400)	7.98	(268,300)	7.00
Forfeited	(89,000)	11.67	(75,000)	7.16
Outstanding at end of period	**1,408,000**	**11.36**	**1,499,400**	**8.75**
Options exercisable at end of period	**679,000**	**8.00**	**792,900**	**7.07**

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended April 30, 2013 and 2012

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

The Company uses the fair value method for recording compensation expense related to equity instruments awarded to employees, officers and directors in accordance with IFRS 2. For the purposes of expensing stock options, each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. During the second quarter of 2013, the Company recorded a non-cash charge of $286 (Q2/2012 - $120).

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

	Options Granted March 2013	**Options Granted January 2013**	**Options Granted December 2012**	**Options Granted FY 2012**
Risk-free interest rate (%)	1.61%	1.32%	1.25%	1.18% - 1.47%
Estimated volatility (%)	31%	31%	31%	34% - 35%
Dividend yield	$0.32	$0.26	$0.26	$0.20-$0.26
Expected life (in years)	5	5	5	5
Weighted average fair value (in dollars)	$4.76	$4.26	$4.27	$2.87 - $4.09

8. Income tax

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated annual rate used for the year ended October 31, 2013 is 21.2% (2012 - 24%).

9. Earnings per share:

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

	Three months ended April 30		**Six months ended April 30**	
	2013	**2012**	**2013**	**2012**
Net income attributable to owners of the parent	$ 4,903	$ 4,180	$ 8,338	$ 8,240
Weighted average number of common shares in issue	25,886	25,553	25,847	25,474
Basic earnings per share	**$ 0.19**	**$ 0.16**	**$ 0.32**	**$ 0.32**

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

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended April 30, 2013 and 2012
(Unaudited, in thousands of Canadian dollars, except per share amounts)

	Three months ended April 30		Six months ended April 30	
	2013	**2012**	**2013**	**2012**
Net income attributable to owners of the parent	$ 4,903	$ 4,180	$ 8,338	$ 8,240
Weighted average number of common shares issued	25,886	25,553	25,847	25,474
Adjustments for:				
Stock options	598	557	533	490
Weighted average number of common shares for diluted earnings per share	26,484	26,110	26,380	25,964
Diluted earnings per share	**$ 0.19**	**$ 0.16**	**$ 0.32**	**$ 0.32**

Options to purchase common shares of 120,000 (2012 – 215,000) at an average price of $19.07 (2012 – $14.18) per share were outstanding during the year but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of common shares during the fiscal year.

10. Acquisitions

On June 1, 2012, the Company acquired 100% of the issued and outstanding shares of Zeacom Group Limited ("Zeacom") for a net cash purchase price of approximately $31.0 million, with U.S. $4.5 million of this being paid into escrow to be released to the vendors, subject to hold back and adjustment. Of this hold back amount, U.S. $0.7 million was released to the Company in September 2012. Zeacom provides multi-channel contact center and business process automation solutions and is headquartered in Auckland, New Zealand, with offices in Australia, the U.K. and the U.S. Results have been reported in the Interactive Management Group since the date of acquisition.

On November 1, 2012 the Company acquired 100% of the issued and outstanding common shares of Visionutveckling AB ("Vision") and 100% of the issued and outstanding common shares of Albatross Scandinavia AB ("Albatross") on December 1, 2012 for an aggregate cash purchase price of approximately $11.9 million. Of this amount, approximately $1.9 million is subject to hold back and adjustment. Vision provides attendant and contact center software solutions with offerings both on-premise and in the cloud, with operations based in Sweden, Norway and Denmark. Results are included in the Interactive Management Group from the date of acquisition. Albatross, based in Sweden, provides a real-time intelligent network platform that delivers voice and SMS routing products to telecom operators, with results included in the Asset Management Division from the date of acquisition.

On March 1, 2013 the Company acquired 100% of the issued and outstanding common shares of Locus Holdings AS ("Locus") for a net cash purchase price of approximately $12.7 million, subject to certain price adjustments. Of this amount, approximately $2.7 million is subject to hold back and adjustment. Headquartered in Sandefjord, Norway, Locus is a leading supplier of fleet management solutions for the Public Safety and Transport & Logistics (including Security) sectors in the Scandinavian market. Locus has a dominant position in the Norwegian Public Safety sector. Its products are installed in police cars, ambulances, rescue helicopters and fire brigades. Locus's transportation, logistics and M2M products are also well established in these markets, which the Company plans to leverage in its North American Transportation operations. The results have been included in the Asset Management Division subsequent to acquisition.

The acquisitions have been recorded under the purchase method of accounting and results have been included in the unaudited condensed consolidated interim statements of operations from their respective

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended April 30, 2013 and 2012
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acquisition dates. Accordingly, the allocation of the purchase price to assets and liabilities is based on the fair value, with the excess of the purchase price over the fair value of the assets acquired being allocated to goodwill. Management has established the preliminary purchase price allocations taking into account all relevant information at the time of preparing these notes to condensed consolidated interim financial statements. The purchase price allocations above have not been finalized subject to receipt of additional information related to the settlement of the holdback obligations.

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

	Locus 2013	Albatross 2013	Vision 2013	Zeacom 2012
Cash and cash equivalents	$ 3,421	$ -	$ 196	$ 796
Short-term investments	-	-	508	-
Accounts receivable, net	3,626	485	2,328	6,493
Income tax receivable	-	-	196	-
Prepaid expenses and other assets	596	148	311	970
Property, plant and equipment	187	61	89	1,175
Deferred income tax assets	2,970	148	148	-
Acquired software	3,474	330	3,545	14,489
Customer relationships	5,840	790	3,060	6,002
Goodwill	2,852	776	5,803	15,457
Total assets acquired	$ 22,966	$ 2,738	$ 16,184	$ 45,382
Less: Current liabilities assumed	$ 7,734	$ 1,342	$ 4,005	$ 10,118
Less: Deferred income tax liabilities	2,489	246	1,428	4,297
Total liabilities assumed	$ 10,223	$ 1,588	$ 5,433	$ 14,415
Net assets acquired for cash consideration	**$ 12,743**	**$ 1,150**	**$ 10,751**	**$ 30,967**

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

The Company's operating segments each develop and market software products and provide services for their respective markets. The Interactive Management Group, which includes the operations of Vision since its date of acquisition on November 1, 2012, provides communications software and services that are designed to enhance customer service, increase efficiency and improve person to person communications across the enterprise. The Group's customers include carriers, service providers, insurance companies, banks, government, utilities, high technology, health care and hospitality companies. The Asset Management Group provides a portfolio of products to telecom service providers as well as software solutions for the transportation industry, utilities and the oil and gas industry. These include telecom billing, data conversion, and geo-spatial software solutions for complex network infrastructures and fleet/logistics management solutions for the public and private sectors. The results of Albatross have been included in the Asset Management Group since acquisition on December 1, 2012, while the results of Locus have been included in the Asset Management Group since acquisition on March 1, 2013.

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

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended April 30, 2013 and 2012

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

	Interactive Management Group	Asset Management Group	Total
Three months ended April 30, 2013			
Revenue	$ 36,268	$ 8,243	$ 44,511
Operating expenses excluding non-cash charges	(25,966)	(7,425)	(33,391)
Depreciation of property, plant and equipment	(339)	(71)	(410)
Amortization of acquired software and customer relationships	(3,280)	(596)	(3,876)
Segmented profit	**$ 6,683**	**$ 151**	**$ 6,834**
Corporate expenses			(1,042)
Finance income			94
Finance expenses			(96)
Other income			448
Income before income taxes			**$ 6,238**

	Interactive Management Group	Asset Management Group	Total
Three months ended April 30, 2012			
Revenue	$ 27,733	$ 3,723	$ 31,456
Operating expenses excluding non-cash charges	(19,600)	(3,225)	(22,825)
Depreciation of property, plant and equipment	(212)	(75)	(287)
Amortization of acquired software and customer relationships	(2,153)	(230)	(2,383)
Segmented profit	**$ 5,768**	**$ 193**	**$ 5,961**
Corporate expenses			(782)
Finance income			261
Finance expense			(70)
Other income			157
Income before income taxes			**$ 5,527**

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended April 30, 2013 and 2012

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

	Interactive Management Group	Asset Management Group	Total
Six months ended April 30, 2013			
Revenue	$ 72,979	$ 13,489	$ 86,468
Operating expenses excluding non-cash charges	(55,180)	(11,515)	(66,695)
Depreciation of property, plant and equipment	(760)	(118)	(878)
Amortization of acquired software and customer relationships	(6,559)	(901)	(7,460)
Segmented profit	**$ 10,480**	**$ 955**	**$ 11,435**
Corporate expenses			(1,908)
Finance income			427
Finance expenses			(177)
Other income			809
Income before income taxes			**$ 10,586**
Goodwill	$ 59,738	$ 14,775	$ 74,513
Other assets	119,027	47,169	166,196
Short-term investments			20,881
Total assets			**$ 261,590**
Capital Expenditures	$ 720	$ 251	$ 971

	Interactive Management Group	Asset Management Group	Total
Six months ended April 30, 2012			
Revenue	$ 55,195	$ 6,794	$ 61,989
Operating expenses excluding non-cash charges	(39,224)	(5,430)	(44,654)
Depreciation of property, plant and equipment	(446)	(119)	(565)
Amortization of acquired software and customer relationships	(4,478)	(343)	(4,821)
Segmented profit	**$ 11,047**	**$ 902**	**$ 11,949**
Corporate expenses			(1,628)
Finance income			504
Finance expenses			(111)
Other income			155
Income before income taxes			**$ 10,869**
Goodwill	$ 36,117	$ 11,096	$ 47,213
Other assets	99,572	32,160	131,732
Short-term investments			44,016
Total assets			**$ 222,961**
Capital Expenditures	$ 821	$ 848	$ 1,669

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended April 30, 2013 and 2012

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

12. Commitments and contingencies

Southern California Gas Company v. Syntellect, Inc.: Southern California Gas Company ("SoCal") filed a lawsuit against a wholly owned subsidiary of the Company relating to the indemnification provisions in a contract between the parties. The United States District Court, Southern District of California, has issued a judgment ("Judgment") in favor of SoCal which, together with certain additional SoCal costs and interest, amounts to U.S. $7.8 million ("Award"). The Judgment has been appealed to the United States Ninth Circuit Court of Appeals, and a standby letter of credit in the full amount of the Award has been posted, pending the outcome of the appeal. SoCal may receive payment of all or part of the Award only if it is ultimately successful in the lawsuit, at which time the expense related to such Award will be recorded in the Company's financial statements.

General

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

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

13. Changes in non-cash operating working capital

	Three months ended April 30,		Six months ended April 30,	
	2013	**2012**	**2013**	**2012**
Decrease (increase) in accounts receivable, net	$ 6,038	$ (1,603)	$ 3,161	$ (4,764)
Increase in prepaid expenses and other assets	(635)	(114)	(873)	(53)
Decrease in accounts payable & accrued liabilities	(2,155)	(1,405)	(2,979)	(6,305)
Increase (decrease) in income taxes payable	500	(80)	263	(329)
(Decrease) increase in deferred revenue	(4,364)	3,395	(101)	6,522
Unrealized foreign exchange (gain) loss	(381)	32	279	(41)
	$ (997)	**$ 225**	**$ (250)**	**$ (4,970)**