EngHOUSE

2010 Annual Report

ENGHOUSE SYSTEMS LIMITED

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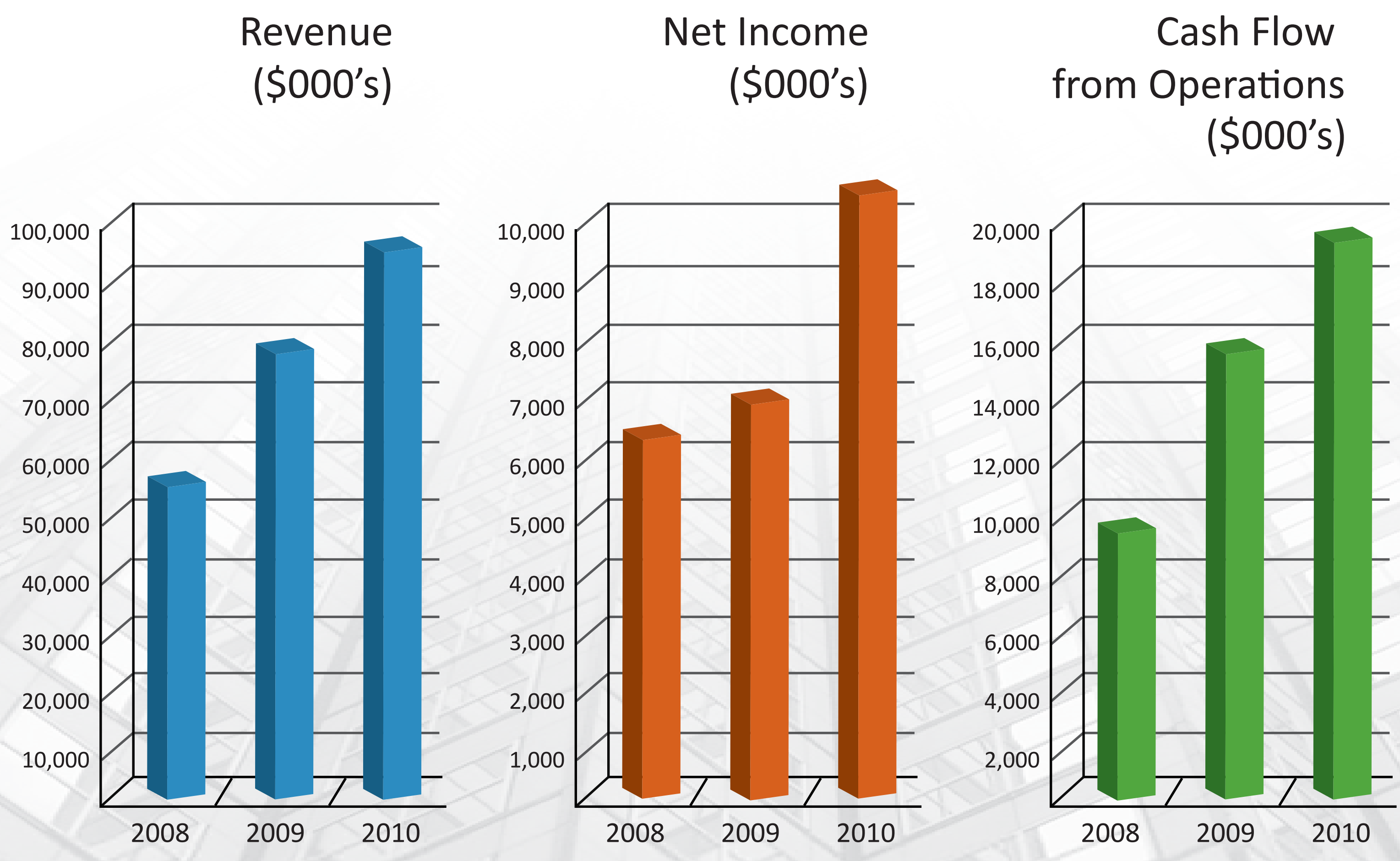


Chairman's Message

The economy began to show signs of improvement in fiscal 2010 in an economic environment marked by low interest rates and the continued strengthening of the Canadian dollar against major world currencies. While the recovery remains fragile, there is reason for cautious optimism.

Against this backdrop, Enghouse had a successful year and positioned itself for further growth in the coming year. Partly as a result of acquisitions completed in the fiscal year, the Company's revenue grew by 20% over the prior year to $94.2 million and net income increased by 52% to $10.2 million or $0.40 per diluted share. The Company continues to generate positive operating cash flows, adding $18.6 million from operations in the year. Enghouse closed the year with over $78 million in cash and has no long-term debt even after spending over $30 million on acquisitions and $3.5 million on dividends in the year. The Company also increased its quarterly dividend to $0.04 per common share in May 2010.

The Company completed three acquisitions during the fiscal year.

The Company acquired the Mettoni Group, including a number of subsidiaries, operating from a base in Reading, U.K. with operations in Europe, the United States, Australia and Dubai. Mettoni offers unified communications solutions and hosted services to its customer base and has been integrated into the Company's Interaction Management Group. Its product suite complements ours and has been integrated into the Company's product portfolio, leveraging synergies and existing development efforts to reduce the time to market for upgrades across the consolidated product platform. The Mettoni acquisition also expanded the Company's European presence and enables the Company to move forward from three major operational centers in Canada, the United States and the United Kingdom.

Pulse Voice Inc., which was acquired, consists of two divisions: a networks operations division and an IVR solutions division. The network operations division provides least cost routing solutions to the telecommunications market, while the IVR solutions division has enabled the Company to expand the Interaction Management Group's product and services offering into the Canadian marketplace with local staff to provide superior support and services.

Enghouse also acquired Telrex LLC, a leading provider of IP call recording and contact center optimization software. This acquisition provides the Company with a synergistic addition to the product portfolio that was previously provided by other third party vendors. These acquisitions have expanded the Company's geographic reach and the scope of its product portfolio.

We believe that the Company is well positioned for continued growth and we will continue to pursue strategic acquisitions that enable us to further expand our product offerings and marketing reach. We are confident that the acquisition environment continues to be favorable for executing our strategy of expanding the Company's footprint through a combination of acquisitions and organic growth. We believe that our strategy will continue to generate results that will improve shareholder value over the long term.

We would like to take this opportunity to thank our shareholders, customers and employees alike for their continued loyalty and support.

"Signed"

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 December 15, 2010 and all information contained herein is current as of that date. The MD&A should be read in conjunction with Enghouse Systems Limited's ("Enghouse" or "the Company") fiscal 2010 consolidated financial statements and the notes thereto, which were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This MD&A covers the results of operations, financial condition and cash flows for Enghouse and its wholly owned subsidiaries for the year ended October 31, 2010. This document is intended to assist the reader in better understanding the Company's operations and key financial results as of the date of this report. The consolidated financial statements and the MD&A have been reviewed by the Company's Audit Committee and approved by its Board of Directors. Unless otherwise indicated, all references to dollar amounts herein are to Canadian dollars, stated in thousands, except per share amounts.

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. This report should be viewed in conjunction with the Company's other publicly available filings, copies of which are filed electronically on SEDAR at www.sedar.com.

NON-GAAP MEASURES

The Company's MD&A uses certain non-GAAP measures to assess its operating performance. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Accordingly, they should not be considered in isolation. The Company uses "operating income" as a measure of performance. Therefore, operating income may not be comparable to similar measures presented by other issuers. Operating income is calculated as net income before amortization of acquired software and other intangibles, net interest income, net other income, foreign exchange gains and the provision for income taxes. This is denoted as "Income before the undernoted" on the Consolidated Statements of Operations and Retained Earnings of the Company. Management uses operating income to evaluate performance as it excludes amortization of software and intangibles and foreign exchange gains and losses.

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 Interaction Management Group (formerly, the Syntellect Division) and the Asset Management Group. The Interaction Management Group serves the customer service market segment through the provision of Interactive Voice Response ("IVR") systems and speech and voice recognition solutions as well as an advanced contact center platform that manages multi-channel customer interactions. Its customers include insurance companies, banks, utilities as well as high technology, health care and hospitality companies. The Asset Management Group provides visual-based software solutions for the design and management of complex network infrastructures to telecommunications, utilities, public and private transportation and oil and gas companies.

The Company's strategy remains focused on completing acquisitions that broaden the Company's depth in the markets it serves, both geographically and functionally, by expanding its product suite and market reach. The Company continues to internally develop and enhance its existing product portfolio and augment it with complementary products and services obtained through acquisition that will enable the Company to provide a full spectrum of products and services to its customer base. The Company has been successful in this regard, completing three acquisitions in the fiscal year, each becoming a wholly owned subsidiary of the Company as of their respective dates of acquisition.

On November 1, 2009, the Company completed the acquisition of Pulse Voice Inc. ("Pulse") of Markham, Ontario for approximately $4.6 million. Pulse is a leading provider of communications solutions with both a contact center division providing solutions to over 200 customers, and a networks division providing cost control and intelligent network solutions to the telecom industry. Pulse's IVR operations have been strategically aligned with Syntellect's operations to provide sales and services of the Company's Interaction Management Group's products in Canada.

The Company acquired Mettoni Limited ("Mettoni") on April 6, 2010 for a cash purchase price of approximately $24.6 million. The acquisition of Mettoni also includes its wholly owned subsidiaries, Arc Solutions (International) Limited, Datapulse Limited, Excomm Limited, Mettoni Inc., Arc Solutions (International) Inc., Datapulse Inc. and Mettoni FZE. Mettoni provides unified communications software solutions and has operations in North America, Europe, the Middle East and Africa and Asia Pacific. The transaction was accounted for as a purchase and was included in the operations of the Company from April 6, 2010.

Effective June 1, 2010, Enghouse completed the acquisition of the intellectual property of Telrex LLC, ("Telrex"), while Mettoni, Inc., a wholly owned subsidiary of Enghouse, acquired the Telrex operations for a total purchase price of approximately $4.1 million. Telrex is a leading provider of IP call recording and contact center optimization software solutions with operations in North America and EMEA. This acquisition provided a synergistic product offering that was previously provided by unrelated third parties, expanding the Company's product offering in the interaction management market.

In the prior fiscal year, the Company acquired Trio Enterprise AB ("Trio") for approximately $7.4 million. Trio provides switch independent Interactive Voice Response ("IVR") and contact center solutions including Enterprise Communication, presence, call and message management solutions to customers in Northern Europe. The acquisition of Trio expanded the Company's market reach in northern Europe and enabled the Company to integrate its solution with the Mettoni product suite to leverage existing development efforts.

The Company continues to be profitable and generated significant operating cash flows in the fiscal year of $18.6 million compared to $15.8 million in fiscal 2009. The Company closed the year with over $78 million in cash and short-term investments after spending $30.1 million on acquisitions in the fiscal year. The Company reported profits of $10.2 million compared to $6.7 million in fiscal 2009. The outlook for Enghouse remains strong, having fully integrated its most recent acquisitions, re-aligned and consolidated its product offerings and having a healthy balance sheet with which to pursue both organic growth and additional acquisitions to further expand its marketing reach.

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 October 31, 2010) and for the past three fiscal years. The annual information has been derived from the Company's audited consolidated financial statements, while quarterly information has been derived from the Company's unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements and include all adjustments necessary for the fair presentation of the information presented therein. 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, 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
January 31, 2010	$ 19,536	$ 1,903	$ 0.08	$ 0.08	$ 89,819	$ 162,933
April 30, 2010	21,263	1,707	0.07	0.07	72,619	179,808
July 31, 2010	26,031	3,202	0.13	0.13	77,140	184,032
October 31, 2010	27,378	3,426	0.14	0.13	78,267	181,427
Year ended Oct. 31, 2010	$ 94,208	$10,238	$ 0.41	$ 0.40	$ 78,267	$ 181,427
January 31, 2009	$ 18,228	$ 794	$ 0.03	$ 0.03	$ 92,995	$168,240
April 30, 2009	16,834	938	0.04	0.04	88,628	165,437
July 31, 2009	23,353	2,431	0.10	0.10	91,767	162,048
October 31, 2009	20,003	2,571	0.10	0.10	93,152	161,234
Year ended Oct. 31, 2009	$ 78,418	$ 6,734	$ 0.27	$ 0.27	$ 93,152	$161,234
Year ended Oct. 31, 2008	$ 53,009	$ 6,002	$ 0.24	$ 0.23	$ 94,430	$171,812

The Company had no long-term debt at the end of any of the last three fiscal years.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's consolidated financial statements are prepared in accordance with Canadian 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, 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, investment tax credits, the useful lives and recoverability of long-term assets, intangible assets, the carrying value 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 the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue Recognition

Revenue consists primarily of fees for licenses of the Company's software, maintenance fees, professional services and hardware revenue. Software license revenue is comprised of license fees charged to customers for the use of software products and is generally licensed under perpetual arrangements in which the fair value of maintenance and professional services are determinable. Services revenue is comprised of professional services revenue from consulting, implementation and training services related to the Company's products as well as maintenance, hosting and technical support services. Maintenance services are typically provided on an annual basis and generally include ongoing customer support, product fixes and certain product upgrades provided on an "if and when available" basis. Customers typically purchase a combination of bundled services and products including licenses, maintenance, professional services and hardware.

Revenue from license fees for software products and the resale of third party software and hardware products is recognized when there is an unconditional sales order under a license agreement, the product is delivered, the fee is fixed or determinable, provided that no significant future vendor obligations exist and, at the time of performance, the ultimate collection of the consideration is reasonably assured. If collection is not deemed probable, revenue is recognized upon the receipt of cash assuming all other criteria have been met.

Typically, software license agreements are multiple element arrangements that also include the provision of maintenance and professional services. The Company evaluates these contracts to determine whether the professional services are essential to the functionality of the software. Revenue from arrangements that include services that are not essential to the functionality of the software is allocated to each element of the arrangement based on their relative fair values and is recognized when the above-noted revenue recognition criteria have been met for each element. The Company uses vendor specific objective evidence to determine the fair values of the multiple elements, including the price charged when the same elements are sold separately. The Company uses the residual method to recognize revenue, whereby the fair value of the undelivered elements is deferred until delivered and the remaining portion of the total arrangement fee is recognized as revenue.

If services are deemed essential to the functionality of the licensed software, the licensed software and services revenues are recognized using contract accounting under the percentage of completion method. The Company uses the ratio of incurred labor costs to estimated total labor costs as the measure of its progress toward completion on each contract. If a loss on a contract is considered probable, the loss is recognized at the date such loss determination is made.

If services are not deemed essential to the functionality of the software, the service revenue (including hosted services revenue) is recognized as the services are delivered to the customer.

Maintenance contracts entitle the customer to telephone support, solutions to technical problems, and the right to receive software updates as and when they are released. Revenue from maintenance contracts is recognized over the term of the maintenance contract, which is typically one year.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for the estimated losses resulting from the inability of its customers to make required payments. The Company reviews this provision regularly and performs ongoing credit evaluations of its customers' financial condition. Adverse changes in the financial condition of the Company's customers resulting in an impairment of their ability to make payments would likely require the provision of additional allowances. Actual collections could materially differ from management's estimates.

Acquired Assets and Liabilities including Intangible Assets and Goodwill

The Company accounts for business combinations using the purchase method, under which it allocates the excess of the purchase price of business acquisitions over the fair value of identifiable net assets acquired to intangible assets and goodwill. Any goodwill or intangible assets with indefinite useful lives acquired in business combinations are not amortized to income over their useful lives but are assessed annually for any potential impairment in value. All other intangible assets are amortized to operations over their estimated useful lives. Purchase price allocations are derived from a formal valuation, which, where appropriate, is performed by an independent third party valuation expert.

The Company's intangible assets relate to acquired technology, customer lists and trademarks. Enghouse also reviews the carrying value of amortizable intangible assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected from its use and eventual disposition. In assessing the recoverability of these intangible assets, the Company must make assumptions regarding estimated future cash flows, market conditions and other factors to determine the fair value of the assets. If these estimates or related assumptions change in the future, the Company may be required to record impairment charges for these assets. In fiscal years 2010 and 2009, the Company did not record an impairment charge related to intangible assets.

The Company has goodwill arising from business acquisitions, which is comprised of the excess of amounts paid over the fair value of net identifiable assets acquired. The Company performs an annual assessment of the fair value of the businesses to which this goodwill relates.

Goodwill is tested for impairment at the "reporting unit" level in accordance with the CICA Handbook Section 3064 "*Goodwill and Other Intangible Assets*". The Company's reporting units are its Interaction Management Group and Asset Management Group. In assessing the fair value of these reporting units, the Company must make assumptions regarding estimated future cash flows, market conditions and other factors to determine the fair value of the business. If estimates or their related assumptions change in the future, the Company could be required to record impairment charges for these assets. In fiscal years 2010 and 2009 Enghouse did not record an impairment charge related to goodwill.

Income Taxes

Management uses significant judgment to determine the provision for income taxes, current and future income tax assets and liabilities and any valuation allowance required against the income tax assets recorded. The Company operates in multiple tax jurisdictions and to the extent that there are profits in these jurisdictions, the profits are subject to tax at varying tax rates and regulations under the legislation of these jurisdictions. Enghouse's effective tax rate may be affected by changes to or application of tax laws in any particular jurisdiction, changes in the geographical mix of revenue and expense, level of relative profitability in each jurisdiction, utilization of net operating losses and tax carry-forwards and management's assessment of its ability to realize future tax assets. Accordingly, management must estimate the tax provision of the Company on a quarterly basis, which involves determining taxable income, temporary differences between tax and accounting carrying values and income tax loss carry-forwards. Favorable or unfavorable adjustments to tax provisions may result when tax positions are resolved or settled at amounts that differ from those estimates.

The Company has future income tax assets that are subject to periodic recoverability assessments. Realization of the Company's future income tax assets is largely dependent upon its achievement of projected future taxable income and the continued applicability of ongoing tax planning strategies. The Company's judgments regarding future profitability may change due to future market conditions, changes in tax legislation and other factors that could adversely affect the ongoing value of the future income tax assets. These changes, if any, may require the material adjustment of these future income tax asset balances through an adjustment to the valuation allowance thereon in the future. This adjustment would reduce the future income tax asset to the amount that is considered to be more likely than not to be realized and would be recorded in the period such a determination was to be made.

CHANGES IN ACCOUNTING POLICY

Changes in accounting policy adopted in fiscal 2009

CICA Handbook section 1506, *Accounting Changes*, was amended to exclude from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting, as will be the case when International Financial Reporting Standards ("IFRS") are adopted in Canada. The amendments apply to interim and annual financial statements for years beginning on or after July 1, 2009. This amendment did not have an impact on the consolidated financial statements presented herein.

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 IFRS 3, *Business Combinations.* The Section applies prospectively to business combinations for which the acquisition date is on or after November 1, 2011 and allows for earlier application. The standard requires that all assets and liabilities of an acquired business be recorded at fair value at the date of acquisition. The standard also requires that acquisition-related costs be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. These costs are presently capitalized.

CICA Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-Controlling Interests* were also 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, *Consolidated and Separate Financial Statements.* The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after November 1, 2011 and allow for earlier adoption. Early adoption may reduce the amount of restatement required upon conversion to IFRS. The Company is currently assessing what impact the adoption of these new Standards may have on the Company's results of operations and consolidated financial position.

In December 2009, the CICA issued EIC 175, *Multiple Deliverable Revenue Arrangements*, replacing EIC 142, *Revenue Arrangements* with Multiple Deliverables. This EIC (a) provides updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated; (b) requires, in situations where the vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling prices, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (c) eliminates the use of the residual method and requires an entity to allocate revenue using the relative selling price method and (d) requires expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes required under EIC 175 are effective for fiscal years beginning on or after January, 1, 2011, with earlier adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If EIC 175 is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal year.

Under EIC 175, allocation of revenue to separate elements in a multiple element transaction will be based on their relative selling prices, as indicated by VSOE or third-party evidence of selling prices, or if both are not available, on estimated selling prices. The allocated portion of the arrangement not delivered would then be deferred. The Company is currently reviewing what impact these amendments may have on its financial statements and has not yet determined either the timing or method of its adoption.

Harmonization of Canadian and International Accounting Standards

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that IFRS will replace Canadian GAAP effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's first unaudited consolidated interim financial statements presented in accordance with IFRS will be for the three month period ending January 31, 2012, and its first audited consolidated annual financial statements presented in accordance with IFRS will be for the year ending October 31, 2012 and will include comparative results for fiscal 2011.

The Company's conversion project consists of three phases:

- **Scoping and diagnostic phase** – this phase involves performing a high-level impact assessment to identify key areas that are expected to be impacted by the transition to IFRS. The objective of this phase is to perform a detailed review of all relevant IFRS standards to identify differences with our current policies and practices, consider one-time accounting policy alternatives available on the adoption of IFRS and to prioritize those differences that could have a material impact on the financial statements, business processes and IT systems.
- **Impact analysis, evaluation and design phase** – each area identified from the scoping and diagnostic phase will be addressed. The objective of this phase will be to specify, quantify and design changes to existing accounting policies, information systems and business processes, together with a detailed analysis of policy choices under IFRS, including optional IFRS 1 exemptions and the development of draft IFRS consolidated financial statements.
- **Implementation and review phase** – this phase involves the implementation of changes to affected accounting policies and practices, business processes and systems and internal controls and training programs across the organization, as necessary. It will culminate in the collection of the financial information necessary to compile IFRS-compliant financial statements.

Progress towards completion of our IFRS Changeover Plan

The Company's Audit Committee is updated on the progress of the conversion plan on at least a quarterly basis. As at October 31, 2010, the following progress has been made relating to the Company's IFRS conversion plan:

In its scoping and diagnostic phase the Company identified the following areas that have the greatest potential impact to the Company's accounting policies, based on existing IFRS as at October 31, 2010:

- Presentation of Financial Statements (IAS 1)
- First-time Adoption of IFRS (IFRS 1)
- Business Combinations (IFRS 3R)
- Revenue Recognition (IAS 11 and 18)
- Provisions and Contingent Liabilities (IAS 37)
- Impairment of Assets (IAS 36)
- Income Taxes (IAS 12)
- Foreign exchange (IAS 21)

The list should not be regarded as an exhaustive list of the changes that may result from the adoption of IFRS. It is intended to highlight those areas we believe to be of the most significant impact to the Company. The International Accounting Standards Board ("IASB") will continue to issue new accounting standards during the conversion period and is presently in the process of amending standards on areas such as revenue recognition, lease accounting, financial statement presentation and income taxes. As a result, the final impact of IFRS on the Company's consolidated financial statements can only be measured once all applicable standards at the conversion date are known.

During the year the Company commenced its Phase II review of the key areas identified in the diagnostic phase. The Company has made progress towards completing its detailed analysis and component evaluations of the areas identified, made preliminary assessments and evaluations of whether changes to accounting policies may be required, the potential impact on IT systems and business processes and the impact on internal controls over financial reporting and disclosure controls. The Company has also begun to draft preliminary IFRS consolidated financial statements and notes for the first IFRS financial statements issued for quarter ended January 31, 2012 to better evaluate the impact that the conversion will have on its initial financial statements. The Company has developed a detailed conversion plan and has engaged external advisors to consult on its IFRS project.

This phase also includes analysis of the IFRS 1 optional exemptions and mandatory exceptions to the general requirement for full retroactive application of IFRS on adoption. The following are the preliminary IFRS policy decisions, IFRS 1 optional exemptions and expected accounting differences identified in the preparation of the IFRS statement of financial position in the opening comparative balance sheet at November 1, 2010, (the "Transition Date"):

- To deem the cumulative translation differences for all foreign operations to be zero as of the Transition Date. Enghouse has cumulative translation losses of $12.4 million at October 31, 2010.
- To apply IFRS 2 *Share-based Payments* only to equity instruments issued after November 7, 2002 and not vested by the Transition Date.
- To elect to use historical cost accounting at the Transition Date to value its property and equipment, which is consistent with the Company's current accounting policy, instead of using fair value accounting. The Company will use depreciated cost to value property and equipment subsequent to the transition date.

Management continues to evaluate whether the Company will elect under IFRS 1 to apply the rules of IFRS 3R - *Business Combinations* retrospectively from the Transition Date or some other date. Management is also evaluating other optional exemptions under IFRS 1 as part of our Phase II analysis. The evaluation also includes an assessment of the potential impact on the Company's financial reporting, accounting policies, internal systems, internal control over financial reporting, disclosure controls and business activities. The project is on schedule and management expects to complete the component evaluations for all areas potentially impacted in the second quarter of fiscal 2011.

Based on our review, we have determined that in many respects the Company's accounting policies are aligned with IFRS requirements. There are likely to be no material differences in the majority of line items in the Company's balance sheet and income statement from that reported under Canadian GAAP, other than those noted below. However, the Company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and has begun to identify and assess the extent of these additional disclosure requirements in its draft IFRS interim financial statements for the quarter ended January 31, 2012.

In addition to the IFRS 1 exceptions and exemptions, the following are preliminary differences between our Canadian GAAP accounting policies and those under IFRS and the potential impact on the Company that we believe are applicable to the Company based on our analysis to date:

Presentation of Financial Statements:

Additional disclosures and detail will be required in the notes to the financial statements. The format for the actual financial statements will also change.

Business combinations:

Acquisition transaction costs as well as restructuring costs related to acquisitions must be expensed under IFRS, which will reduce the amount of residual goodwill booked on acquisitions. This may also increase the volatility of net income on the income statement.

Goodwill impairment:

Goodwill must be tested at the cash generating unit level of the Company, which could be lower than the reporting unit level at which goodwill is presently being evaluated. We do not anticipate that this accounting policy difference will have a significant impact on our consolidated financial statements.

Share-based payments:

Forfeiture estimates will be recognized in the period in which they are estimated, and will be revised for actual forfeitures in subsequent periods, whereas under current accounting policies, forfeitures are only recognized as they occur. In addition, each tranche of graded option vesting is treated as a separate option grant, which will accelerate the recognition of option expense. The impact is not expected to be material to the Company.

Income taxes:

Under Canadian GAAP, if additional deferred tax assets that were not recognized at the acquisition date are subsequently realized, the adjustment is recognized first against goodwill, and then against intangible assets, before any adjustment is recognized as a tax recovery on the income statement. Under IFRS, such adjustment is recognized directly in the income statement. The Company is still evaluating the impact of this standard.

Provisions and contingencies:

Under IFRS a provision is recognized in the financial statements if it is probable, which is defined as "more likely than not". This is a lower threshold than "likely" under Canadian GAAP, which could have an impact on the timing of when a provision may be recorded. On the Transition Date, any provisions and contingent liabilities that qualify for recognition will be recognized as a liability with a resulting decrease in retained earnings. The Company is still evaluating the impact this standard will have on the Company.

IFRS training is ongoing for project team members related to relevant aspects of IFRS, which are expected to impact the Company and will be rolled out as the project progresses to include all project team members, the Audit Committee and other stakeholders.

It is anticipated that the adoption of IFRS will not significantly impact the Company's information system requirements. The Company's accounting processes are not heavily dependent on the Company's information systems. The areas where information systems will be most impacted are those related to the ability to track parallel IFRS adjustments in the accounting system, particularly during the fiscal 2011 transition year where the Company is required to retroactively report on an IFRS basis in addition to Canadian GAAP. In addition, in our detailed component evaluations for each area potentially impacted by IFRS, we are reviewing how the accounting system and general ledger structure will need to be modified to address increased financial statement and note disclosure, including nature and function income statement reporting, tracking of the continuity of fixed assets and reserves, acquisition and restructuring costs and functional currency accounting differences. The Company will continue to assess the impact on information systems as Phase II efforts continue.

The Company continues to assess the impact of adopting IFRS on its business activities, processes and policies. It is expected that employee incentive plans that are based on Canadian GAAP financial measures may have different values under IFRS and that the Company's budgeting and forecasting processes and procedures may need to be amended to consider the impact of IFRS on its results.

The Company's certification of disclosure controls and internal controls over financial reporting under NI 52-109 requires that all entity level, financial reporting, IT and disclosure controls be updated and tested, consistent with any changes resulting from the Company's conversion to IFRS. As the majority of change is anticipated to be related to the disclosure requirements in the financial statements, it is anticipated that disclosure controls will be the most impacted. It is also noted that certain adjustments will be required in the transition year that will require calculation, monitoring and disclosure outside of the Company's accounting system, which increases the inherent risk of misstatement. It is anticipated that these adjustments will be managed at the corporate level as part of the Company's disclosure and financial reporting processes. These adjustments will also be tested as part of the Company certification of controls. To the extent that any material changes are identified, these changes will also be mapped and tested to ensure that no material deficiencies exist as a result of the conversion to IFRS. The Company is still evaluating the impact of the change to IFRS on its certification process.

The Company will continue to provide quarterly updates on the progress towards the Company's conversion plan throughout the conversion process to allow stakeholders to assess the potential impact of the IFRS conversion on the Company's financial performance, and to assess the Company's ability to meet the transition date. At October 31, 2010, the Company cannot reasonably determine the full impact that adopting IFRS would have on its financial statements as changes in circumstances such as changes in existing IFRS, regulatory and economic conditions could alter the Company's assumptions regarding its conversion plan.

LIQUIDITY AND CAPITAL RESOURCES

Enghouse closed the year with $78.3 million in cash and short-term investments, a decrease over the prior year's cash reserves of $93.2 million. However, this is after payment of approximately $3.5 million related to the acquisition of Telrex on June 1, 2010, $22.3 million related to the acquisition of Mettoni completed on April 6, 2010 and $4.6 million related to the acquisition of Pulse on November 1, 2009. The Company also paid $1.3 million for the final holdback related to the Envox acquisition and $3.5 million on dividends.

The Company generated positive operating cash flows of $18.6 million in fiscal 2010, an increase from $15.8 million in fiscal 2009, primarily as a result of the impact of increased revenue from acquired operations. Short-term investments continue to be invested in a combination of highly liquid short-term banker's acceptances, money market mutual funds, government and corporate bonds and equities traded on an active market.

The Company has no long-term debt and has current liabilities related to accounts payable and accrued liabilities, current income taxes payable, dividends payable and deferred revenue, and non-current liabilities related to deferred revenue, long-term income taxes payable and future income taxes as at October 31, 2010.

The Company renewed its stock repurchase plan for a further year, which will expire on April 13, 2011. Pursuant to the normal course issuer bid rules of the Toronto Stock Exchange, the Company is entitled to purchase for cancellation up to 1,641,376 common shares, representing approximately 10% of the publicly listed float, at market prices at the time of repurchase. The Company did not repurchase any shares for cancellation in fiscal 2010, but repurchased for cancellation 949,562 of its shares under this plan during fiscal 2009 at an average price of $4.80 per share. During the current fiscal year, 296,000 stock options were exercised, contributing additional cash of $0.9 million to the Company compared to 332,500 options in 2009, which contributed cash of $1.0 million. As at December 15, 2010 there were 25,171,662 common shares issued and outstanding.

Based on the Company's current plans and projections, management is confident that the Company has the funds necessary to meet its existing and future financial operating commitments. Future acquisition growth may be funded through a combination of cash and equity consideration, which could cause dilution to existing shareholders.

DIVIDEND POLICY

The Company's policy is to pay quarterly dividends subject to Board approval, based on the Company's financial results and relevant circumstances at the time, since the policy's inception in 2007. The Company has paid regular quarterly dividends since May 31, 2007. Enghouse increased its quarterly dividend from $0.025 to $0.03 per common share outstanding effective for its May 29, 2009 dividend payment and again to $0.04 per common share outstanding for its May 31, 2010 dividend payment. The Company declared and made the following dividend payments in the three most recently completed fiscal years:

(i) 2010- $0.03 per common share outstanding on February 26, 2010 and $0.04 per share on each of May 31, 2010, August 31, 2010 and November 30, 2010 for a total of $3,774;

(ii) 2009 - $0.025 per common share outstanding on February 27, 2009 and $0.03 per share on each of May 29, 2009, August 28, 2009 and November 30, 2009 for a total of $2,861;

(iii) 2008 - $0.025 per common share outstanding on each of February 29, 2008, May 31, 2008, August 29, 2008 and November 28, 2008 for a total of $2,537.

The decision on whether to declare a dividend is subject to the Board of Director's discretion. In determining whether to declare and the amount of the dividend, the Board of Directors, among other criteria, takes into account the Company's financial condition, results of operations, capital requirements and such other factors as the Board of Directors deems relevant at such time.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Company has no significant commercial commitments or obligations other than for the leases of the facilities it currently occupies, the latest of which expires in fiscal 2017, and operating leases for office and computer equipment. The following table summarizes the contractual obligations of the Company for future years.

	Total	2011	2012	2013	2014	2015 and thereafter
Lease obligations	$ 11,361	$ 3,410	$ 2,555	$ 1,651	$ 1,464	$ 2,281

The Company does not have a company-funded pension plan or any obligations related to any deferred compensation arrangements.

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 Canadian GAAP), 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.

RESULTS OF OPERATIONS

General

The Company recorded revenue of $94.2 million for the year ended October 31, 2010 compared to $78.4 million in the prior year and net income of $10.2 million compared to net income of $6.7 million in the prior year ended October 31, 2009. Revenue increased by 20.1% in the fiscal year largely because of revenue contributions from acquisitions. As a result of the Company's on-going acquisition strategy, the Company's reliance on revenue denominated in U.S. dollars has diminished with an increasing proportion of its revenue stream coming from its European operations and is also denominated in Pounds Sterling, Euros and Swedish Kronor. The Canadian dollar appreciated against all of these currencies in the current fiscal year, resulting in lower Canadian dollar revenue and operating costs compared to prior year's rates. The U.S. dollar was reported using an average foreign exchange rate of $1.05 in fiscal 2010 versus $1.18 in fiscal 2009, while the Pound Sterling averaged $1.63 in the fiscal year compared to $1.82 in the prior year and the Euro $1.42 versus $1.59 in fiscal 2009.

Revenue

Revenue for the year was $94.2 million, an increase of $15.8 million or 20.1% from the $78.4 million reported in the prior year and is comprised of license, hardware, maintenance, professional consulting and hosted services revenue.

Revenue for the Interaction Management Group was $80.7 million compared to $68.9 million in the prior fiscal year. This includes software license revenue of $26.7 million compared to $21.9 million in the prior fiscal year and maintenance revenue of $39.3 million compared to $33.3 million in fiscal 2009. The majority of this increase is related to contributions from acquired operations, Mettoni, acquired April 6, 2010, Pulse, acquired November 1, 2009 and Telrex, acquired June 1, 2010. As noted, conversion of the U.S. dollar, the Pound Sterling and the Euro to Canadian dollars negatively impacted revenue as the Canadian dollar appreciated throughout the fiscal year. However, reliance on U.S. denominated revenue was reduced in the fiscal year as a result of the acquisition of Mettoni, which has a larger European customer base. Consulting and services revenue increased in the fiscal year to $12.7 million from $9.9 million, consistent with the increased consulting revenue base acquired in the Telrex and Mettoni acquisitions. Mettoni contributed $15.3 million in revenue since acquisition, while Telrex contributed $1.2 million and Pulse – IVR $1.6 million.

Revenue for the Asset Management Group increased to $13.5 million from $9.5 million in the prior year as a result of contributions of $3.1 million from Pulse Network operations, acquired November 1, 2009. The Group's transit operations were responsible for the remaining increase in revenue in the fiscal year as a result of strong license and consulting revenue. Revenue for the Group included license revenue of $3.5 million in the year compared to $1.2 million in fiscal 2009. Maintenance revenue for the Group was comparable to the prior year's maintenance revenue with the impact of foreign exchange being offset by incremental Pulse Network maintenance revenue. Consulting revenue was $3.4 million compared to $2.6 million as a result of incremental professional services work recognized in the Company's transit operations.

On a consolidated basis, software revenue was $30.2 million for the year compared to $23.1 million reported in the prior fiscal year as a result of stronger revenue contributions from Trio and acquired operations.

Overall, $61.3 million or 65.1% of all revenue was derived from services, compared to $51.5 million or 65.7% in fiscal 2009. Maintenance revenue comprised $44.9 million or 73.3% of the total services revenue for the year, compared to $39.0 million or 75.7% in fiscal 2009 and represents a significant source of recurring revenue to the Company. The increase in maintenance revenue is attributable to the impact of acquisitions, which added $7.3 million in revenue in the fiscal year since acquisition. This was mitigated by the strengthening of the Canadian dollar relative to the U.S. dollar, Pound Sterling and the Euro in the year. The proportional decline in maintenance revenue as a percentage of total revenue continues as a result of continuing increases in license and consulting revenue.

The Company continues to believe that license sales are critical to incremental maintenance revenue growth and that a strong recurring maintenance revenue stream increases the predictability and consistency of the Company's earnings.

Hardware revenue decreased to $2.7 million in the year from $3.7 million as a result of a significant order in the prior year's third quarter. Of the recent acquisitions, only Pulse Networks operations had any significant hardware revenue in the fiscal year at $0.5 million.

Cost of Sales

Cost of sales was $28.6 million or 30.4% of revenue compared to $26.1 million or 33.2% of revenue in the prior fiscal year. The increase is the result of incremental third party costs related to increased services revenue in the year, as revenue from both the resale of third party software and hardware decreased in the year. The proportional increase in margins in the year is attributable to improved margins on the resale of third party software and hardware, whereas, margins on services improved only slightly during the fiscal year from $19.3 million or 62.6% to $22.4 million or 63.4%.

Cost of hardware sales decreased to $1.8 million from $3.0 million, and reflects a gross margin of 31.8% compared to 18.8% in the prior fiscal year as a result of lower hardware margins on a significant third party sale in the Company's operations in the prior year.

Operating Expenses

The Company's operating expenses were $45.6 million in the fiscal year compared to $36.8 million in the prior fiscal year and reflect the increased costs associated with acquired operations, Mettoni, Pulse and Telrex as well as the full year costs of Trio, acquired in mid-fiscal 2009. Operating costs include a significant amount of both U.S. and Pound Sterling denominated costs associated with the Company's growing U.S. and U.K. operations as a result of the Mettoni acquisition. Operating costs were favorably impacted by the continued strengthening of the Canadian dollar relative to both the U.S. dollar and Pound Sterling during the fiscal year. The Company has proportionately more expenses associated with its European operations, the majority of which are denominated in Pounds Sterling and which form a natural hedge for changes in the Pound Sterling relative to the Canadian dollar given the increased revenue contributions in this currency. A similar natural hedge exists with the Company's U.S. operations.

Operating costs also included non-cash charges for compensation expense related to stock options granted, which added $0.4 million in the current year and $0.2 million in the prior fiscal year (see Note 6(D) to the consolidated financial statements).

Headcount for the Company on a consolidated basis was 532 as at October 31, 2010 compared to 346 at the prior year end and includes additional headcount from acquired operations.

Government grants and investment tax credits ("ITCs") of $0.6 million were booked in the current fiscal year compared to $0.1 million in the prior year and are offset against research and development costs. The Company records ITCs earned under the Income Tax Act (Canada) and other foreign legislation when there is reasonable assurance of realization. To the extent that the actual ITCs realized vary from the amount accrued, the difference is recognized in the year when such a difference is determined.

Amortization of Software and Intangibles

The Company reported charges of $8.5 million compared to $7.3 million in the prior fiscal year related to the amortization of software and intangibles recorded on acquisition. The increase in the fiscal year is related to incremental charges on the Pulse, Mettoni and Telrex acquisitions which added $2.1 million in the fiscal year. This was mitigated by the expiry of amortization expenses on earlier acquisitions.

Interest Income and Other Income

Interest income was $0.4 million, a decrease from the $1.3 million in the prior year as a result of decreasing short-term yields on invested cash balances during the current fiscal year on both Canadian and U.S. dollar denominated investments. Net other income reported was $1.1 million in the year, up significantly from $0.2 million in the prior year and includes gains realized on equity investments sold. There can be no assurance that similar gains will be recorded in future years.

Foreign Exchange

The Company earns a significant portion of revenue from sales denominated in U.S. dollars and with the acquisition of Mettoni, the Company has also increased its exposure to the Pound Sterling and the Euro in the fiscal year. This principally impacts the Company's Interaction Management Group. The Company's Asset Management Group's operations are more focused on the North American market and as a result have more exposure to the U.S. dollar and less on other currencies as only Gamma Projects Limited and Enghouse (U.K.) Limited serve the European market. During the fiscal year, the Canadian dollar continued to strengthen against major currencies including the U.S. dollar, the Pound Sterling and the Euro. While this negatively impacted the Company's foreign currency denominated revenue stream it also had a positive impact on the Company's largely U.S. and Pound Sterling denominated operating costs of its Phoenix, Arizona and Reading, U.K. operations.

During the current fiscal year, the Canadian dollar, measured relative to its U.S. counterpart, opened at $1.08 and closed the fiscal year at $1.02, for a weighted-average foreign exchange rate of $1.05 compared to $1.18 in the prior fiscal year. The Pound Sterling averaged $1.63 during the fiscal year compared to $1.82 in the prior fiscal year, and closed the year at $1.63. The Euro averaged $1.42 to the Canadian dollar in the fiscal year compared to $1.59 in fiscal 2009.

The Company recorded foreign exchange gains of $0.2 million in the fiscal year compared to $0.2 million in the prior fiscal year. The Company does not hedge foreign currency exposure but funds its U.S. dollar operational expenses with U.S. dollar revenue in order to mitigate exposure. A similar natural hedge exists for the Company's U.K. operations. Going forward, fluctuations in exchange rates among the Canadian dollar, the U.S. dollar, the Pound Sterling, the Euro and other currencies may have a material but mitigating affect on the Company's foreign currency denominated revenue and expenses. This will also impact the relative cost of foreign currency denominated acquisitions in Canadian dollars.

Income Tax Expense

During the year, the Company recorded an income tax provision of $3.0 million reflecting a 22.8% effective tax rate as compared to a provision of $3.2 million or a 32.5% effective tax rate in the prior fiscal year. The decrease in the provision in the year reflects declining tax rates, certain gains being non-taxable or partially taxable and the impact of the reversal of tax provisions previously set up but no longer required.

Net Income

Enghouse reported net income of $10.2 million in fiscal 2010 compared to $6.7 million reported in fiscal 2009. Earnings per share on a diluted basis were $0.40 versus $0.27 in fiscal 2009.

Fourth Quarter Operating Results

Total revenue for the quarter was $27.4 million, an increase of 36.9% from $20.0 million in the prior year's fourth quarter and includes license revenue of $8.8 million in the quarter. The increase is primarily attributable to stronger license and maintenance revenue in the Interaction Management Group related to acquired operations.

The Interaction Management Group reported revenue of $23.9 million compared to $17.7 million in the fourth quarter of fiscal 2009 and includes the results of acquired operations, Pulse (IVR Division), Mettoni and Telrex. The increase over last year's fourth quarter is attributable to the impact of incremental software license and maintenance revenue from these operations.

The Asset Management Group contributed $3.5 million in revenue in the fourth quarter, compared to $2.3 million reported in the fourth quarter of fiscal 2009. The increase was primarily as a result of incremental revenue from the Group's transit operations, which contributed $1.4 million in the quarter, an increase of $0.5 million over last year and from the Pulse Network operations.

Cost of sales for the quarter was $7.9 million or 28.7% of revenue compared to $5.8 million or 28.9% in the prior year's fourth quarter. Cost of services was $6.5 million or 36.3% of services revenue compared to $4.5 million or 32.8% in the prior year's fourth quarter.

Operating expenses for the quarter were $13.3 million, an increase from the $9.0 million reported in the fourth quarter of last year, primarily related to incremental operating costs associated with acquired operations. The Company reported $0.1 million in foreign exchange gains in the quarter compared to nominal foreign exchange gains in the prior fiscal year. The Canadian dollar continued to strengthen relative to the U.S. dollar, the Pound Sterling and the Euro in the fourth quarter compared to last year's fourth quarter, although the exchange rates are much more comparable than in prior quarters. The Canadian dollar averaged $1.04 for the quarter compared to $1.08 in the prior year's fourth quarter. As noted previously, the Company has reduced its proportionate exposure to the U.S. dollar as a result of acquisitions with an increasing proportion of its revenue and expenses being denominated in Pounds Sterling and Euros.

The Company recorded non-cash amortization charges in the quarter of $2.5 million compared to $1.8 million in the prior year's fourth quarter related to the amortization of software and intangibles including those recorded as part of the Mettoni, Telrex and Pulse acquisitions.

During the fourth quarter, the Company recognized interest income of $0.1 million compared to $0.1 million in the fourth quarter of fiscal 2009, consistent with decreased yields on invested cash balances available in the market during the fiscal year. The Company reported $0.2 million in net other income primarily related to the sale of equity positions in the quarter compared to $0.2 million in the prior year's fourth quarter.

The Company established a tax provision of $0.7 million or 17.1% in the fourth quarter compared to a provision of $1.2 million or 31.0% in the prior year's fourth quarter. The decrease in the provision in the year reflects declining tax rates, a proportionate increase in revenue from lower tax rate jurisdictions and the impact of the reversal of tax provisions previously set up but no longer required. During the quarter the Company paid tax installments of $0.1 million. The Company made no tax installment payments in the prior year's fourth quarter.

The Company reported net income of $3.4 million or $0.13 per diluted share compared to net income of $2.6 million or $0.10 per diluted share in the fourth quarter of fiscal 2009. The improvement reflects stronger license revenue reported in the quarter.

The Company generated cash from operations of $2.4 million compared to $2.0 million in the prior year's fourth quarter and closed the year with $78.3 million in cash and short-term investments.

RISKS AND UNCERTAINTIES

The Company operates in a dynamic business and economic environment that exposes the Company to a number of risks and uncertainties. The following section describes some, but not all, of the risks and uncertainties that may adversely impact our business, financial condition or results of operations. Additional risks and uncertainties not described below or not presently known to the Company may also impact our business. For a full description of the Risk Factors affecting Enghouse, the reader should review the Company's Annual Information Form dated December 15, 2010, filed and available on www.sedar.com, which Risk Factors are incorporated by reference herein.

If any of these risks occur, the Company's business, financial condition or results of operations could be seriously harmed and the trading price of the Company's common shares could be materially affected. The reader should understand that the sole purpose of discussing these risks and uncertainties is to alert the reader to factors that could cause actual results to differ materially from past results or from those described in forward-looking statements and not to describe facts, trends and circumstances that could have a favorable impact on the Company's results or financial position.

Impact of Foreign Exchange Fluctuations

As a result of the Company's acquisition strategy, the Company's exposure to U.S. dollar revenue has diminished in the current year relative to the exposure to other currencies. The Company's acquisition of Mettoni Limited has resulted in an increasing proportion of revenue denominated in Pounds Sterling as well as the Euro, and a proportional decrease in U.S. dollar denominated revenue. At the same time, the majority of operating expenses for the Interaction Management Group continue to be denominated in U.S. dollars but now represent a smaller proportion of overall operating costs with the addition of the Mettoni Limited U.K. based operations. In fiscal 2010, the Canadian dollar strengthened relative to each of these currencies, which favorably affected operating costs, but negatively impacted revenues. The relative exchange rate measured in Canadian dollars against the U.S. dollar averaged $1.05 in the fiscal year compared to $1.18 in the prior fiscal year. The Pound Sterling averaged $1.63 for the fiscal year compared to $1.82 in the prior fiscal year, while the Euro averaged $1.42 vs. $1.59 in the prior year compared to the Canadian dollar.

Overall, 25% of the Company's revenue was generated by operations in the U.K. compared to 20% in the prior fiscal year, while revenue generated by European operations increased from 11% to 20% in the fiscal year. Revenue generated from the Company's U.S. based operations was 49% compared to 68% in the prior fiscal year. Further changes in foreign exchange rates between Canada, the United States and the U.K. could have a material affect, either favorable or adverse, on both the revenue and expenses of the Company going forward, although these currencies act as a natural hedge for revenues and expenses. There can be no assurances that the Company will prove successful in its effort to manage this risk, which may adversely impact the Company's operating results.

Acquisitions

The Company continues to seek acquisitions that will be accretive to earnings and are a good fit for the strategic direction of the Company, both within and outside the Company's current market sectors. While Enghouse has both the experience and financial resources required to execute this strategy, the Company does not have control over the market conditions prevailing or likely to prevail in the future, which may impact the ability to execute this strategy. There can be no assurance that the Company will be able to identify suitable acquisition candidates available for sale at reasonable valuations, consummate any acquisition or successfully integrate any acquired business into its operations. The Company has and will likely continue to face competition for acquisition candidates from other parties including those that have greater resources or those willing to pay higher valuation multiples. Acquisitions may involve a number of other risks including: diversion of management's attention; disruption to the Company's ongoing business; failure to retain key acquired personnel; difficulties in integrating acquired operations, technologies, products or personnel; unanticipated expenses, events or circumstances; assumption of disclosed and undisclosed liabilities; and inappropriate valuation of the acquired in-process research and development, or the entire acquired business.

Intellectual Property Claims

A number of competitors and other third parties have been issued patents and may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those used by the Company in our products. Some of these patents may grant very broad protection to the owners of the patents. The Company cannot determine with certainty whether any existing third party patents or the issuance of any third party patents would require the Company to alter its technology, obtain licenses or cease certain activities. The Company may become subject to claims by third parties that its technology infringes their property rights due to the growth of software products in the Company's target markets, the overlap in functionality of these products and the prevalence of software products. 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. Accordingly, where appropriate, the Company forwards any such allegation or licensing request to 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. Litigation may be necessary to determine the scope, enforceability and validity of such third party proprietary rights or to establish the Company's proprietary rights. Some competitors have substantially greater resources and may be able to sustain the costs of complex intellectual property litigation to a greater degree and for a longer period of time than the Company could. Regardless of their merit, any such claims could: be time consuming; be expensive to defend; divert management's attention and focus away from the business; cause product shipment delays or stoppages; subject the Company to significant liabilities; and require the Company to enter into costly royalty or licensing agreements or to modify or stop using the infringing technology.

Litigation

In addition to being subject to litigation in the ordinary course of business, the Company may become subject to class actions, securities litigation or other actions, including anti-trust and anti-competitive actions. Any litigation may be time consuming, expensive and distracting from the conduct of the Company's day-to-day business. The adverse resolution of any specific lawsuit could have a material adverse affect on the Company's financial condition and liquidity. In addition, the resolution of those matters may require the Company to issue additional Common Shares, which could potentially result in dilution. Expenses incurred in connection with these matters (which include fees of lawyers and other professional advisors and potential obligations to indemnify officers and directors who may be parties to such actions) could adversely affect the Company's cash position. (See Note 13 to the consolidated financial statements).

Competition

The Company experiences intense competition from other software companies. Competitors may announce new products, services or enhancements that better meet the needs of customers or changing industry standards. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse affect on the business, results of operations and financial condition of the Company. Many of the Company's competitors and potential competitors have significantly greater technical, marketing, service or financial resources. Other competitive factors include price, performance, product features, market timing, brand recognition, product quality, product availability, breadth of product line, design expertise, customer service and post contract support. A very important selection factor from a customer perspective is a large installed customer base that has widely and productively implemented the software product, which not only increases the potential for repeat business, but also provides reference accounts to promote the Company's products and solutions with new customers. While management believes that the Company has a significant installed customer base in its Asset Management and Interaction Management Groups, many of its competitors have a larger installed base of users, have longer operating histories or have greater name recognition. In addition, if one or more of the Company's competitors were to merge or partner with other competitors, the change in the competitive landscape could adversely affect the Company's ability to compete effectively.

Development of New Products and Enhancement of Existing Products

To keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance, the Company must enhance and improve existing products and continue to introduce new products and services. If the Company is unable to successfully develop new products, integrate acquired products or enhance and improve existing products or if it fails to position and/or price its products to meet market demand, the Company's business and operating results will be adversely affected. Accelerated product introductions and short product life cycles require high levels of expenditures for research and development that could adversely affect the Company's results of operations. Further, the introduction of new products could require long development and testing periods and may not be introduced in a timely manner or may not achieve the broad market acceptance necessary to generate significant revenue.

No assurance can be provided that the Company's software products will remain compatible with evolving computer hardware and software platforms and operating environments. In addition, competitive or technological developments and new regulatory requirements may require the Company to make substantial, unanticipated investments in new products and technologies. If the Company is required to expend substantial resources to respond to specific technological or product changes, its operating results would be adversely affected.

The continuing ability of the Company to address these risks will depend, to a large extent, on its ability to retain a technically competent research and development staff and to adapt to rapid technological advances in the industry.

Loss of Rights To Use Software Licensed By Third Parties

The Company licenses certain technologies used in its products from third parties, generally on a non-exclusive basis. The termination of any of these licenses, or the failure of the licensors to adequately maintain or update their products, could delay the Company's ability to ship its products while it seeks to implement alternative technology offered by other sources and may require significant unplanned investments. In addition, alternative technology may not be available on commercially reasonable terms. In the future, it may be necessary or desirable to obtain other third party technology licenses relating to one or more of the Company's products or relating to current or future technologies. There is a risk that the Company will not be able to obtain licensing rights to the needed technology on commercially reasonable terms, if at all.

Reliance on Maintenance Renewals

The Company continues to realize a significant portion of its revenue from maintenance and support services provided in connection with the products it licenses as part of its core business strategy. The continued expansion of this revenue stream as a result of increased license sales and through the acquisition of companies with an existing maintenance customer base is a key driver to the continued revenue growth of the Company. There can be no assurances that the rate of customer attrition, which would result in lower revenue, will be offset by a combination of new maintenance revenue associated with incremental license sales, acquisitions and contract price increases.

Tax Issues

The Company conducts its business operations in various foreign jurisdictions and through legal entities primarily in Canada, the United States, Sweden and the United Kingdom. Accordingly, the Company is subject to income taxes as well as non-income based taxes in Canada, the United States, Sweden, the United Kingdom and various foreign jurisdictions and our tax structure is subject to review by numerous taxation authorities. The tax laws of these jurisdictions have detailed and varied tax rules.

Significant judgment is required in determining the Company's worldwide provision for income taxes and other tax liabilities. Although the Company strives to ensure that its tax estimates and filing positions are reasonable, no assurance can be provided that the final determination of any tax audits or litigation will not be different from what is reflected in the Company's historical income tax provisions and accruals, and any such differences may materially affect the Company's operating results for the affected period or periods. The Company also has exposure to additional non-income tax liabilities such as payroll, sales, use, value-added, net worth, property, harmonized and goods and services taxes in Canada, the United States, Sweden, the United Kingdom and various foreign jurisdictions.

International taxation authorities, including the Canada Revenue Agency, the United States Internal Revenue Service, the Swedish Tax Authority and the United Kingdom's HM Revenue and Customs, could challenge the validity of the Company's tax filings. If any of these taxation authorities are successful in challenging the Company's tax filings, the Company's income tax expense may be adversely affected and it could also be subject to interest and penalty charges. Any such increase in the Company's income tax expense and related interest and penalties could have a significant impact on future net earnings and future cash flows.

OUTLOOK

The Company completed the acquisition of Mettoni Limited in April 2010. This expanded the Company's presence in Europe and enabled the Company to better align its Interaction Management product suite to provide a full spectrum telecommunications solution. This acquisition also reduced the Company's proportionate exposure to the U.S. dollar with a larger U.K. presence. As a result, the Company now has three significant operational centers from which to transact its business in Canada, the U.S. and the U.K. and abroad. The Company continues to seek further acquisitions to grow its business in the coming fiscal year to further diversify its product suite, marketing reach and market share. The Company continues to generate positive operating cash flows which have offset the cost of its acquisition strategy and leave the Company well positioned with over $78 million in cash and short-term investments and no long-term debt with which to pursue acquisitions.

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, 2010, 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

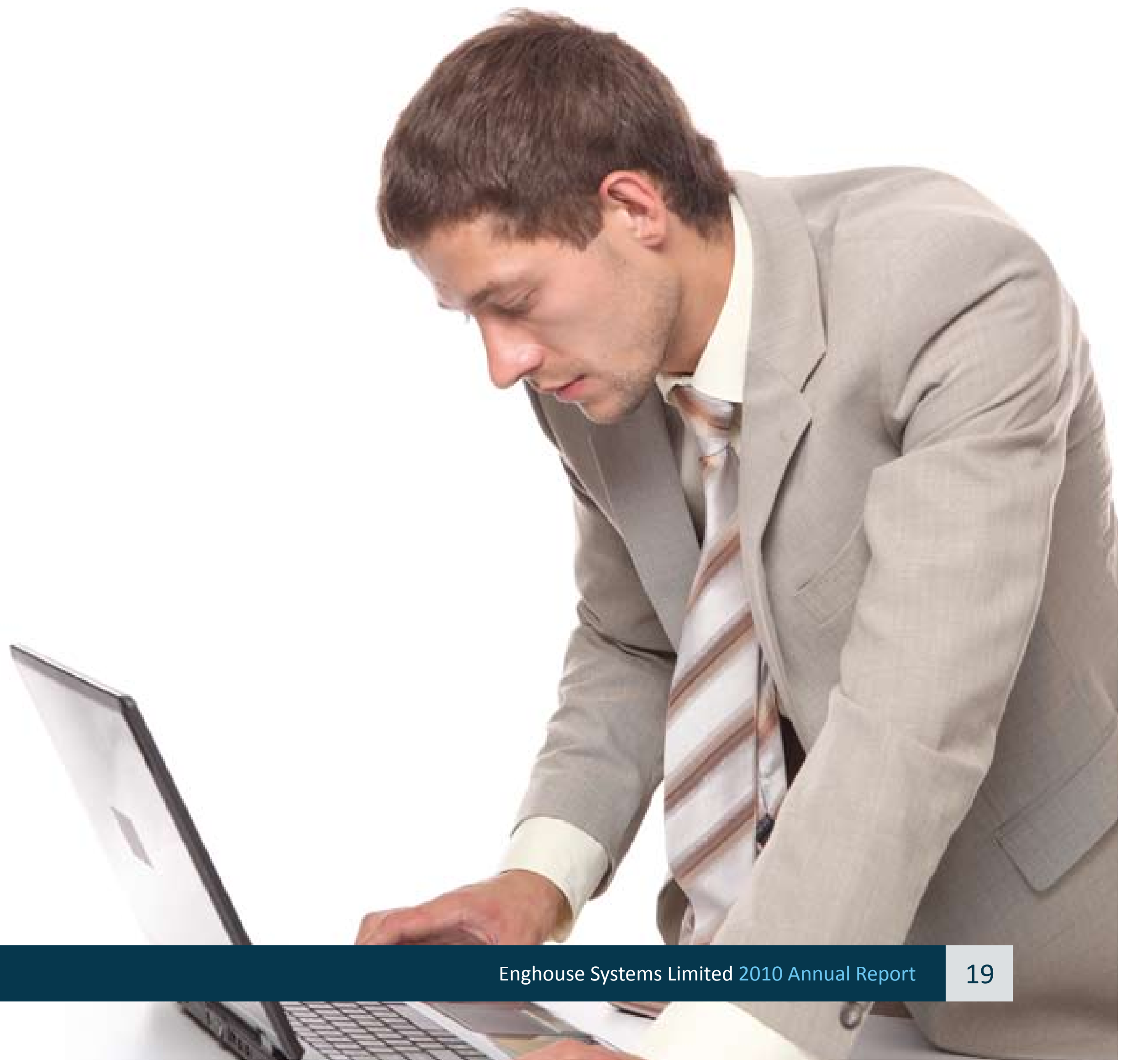
The Company's CEO and Vice President Finance are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial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

At October 31, 2010, 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, 2010, 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 year ended October 31, 2010 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 the Annual Information Form, has been filed and is available on SEDAR at www.sedar.com.



Management’s Responsibility for Financial Reporting

The consolidated financial statements and other financial information for this annual report were prepared by the management of Enghouse Systems Limited, reviewed by the Audit Committee of the Board of Directors and approved by the Board of Directors.

Management is responsible for the preparation of the consolidated financial statements and believes that they fairly represent the Company’s financial position, the results of its operations and its cash flows in accordance with Canadian generally accepted accounting principles. Management has included amounts in the Company’s consolidated financial statements based on estimates, judgments and policies that it believes reasonable in the circumstances.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control, which provide reasonable assurance, at appropriate costs, that the assets are maintained and accounted for in accordance with its policies, and that transactions are recorded accurately on the Company’s books and records.

PricewaterhouseCoopers LLP were appointed the Company’s auditors at the Annual General Meeting of Shareholders. Their report on the consolidated financial statements of the Company for the years ended October 31, 2010 and 2009 outlines the scope of their examination and their opinion thereon.

“Signed”

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

“Signed”

Douglas C. Bryson
Vice President Finance and
Corporate Secretary

Markham, Ontario
December 15, 2010

Auditors' Report

To the Shareholders of
Enghouse Systems Limited

We have audited the consolidated balance sheets of Enghouse Systems Limited ("the Company") as at October 31, 2010 and 2009 and the consolidated statements of operations and retained earnings, comprehensive income and accumulated other comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Signed"

PricewaterhouseCoopersLLP
Chartered Accountants, Licensed Public Accountants

Toronto, Ontario
December 15, 2010

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)

	October 31, 2010	October 31, 2009
Assets		
Current Assets:		
Cash	$ 46,640	$ 39,276
Short-term investments (Note 2)	31,627	53,876
Accounts receivable, net	24,500	17,017
Income tax receivable	591	-
Future income taxes (Note 8)	447	973
Prepaid expenses and other assets	3,360	2,434
	107,165	**113,576**
Property and equipment (Note 3)	1,844	1,576
Acquired software and other intangibles (Note 4)	34,330	22,934
Goodwill (Note 5)	35,137	19,965
Future income taxes (Note 8)	2,951	3,183
	$ 181,427	**$ 161,234**
Liabilities		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 20,115	$ 17,107
Income taxes payable	-	1,473
Dividends payable	1,007	746
Deferred revenue	26,040	15,765
	47,162	**35,091**
Future income taxes (Note 8)	12,571	8,693
Long-term income taxes payable	522	1,043
Deferred revenue	790	197
	61,045	**45,024**
Share capital (Note 6(B))	50,705	49,780
Contributed surplus (Note 6(B))	2,429	2,047
Retained earnings	79,606	73,142
Accumulated other comprehensive loss	(12,358)	(8,759)
	120,382	**116,210**
	$ 181,427	**$ 161,234**

Commitments and contingencies (Notes 11 and 13)

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

On Behalf of the Board of Directors:

"Signed"

Stephen J. Sadler
Director

"Signed"

Eric Demirian
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

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

	Years ended October 31	
	2010	**2009**
Revenue		
Software licenses	$ 30,198	$ 23,133
Services	61,304	51,547
Hardware	2,706	3,738
	94,208	**78,418**
Cost of sales		
Software licenses	4,363	3,773
Services	22,429	19,263
Hardware	1,845	3,037
	28,637	**26,073**
Gross margin	**65,571**	**52,345**
Operating expenses		
Selling, general and administrative	31,807	23,552
Research and development (Note 7)	12,477	11,951
Amortization of property and equipment	1,331	1,275
	45,615	**36,778**
Income before the undernoted	**19,956**	**15,567**
Amortization of acquired software and other intangibles	(8,458)	(7,331)
Interest income, net	387	1,309
Other income, net	1,145	236
Foreign exchange gain	238	194
Income before income taxes	**13,268**	**9,975**
Provision for income taxes (Note 8)	3,030	3,241
Net income for the year	**$ 10,238**	**$ 6,734**
Retained earnings – beginning of year	$ 73,142	$ 72,015
Net income for the year	10,238	6,734
Dividends	(3,774)	(2,861)
Purchase and cancellation of common shares	-	(2,746)
Retained earnings – end of year	**$ 79,606**	**$ 73,142**
Earnings per share (Note 9)		
Basic	$ 0.41	$ 0.27
Diluted	$ 0.40	$ 0.27

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE LOSS

(in thousands of Canadian dollars)

	Years ended October 31	
	2010	**2009**
Net income for the period	$ 10,238	$ 6,734
Other comprehensive loss:		
Unrealized loss on translating financial statements of self-sustaining foreign operations	(4,044)	(5,675)
Transfer to net income of realized gains on available for sale investments, net of tax of ($244); 2009 – ($160)	(1,303)	(312)
Unrealized gain on available for sale investments, net of tax of $352; 2009 – $370	1,881	720
Unrealized foreign currency translation loss on available for sale investments, net of tax of ($25); 2009 – ($140)	(133)	(273)
Other comprehensive loss	**$ (3,599)**	**$ (5,540)**
Comprehensive income	**$ 6,639**	**$ 1,194**
Accumulated other comprehensive loss, beginning of period	**$ (8,759)**	**$ (3,219)**
Other comprehensive loss	(3,599)	(5,540)
Accumulated other comprehensive loss, end of period	**$ (12,358)**	**$ (8,759)**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

	Years ended October 31	
	2010	**2009**
Cash flows from operating activities		
Net income for the year	$ 10,238	$ 6,734
Add (deduct) items not involving cash		
Amortization of property and equipment	1,331	1,275
Amortization of acquired software and other intangibles	8,458	7,331
Stock-based compensation expense	382	240
Gain on sale of short-term investments	(1,547)	(236)
Future income taxes	2,395	2,139
	21,257	**17,483**
Changes in operating assets and liabilities		
Decrease in accounts receivable, net	151	2,159
Decrease in prepaid expenses and other assets	194	733
(Decrease) increase in accounts payable & accrued liabilities	(5,587)	1,480
Decrease in income taxes payable	(3,240)	(3,598)
Increase (decrease) in deferred revenue	6,329	(2,295)
Unrealized foreign exchange gain	(474)	(116)
Cash flows from operating activities	**18,630**	**15,846**
Cash flows from investing activities		
Purchase of property and equipment, net	(887)	(374)
Acquisitions, net of cash acquired (Note 10)	(30,131)	(6,935)
Proceeds from sale of short-term investments	23,664	27,099
	(7,354)	**19,790**
Cash flows from financing activities		
Issuance of share capital (Note 6(B))	925	1,006
Payment of cash dividends	(3,514)	(2,751)
Purchase and cancellation of common shares (Note 6(B))	-	(4,560)
	(2,589)	**(6,305)**
Effect of foreign exchange rate changes on cash	(1,323)	(2,386)
Net increase in cash during the year	**7,364**	**26,945**
Cash - beginning of year	39,276	12,331
Cash - end of year	**$ 46,640**	**$ 39,276**
Supplemental cash flow information		
Cash paid during the year for income taxes	$ 2,509	$ 1,665

Cash excludes short-term investments (Note 2)

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

Notes To Consolidated Financial Statements
October 31, 2010 and 2009
(in thousands of Canadian dollars, except per share amounts)

1. Summary of significant accounting policies

These consolidated financial statements have been prepared by management in Canadian dollars in accordance with Canadian generally accepted accounting principles ("GAAP") as codified by the Canadian Institute of Chartered Accountants ("CICA"). The significant accounting policies are as follows:

Basis of consolidation

These consolidated financial statements include the accounts of Enghouse Systems Limited and its wholly owned subsidiaries ("the Company"). All significant intercompany transactions and balances have been eliminated upon consolidation. The Company does not have any entities to be consolidated under Accounting Guideline 15, Consolidation of Variable Interest Entities. During the year, the Company completed certain acquisitions as described in Note 10 to these consolidated financial statements. The results of operations of these acquired companies have been included in these consolidated financial statements from the date of acquisition.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates are required to determine revenue recognition, the allowance for doubtful accounts, investment tax credits, the useful lives and recoverability of long-term assets, recoverability of goodwill and the valuation allowance on future income tax assets. Actual results could differ from those estimates and the differences could be material to these consolidated financial statements.

Revenue recognition

Revenue consists primarily of fees for licenses of the Company's software, maintenance fees, professional services and hardware revenue. Software license revenue is comprised of license fees charged to customers for the use of software products and is generally licensed under perpetual arrangements in which the fair value of maintenance and professional services are determinable. Services revenue is comprised of professional services revenue from consulting, implementation and training services related to the Company's products as well as maintenance and technical support services. Maintenance services are typically provided on an annual basis and generally include ongoing customer support, product fixes and certain product upgrades provided on an "if and when available" basis. Customers typically purchase a combination of bundled services and products including licenses, maintenance, professional services and hardware.

Revenue from license fees for software products and the resale of third party software and hardware products is recognized when there is an unconditional sales order under a license agreement, the product is delivered, the fee is fixed or determinable, provided that no significant future vendor obligations exist and, at the time of performance, the ultimate collection of the consideration is reasonably assured. If collection is not deemed probable, revenue is recognized upon the receipt of cash assuming all other criteria have been met.

Typically, software license agreements are multiple element arrangements that also include the provision of maintenance and professional services. The Company evaluates these contracts to determine whether the professional services are essential to the functionality of the software. Revenue from arrangements that include services that are not essential to the functionality of the software is allocated to each element of the arrangement based on their relative fair values and is recognized when the above-noted revenue recognition criteria have been met for each element. The Company uses vendor specific objective evidence to determine the fair values of the multiple elements, including the price charged when the same elements are sold separately. The Company uses the residual method to recognize revenue, whereby the fair value of the undelivered elements is deferred until delivered and the remaining portion of the total arrangement fee is recognized as revenue.

If services are deemed essential to the functionality of the licensed software, the licensed software and services revenues are recognized using contract accounting under the percentage of completion method. The Company uses the ratio of incurred labor costs to estimated total labor costs as the measure of its progress toward completion on each contract. If a loss on a contract is considered probable, the loss is recognized at the date such loss determination is made.

If services are not deemed essential to the functionality of the software, the service revenue (including hosted services revenue) is recognized as the services are delivered to the customer.

Maintenance contracts entitle the customer to telephone support, solutions to technical problems, and the right to receive software updates as and when they are released. Revenue from maintenance contracts is recognized over the term of the maintenance contract, which is typically one year.

Foreign exchange translation

The Company considers its investments in foreign subsidiaries to be self-sustaining foreign operations with the exception of Gamma Projects Limited, Enghouse (U.K.) Limited, Enghouse Systems LLC and Transched Systems LLC, which are considered to be integrated foreign operations. Integrated foreign subsidiaries are accounted for under the temporal method. This method is also used to translate foreign currency transactions and balances. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the consolidated balance sheet dates. Non-monetary assets and liabilities are translated at historical rates. Revenue and expenses are translated at the average exchange rate in effect for the month of the transactions with amortization translated at the historical rate of the underlying asset to which it relates. Exchange gains or losses arising from the translation are charged to income in the year incurred.

Self-sustaining subsidiaries are accounted for under the current rate method. Under this method assets and liabilities of subsidiaries are translated into Canadian dollars at the exchange rate in effect at the consolidated balance sheet dates. Revenue and expenses are translated at average exchange rates during the year. Resulting unrealized gains or losses are accumulated and reported as a separate component of accumulated other comprehensive income or loss.

Research and development costs

The Company qualifies for certain investment tax credits related to its research and development activities. Research costs are expensed as incurred and are reduced by related investment tax credits, which are recognized when reasonable assurance of realization exists. Development costs are expensed as incurred unless the project meets the criteria under Canadian GAAP for deferral and amortization. No costs have been deferred on the consolidated balance sheets as at October 31, 2010 and 2009.

Short-term investments

Short-term investments are highly liquid financial instruments. Equity securities are considered to be available-for-sale and are carried at fair market value, and fixed-income securities with original maturities of one year or less are carried at cost plus accrued interest, as they are held to maturity.

Notes to Consolidated Financial Statements

October 31, 2010 and 2009

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

Property and equipment, acquired software and other intangibles

Property and equipment, acquired software and other intangibles are recorded at acquisition cost and amortized to operations over their estimated useful lives as follows:

Furniture and fixtures	20% declining balance
Computer hardware and software	3 years straight-line
Leasehold improvements	Shorter of useful life or initial lease term
Acquired software	3 to 6 years straight-line
Customer relationships and other intangibles	3 to 8 years straight-line
Patents	Remaining life

The unamortized portions of property and equipment, acquired software, other intangibles and patents are reviewed when events or circumstances indicate that the carrying amounts may not be recoverable. If the projected undiscounted future cash flows are less than the carrying amounts, the assets are considered to be impaired and an impairment loss is measured as the amount by which the carrying amounts exceed fair values.

Goodwill

Goodwill represents the excess of the purchase price of business acquisitions over the fair values of identifiable net assets acquired in such acquisitions and is allocated as at the date of the business combination. Goodwill and intangible assets with indefinite useful lives are not subject to amortization but are assessed for impairment on at least an annual basis and, additionally, whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. The impairment test for intangibles with indefinite useful lives consists of a comparison of the fair value of the intangible asset with its carrying amount. When the carrying amount of the intangible asset exceeds its fair value, an impairment loss would be recognized for the difference.

The Company's intangible assets relate to acquired technology, customer lists and trademarks. The Company also reviews the carrying value of amortizable intangible assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected from its use and eventual disposition. In assessing the recoverability of these intangible assets, the Company must make assumptions regarding estimated future cash flows, market conditions and other factors to determine the fair value of the assets. If these estimates or related assumptions change in the future, the Company may be required to record impairment charges for these assets. In fiscal years 2010 and 2009, the Company did not record an impairment charge related to intangible assets.

Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The Company's reporting units are its Interaction Management Group and Asset Management Group. The fair values of the reporting units are estimated using a combination of the income or discounted cash flow approach and the market approach, which utilizes comparable companies' data. If the carrying amount of the reporting unit exceeds its fair value, then a second step is performed to quantify the amount of the impairment loss, if any. Any impairment in the carrying value of goodwill is recognized in operating income.

In 2010 and 2009, the Company performed the annual impairment test and determined there was no impairment in the value of goodwill. Additional disclosure regarding the results of the annual goodwill impairment test is provided in Note 5.

Income taxes

Management uses significant judgment to determine the provision for income taxes, current and future income tax assets and liabilities and any valuation allowance required against the income tax assets recorded. The Company operates in multiple tax jurisdictions and to the extent that there are profits in these jurisdictions, the profits are subject to tax at varying tax rates and regulations under the legislation of these jurisdictions. Enghouse's effective tax rate may be affected by changes to or application of tax laws in any particular jurisdiction, changes in the geographical mix of revenue and expense, level of relative profitability in each jurisdiction, utilization of net operating losses and tax carry-forwards and management's assessment of its ability to realize future tax assets. Accordingly, management must estimate the tax provision of the Company on a quarterly basis, which involves determining taxable income, temporary differences between tax and accounting carrying values and income tax loss carry-forwards. Favorable or unfavorable adjustments to tax provisions may result when tax positions are resolved or settled at amounts that differ from those estimates.

The Company uses the asset/liability method of measuring income taxes based on temporary differences between the financial reporting and income tax bases of assets and liabilities. Future income tax expense represents the change during the year in the future income tax assets and future income tax liabilities. In addition, the future benefits of income tax assets, including unutilized tax losses, are recognized to the extent that it is more likely than not, that such losses will ultimately be utilized. These standards also require that the future income tax assets and liabilities are measured using substantively enacted income tax rates and laws that are expected to apply when the income tax liabilities or assets are to be either settled or realized. The Company provides a valuation allowance on future income tax assets when it is more likely than not that such assets will not be realized.

Fair value of financial instruments

Financial assets and financial liabilities are initially recorded at fair value and are subsequently measured based on their classification as described below. The Company classifies its financial instruments into various categories based on the purpose for which the financial instruments were acquired and their characteristics. The Company determines the fair value of its financial instruments based on quoted market values or discounted cash flow analyses.

Held-for-trading
Financial assets that are purchased and held with the intention of generating profits in the short-term are classified as held-for-trading. These investments are accounted for at fair value with the change in fair value recognized in net earnings during the period. No investments are classified as held-for-trading as of October 31, 2010.

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

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

Receivables

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

Financial liabilities

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

The Company is not party to any derivative financial instruments.

Earnings per share

Basic earnings per share are computed using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to calculate diluted earnings per share. This method assumes that proceeds, which could be obtained upon the exercise of in-the-money options, would be used to purchase common shares at the average market price during the year.

Stock-based compensation plans

The Company uses the fair value method to account for all stock-based awards to employees and directors granted after November 1, 2002. The estimated fair value of options granted is determined using the Black-Scholes option pricing model and is recorded as a charge to income on a straight-line basis over the vesting period of the options with a corresponding credit to contributed surplus. Stock options are granted at a price equal to or above the market value of the shares at the date of the grant. The consideration received on the exercise of stock options is credited to share capital at the time of exercise. The Company's stock option compensation plan is described in Note 6(D).

Changes in accounting policy

Changes in accounting policy adopted in fiscal 2010

CICA Handbook section 1506, *Accounting Changes*, was amended to exclude from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting as will be the case when International Financial Reporting Standards ("IFRS") are adopted in Canada. The amendments apply to interim and annual financial statements for years beginning on or after July 1, 2009. This amendment did not have an impact on the consolidated financial statements presented herein.

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 IFRS 3R, *Business Combinations*. The Section applies prospectively to business combinations for which the acquisition date is on or after November 1, 2011 and allows for earlier application. The standard requires that all assets and liabilities of an acquired business be recorded at fair value at the date of acquisition. The standard also requires that acquisition-related costs be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. These costs are presently capitalized.

CICA Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-Controlling Interests* were also 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, *Consolidated and Separate Financial Statements.* The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after November 1, 2011 and allow for earlier adoption. Early adoption may reduce the amount of restatement required upon conversion to IFRS. The Company is currently assessing what impact the adoption of these new Standards may have on the Company's results of operations and consolidated financial position.

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

In December 2009, the CICA issued EIC 175, *Multiple Deliverable Revenue Arrangements*, replacing EIC 142, *Revenue Arrangements with Multiple Deliverables*. This EIC (a) provides updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated; (b) requires, in situations where the vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling prices, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (c) eliminates the use of the residual method and requires an entity to allocate revenue using the relative selling price method and (d) requires expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes required under EIC 175 are effective for fiscal years beginning on or after January, 1, 2011, with earlier adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If EIC 175 is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal year.

Under EIC 175, allocation of revenue to separate elements in a multiple element transaction will be based on their relative selling prices, as indicated by VSOE or third-party evidence of selling prices, or if both are not available, on estimated selling prices. The allocated portion of the arrangement not delivered would then be deferred. The Company is currently reviewing what impact these amendments may have on its financial statements and has not yet determined either the timing or method of its adoption.

Harmonization of Canadian and International Accounting Standards

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that IFRS will replace Canadian GAAP effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's first unaudited consolidated interim financial statements presented in accordance with IFRS will be for the three month period ending January 31, 2012, and its first audited consolidated annual financial statements presented in accordance with IFRS will be for the year ending October 31, 2012 and will include comparative results for fiscal 2011. Based on the preliminary scoping and phase II diagnostic analysis the Company cannot yet quantify the impact that the future adoption of IFRS will have on our financial statements and operating performance measures; however, such impact could be material. Additional information will be provided on a quarterly basis as we progress towards implementation.

2. Short-term investments

	2010		2009	
	Carrying Value	**Market Value**	**Carrying Value**	**Market Value**
Mutual funds	$ 17,677	$ 17,684	$ 28,897	$ 28,897
Banker's acceptances	8,780	8,779	18,341	18,345
Government/Corporate bonds	4,037	4,041	3,526	3,546
Equities	1,133	1,133	3,112	3,112
	$ 31,627	**$ 31,637**	**$ 53,876**	**$ 53,900**

Cash as at October 31, 2010 includes £1.5 million in restricted cash balances held in escrow as part of the Mettoni acquisition and is payable on January 6, 2011, subject to adjustment.

Notes to Consolidated Financial Statements

October 31, 2010 and 2009

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

3. Property and equipment

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	$ 1,372	$ (1,157)	$ 215	$ 1,637	$ (1,327)	$ 310
Computer hardware and software	9,364	(8,126)	1,238	7,388	(6,444)	944
Leasehold improvements	1,078	(687)	391	1,156	(834)	322
	$ 11,814	**$ (9,970)**	**$ 1,844**	**$10,181**	**$ (8,605)**	**$1,576**

4. Acquired software and other intangibles

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Acquired software	$ 52,331	$ (33,808)	$ 18,523	$ 41,012	$ (28,136)	$ 12,876
Other intangibles	25,419	(9,612)	15,807	16,778	(6,720)	10,058
	$ 77,750	**$ (43,420)**	**$ 34,330**	**$ 57,790**	**$ (34,856)**	**$ 22,934**

5. Goodwill

The continuity of goodwill by reportable segment is as follows:

	2010			2009		
	Interaction Management Group	Asset Management Group	Total	Interaction Management Group	Asset Management Group	Total
Opening balance	$ 16,877	$ 3,088	$ 19,965	$ 18,919	$ 3,034	$ 21,953
Additions, net	17,027	1,400	18,427	2,174	-	2,174
Acquired tax benefit adjustment	(2,972)	-	(2,972)	(2,587)	-	(2,587)
Purchase price adjustments	(158)	(55)	(213)	431	-	431
Foreign exchange	(52)	(18)	(70)	(2,060)	54	(2,006)
Ending balance	**$ 30,722**	**$ 4,415**	**$ 35,137**	**$ 16,877**	**$ 3,088**	**$ 19,965**

Notes to Consolidated Financial Statements

October 31, 2010 and 2009

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

During each of 2010 and 2009, adjustments for previously unrecognized tax benefits from earlier acquisitions were accounted for as a credit to goodwill. Certain adjustments to the purchase price allocation related to the acquisitions of Gamma Projects Limited and Trio Enterprise AB were booked in the year resulting in a decrease to goodwill of $213, while adjustments to Envox were booked in the prior year and resulted in $431 increase to goodwill and offsetting reduction to acquired software and other intangibles. The balance in goodwill includes $2.0 million related to trade names (2009 - $1.1 million).

6. 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, 2008	**25,492,724**	**$ 50,568**	**$ 1,827**
Stock options exercised (C)	332,500	1,006	-
Stock options expensed (D)	-	20	220
Shares repurchased and cancelled under common share re-purchase plan (E)	(949,562)	(1,814)	-
Balance – October 31, 2009	**24,875,662**	**$ 49,780**	**$ 2,047**
Stock options exercised (C)	296,000	925	-
Stock options expensed (D)	-	-	382
Shares repurchased and cancelled under common share re-purchase plan (E)	-	-	-
Balance – October 31, 2010	**25,171,662**	**$ 50,705**	**$ 2,429**

There were no Class A and no Class B preference shares issued and outstanding as at October 31, 2010 or 2009.

(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 1,814,800 (2009 - 2,110,800) 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.

Notes to Consolidated Financial Statements

October 31, 2010 and 2009

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

A summary of the status of the Company's Plan as at October 31, 2010 and 2009, and changes during the years ended on those dates is presented as follows:

	2010		2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year	1,329,100	$ 5.82	1,575,600	$ 5.54
Granted	545,000	8.10	260,000	5.00
Exercised	(296,000)	3.12	(332,500)	3.02
Forfeited	(15,000)	8.70	(174,000)	7.37
Outstanding at end of year	**1,563,100**	**$ 7.10**	**1,329,100**	**$ 5.82**
Options exercisable at end of year	**866,600**	**$ 6.92**	**1,035,100**	**$ 5.96**

A summary of stock options outstanding as at October 31, 2010 is set out below:

	Outstanding Stock Options			Exercisable Stock Options	
Exercise Price	Number Outstanding as at October 31, 2010	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable as at October 31, 2010	Weighted Average Exercise Price
$4.20 to $5.50	528,100	3.67	$ 5.03	354,600	$ 5.05
$5.60 to $7.75	200,000	2.98	7.41	200,000	7.41
$7.85 to $10.00	835,000	4.80	8.33	312,000	8.75
	1,563,100			**866,600**	

(D) Stock-based compensation

The Company uses the fair value method for recording compensation expense related to equity instruments awarded to employees 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 fiscal 2010, the Company recorded a non-cash charge to net income of $382 (2009- $240). The fair value of each stock option on the date of grant was estimated using the Black-Scholes option pricing model with the following assumptions at the measurement date:

Notes to Consolidated Financial Statements

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	Options Granted June 2010	Options Granted April 2010	Options Granted Dec 2009	Options Granted Mar 2009
Risk-free interest rate	2.28%	2.59%	2.12%	1.85%
Estimated volatility	35%	34%	35%	33%
Dividend yield	$ 0.16	$ 0.16	$0.12	$0.12
Expected life in years	5	5	5	5
Weighted average fair value (in dollars)	$ 2.60	$ 2.24	$ 2.53	$ 1.23

(E) Common share repurchase plan

On April 14, 2010, the Company renewed its common share repurchase plan, whereby it may repurchase up to a maximum of 1,641,376 common shares of the Company, expiring on April 13, 2011. The Company did not repurchase any shares for cancellation in 2010. In 2009, the Company repurchased 949,562 shares for cancellation for $4,560 at an average cost of $4.80, of which $1,814 was allocated to share capital and the balance offset against retained earnings.

7. Research and development expense

	2010	2009
Research and development costs incurred	$ 13,122	$ 12,049
Investment tax credits recognized	(645)	(98)
Net research and development expense	**$ 12,477**	**$ 11,951**

8. Income taxes

(A) The provision for income taxes consists of the following:

	2010	2009
Current income taxes	$ 635	$ 1,102
Future income taxes	2,395	2,139
Net research and development expense	**$ 3,030**	**$ 3,241**

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(B) The Company operates in several tax jurisdictions. The provision for income taxes differs from the expense that would be obtained by applying the combined federal and provincial statutory rate as a result of the following:

	2010		2009	
	$	%	$	%
Combined federal and provincial statutory income tax amount and rate	4,180	31.5	3,300	33.1
Non-deductible expenses	96	0.7	102	1.0
Foreign earnings subject to different income tax rates	(5)	0.0	211	2.1
Change in tax rates	234	1.8	(151)	(1.5)
Non-taxable portion of capital gain	(244)	(1.8)	(39)	(0.4)
Resolution of tax positions	(1,137)	(8.7)	-	-
Other	(94)	(0.7)	(182)	(1.8)
Effective income tax amount and rate	**3,030**	**22.8**	**3,241**	**32.5**

(C) Significant components of future income tax assets and liabilities as at October 31, 2010 and 2009 are as follows:

	2010	2009
Future income tax assets:		
Provisions and reserves	$ 447	$ 973
Income tax loss carry-forwards	36,273	21,485
Difference in accounting and tax bases of property and equipment	1,263	992
Adjustment to available-for-sale investments	(45)	107
	37,938	23,557
Valuation allowance	(34,540)	(19,401)
	3,398	4,156
Future income tax liabilities:		
Acquired software	3,664	3,894
Other intangibles	6,631	2,836
Unrealized foreign exchange	2,276	1,963
	12,571	8,693
Future income tax liabilities, net	**$ (9,173)**	**$ (4,537)**
Future income tax liabilities, net is comprised of:		
Future income tax assets – current	$ 447	$ 973
Future income tax assets – long-term	2,951	3,183
Future income tax liabilities – long-term	(12,571)	(8,693)
	$ (9,173)	**$ (4,537)**

Notes to Consolidated Financial Statements

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The Company and its subsidiaries have non-capital losses available for carry-forward for income tax purposes of approximately $109 million (2009 - $125 million). Non-capital losses may be subject to restriction on their availability to shelter income and are related to the Company's U.S. operations $52 million (2009 - $65 million) and expire over periods commencing in 2013 through 2029; U.K. operations $53 million (2009- $54 million), which expire indefinitely and Canada $3 million (2009 - $2 million), which expire over periods commencing in 2015 through 2030 and other jurisdictions of $1 million (2009 - $4 million), which expire indefinitely.

9. Earnings per share

	2010	2009
(A) Basic earnings per share		
Numerator:		
Net income for the year	$ 10,238	$ 6,734
Denominator:		
Number of weighted average common shares outstanding	25,097	24,946
Basic earnings per share	**$ 0.41**	**$ 0.27**

(B) Diluted earnings per share

	Income (Numerator)	Number of Shares (Denominator)	Per Share Amount
Year ended October 31, 2010			
Basic earnings per share	$ 10,238	25,097	$ 0.41
Effect of dilutive securities:			
Stock options	-	229	
Income available to common shareholders and assumed conversions and exercised options	**$ 10,238**	**25,326**	**$ 0.40**
Year ended October 31, 2009			
Basic earnings per share	$ 6,734	24,946	$ 0.27
Effect of dilutive securities:			
Stock options	-	187	
Income available to common shareholders and assumed conversions and exercised options	**$ 6,734**	**25,133**	**$ 0.27**

Options to purchase 190,000 (2009 – 471,000) common shares at an average price of $8.73 (2009 – $8.24) 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

2010 Acquisitions:

Telrex LLC

Effective June 1, 2010, Enghouse completed the acquisition of the intellectual property of Telrex LLC, and Mettoni, Inc., a wholly owned subsidiary of Enghouse, acquired the Telrex operations for a total purchase price of approximately $4.1 million plus the assumption of maintenance obligations, including transaction costs of approximately $0.1 million. Of this total, $0.5 million was subject to hold back and adjustment and was paid on November 1, 2010. Telrex is a leading provider of IP call recording and contact center optimization software solutions with operations in North America and EMEA.

Mettoni Group

On April 6, 2010 the Company acquired 100% of the issued and outstanding common shares of Mettoni Limited ("Mettoni") for a cash purchase price of approximately $24.6 million, which includes estimated transaction costs of approximately $0.4 million. Of this total, approximately $2.4 million remains subject to hold back and adjustment and is payable on January 6, 2011. The acquisition of Mettoni also includes its wholly owned subsidiaries, Arc Solutions (International) Limited, Datapulse Limited, Excomm Limited, Mettoni Inc., Arc Solutions (International) Inc., Datapulse Inc. and Mettoni FZE. Mettoni provides unified communications software solutions and has operations in North America, Europe, Middle East and Africa and Asia Pacific.

Pulse Voice Inc.

On November 1, 2009 the Company acquired 100% of the issued and outstanding common shares of Pulse Voice Inc. for a cash purchase price of approximately $4.6 million, including transaction costs. Pulse is a leading provider of communications solutions with a contact center division providing solutions to over 200 customers (reported as part of the Interaction Management Group) and a network division providing cost control and intelligent network solutions to the telecom industry (reported as part of the Asset Management Group).

2009 Acquisitions:

Trio

On April 1, 2009, Enghouse acquired the business and shares of Trio Enterprise AB ("Trio") for a cash purchase price of $7.4 million, which includes transaction costs of $0.3 million. Trio provides Enterprise Communication, presence, call and message management solutions in Northern Europe.

These acquisitions have been recorded under the purchase method of accounting and results have been included in the consolidated statements of operations from their respective acquisition dates. Accordingly, the allocation of the purchase price to assets and liabilities is based on 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 purchase equations of Trio and Pulse have been finalized.

Notes to Consolidated Financial Statements

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The Telrex and Mettoni purchase price allocations have not been finalized subject to receipt of additional information related to transaction costs and settlement of holdbacks.

Goodwill is not amortized but is assessed annually for any potential impairment in value. Other intangibles representing acquired software and customer relationships are being amortized over a period of three and six years, respectively for Trio and four and six years respectively for Pulse. Acquired software in the Mettoni acquisition is being amortized over five years, while customer intangibles are being amortized over seven years. Acquired software in the Telrex acquisition is being amortized over four years, while customer intangibles are being amortized over three years.

Patents acquired in the Trio acquisition are being amortized over 10 years.

The Company's purchase price allocations are as follows:

	FY 10 Telrex	FY 10 Mettoni	FY 10 Pulse	FY 09 Trio
Cash	$ -	$ 1,456	$ 216	$ 780
Accounts receivable, net	159	6,428	1,990	3,279
Prepaids and other current assets	9	1,161	69	528
Property and equipment	14	383	440	86
Future income tax assets	-	1,116	122	1,374
Acquired software	2,616	7,440	760	1,680
Other intangibles	377	7,650	490	2,498
Goodwill	1,712	13,918	2,800	2,186
Total assets acquired	$ 4,887	$ 39,552	$ 6,887	$12,411
Less: Current liabilities assumed	$ 830	$ 10,712	$ 1,869	$ 5,054
Less: Future income tax liabilities	-	4,225	400	-
Total liabilities assumed	$ 830	$ 14,937	$ 2,269	$ 5,054
Net assets acquired for cash consideration	**$ 4,057**	**$ 24,615**	**$ 4,618**	**$ 7,357**

11. Commitments

As at October 31, 2010, the Company had minimum future payments under operating lease commitments for facilities and equipment requiring annual payments for the years ending October 31, as follows:

2011	$ 3,410
2012	2,555
2013	1,651
2014	1,464
2015 and thereafter	2,281
	$ 11,361

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12. Segmented information

The Company has two reportable segments, the Interaction 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 reportable segments each develop and market software products and provide services for their respective markets. The Interaction Management Group, which includes the operations of Telrex, Mettoni, the Pulse Voice IVR operations and Trio Enterprises AB since their respective dates of acquisition, serves the customer service market segment through the provision of IVR systems and speech and voice recognition solutions. The Asset Management Group, which also includes the results of the Network operations of Pulse Voice Inc. since the date of acquisition, develops, markets and provides services related to visual-based network management software solutions to customers in the telecommunications, transit, cable, electric and gas markets. The Company evaluates segment performance based on revenue and profit or loss before corporate expenses, foreign exchange, interest and other income and income taxes.

	Interaction Management Group	Asset Management Group	Total
Year ended October 31, 2010			
Revenue	$ 80,705	$ 13,503	$ 94,208
Operating expenses, excluding non-cash charges	(60,368)	(9,854)	(70,222)
Amortization of property and equipment	(1,149)	(182)	(1,331)
Amortization of acquired software and other intangibles	(7,901)	(557)	(8,458)
Segmented profit	**$ 11,287**	**$ 2,910**	**$ 14,197**
Corporate expenses			(2,699)
Foreign exchange			238
Other income, net			1,145
Interest income, net			387
Income before income taxes			**$ 13,268**
Goodwill	$ 30,722	$ 4,415	35,137
Other assets	89,986	24,677	114,663
Short-term investments			31,627
Total assets			**$ 181,427**
Capital expenditures	$ 730	$ 157	$ 887

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	Interaction Management Group	Asset Management Group	Total
Year ended October 31, 2009			
Revenue	$ 68,891	$ 9,527	$ 78,418
Operating expenses, excluding non-cash charges	(50,171)	(8,943)	(59,114)
Amortization of property and equipment	(1,175)	(100)	(1,275)
Amortization of acquired software and other intangibles	(6,616)	(715)	(7,331)
Segmented profit	**$ 10,929**	**$ (231)**	**$ 10,698**
Corporate expenses			(2,462)
Foreign exchange			194
Other income, net			236
Interest income, net			1,309
Income before income taxes			**$ 9,975**
Goodwill	$ 16,877	$ 3,088	$ 19,965
Other assets	60,390	27,003	87,393
Short-term investments			53,876
Total assets			**$161,234**
Capital expenditures	$ 272	$ 102	$ 374

Revenue is distributed geographically as follows: U.S. 49% (2009 – 68%), U.K. 25% (2009 – 20%), Europe 20% (2009 – 11%) and Canada 6% (2009 – 1%). Revenue from customers is attributable to individual countries based on the reporting entity that records the transaction.

13. 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.

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

Prior to consummation of the proposed settlement on December 5, 2006, the Third Circuit Court of Appeals issued a ruling concerning class certification, 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 of 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. Final court approval of the settlement was received in October 2009. Several appeals have been filed objecting to the definition of the settlement class and fairness of the settlement, and those appeals remain pending. If the final order relating to the settlement is not granted, 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 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.

14. Capital disclosures

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to deploy capital to provide an appropriate return on investment to its shareholders. The capital structure of the Company consists of shareholder's equity comprised of retained earnings, share capital and accumulated other comprehensive income or loss amounts relating to available-for-sale securities and cumulative translation adjustments. The Company does not have any long-term debt. The Company manages its capital structure and makes adjustments to it in light of economic conditions and the risk characteristics of the underlying assets. The Company's primary uses of capital are to finance non-cash working capital requirements, capital expenditures and acquisitions, which are currently funded from its internally-generated cash flows.

The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital. There has been no change with respect to the overall capital risk management strategy during the year ended October 31, 2010.

15. Financial instruments

Fair value of financial instruments

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

Risk management

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

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's accounts receivable. The amounts reported in the balance sheet are net of allowances for bad debts, estimated by the Company's management based on prior experience and their assessment of the current economic environment. The Company reviews its trade receivable accounts regularly and reduces amounts to their expected realizable values by adjusting the allowance for doubtful accounts as soon as the account is determined not to be fully collectible. The Company believes that its credit risk with respect to accounts receivable is limited for a number of reasons including dealing primarily with large companies and governmental agencies, diversifying its customer base across varying industries and geographic locations, regular management review, negotiating progress payments as contracts are executed and past experience with bad debt expense. The Company historically has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area. No individual customer's trade receivable poses a significant credit risk to the Company.

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Approximately 36% of the Company's receivable balances as at October 31, 2010 (55% - 2009) were from customers in North America, with the balance from Europe, Middle East and Asia. The proportion of North American receivables has decreased as a result of the Company's increased presence, through acquisition, in the European market.

The Company's trade receivables had a carrying value of $24,500 as at October 31, 2010 ($17,017 – 2009), representing the maximum exposure to credit risk of those financial assets, net of the allowance for doubtful accounts of $2.1 million. The Company's allowance for doubtful accounts increased from $1.9 million at October 31, 2009 as a result of acquisitions. The definition of items that are past due is determined by reference to payment terms agreed to with individual customers, which are normally within 30 to 60 days. Approximately 21% of trade receivables were past due as at October 31, 2010, of which $4.0 million was outstanding more than 90 days, compared to 26% past due as at October 31, 2009. Subsequent to the year end, $1.0 million of the past due balances were collected.

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

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, and interest rates will affect the Company's income or the value of its financial instruments.

Foreign exchange risk

Foreign currency risk is related to the portion of the Company's business transactions denominated in currencies other than Canadian dollars, the majority of which relates to fluctuations in the value of the Canadian dollar relative to that of the U.S. dollar. However, an increasing proportion of revenue is now generated by the Company's European operations. Through acquisition, the Company has established a larger presence in the U.K., which generates revenue in Pounds Sterling, the Euro as well as U.S. dollars. This mitigates the Company's exposure to its U.K. office's operating costs, which are predominantly denominated in Pounds Sterling.

Approximately 25% of the Company's revenues are now derived from sales by its U.K. operations, which may be denominated in Pounds Sterling, the Euro or in U.S. dollars, while 20% of its revenue are generated from sales by the Company's European offices, primarily in Sweden, Australia and Denmark and are denominated in Swedish Kronor, Australian dollars and Danish Kroner. Approximately 49% of the Company's revenues are derived from sales to customers in the United States, which are naturally hedged by the Company's U.S. based operating costs associated primarily with the Company's Interaction Management Group U.S. operations. This is a decrease from the prior year when 68% of revenue was generated by the U.S. operations. In contrast, the Company's head office expenses are incurred in Canadian dollars. The Company attempts, wherever possible, to match cash outlays with cash inflows in the same currency.

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

Additional earnings volatility arises from the translation of monetary assets and liabilities denominated in currencies other than Canadian dollars at the rates of exchange at each balance sheet date, the impact of which is reported as a foreign exchange gain or loss. For the year ended October 31, 2010 the Company reported foreign exchange gains of $0.2 million, compared to $0.2 million in foreign exchange gains in fiscal 2009. During fiscal 2010 the exchange rate for U.S. dollars to Canadian dollars averaged $1.05, compared to $1.18 in fiscal 2009, while the Pound Sterling averaged $1.63 compared to $1.82 in the prior year. If exchange rates were to fluctuate by 10%, the exchange gain or loss on our net monetary assets could be valued at plus or minus $682 due to the fluctuation and would be recorded in the consolidated statement of operations.

Interest rate risk

Interest rate risk arises because of the fluctuation in interest rates. The Company is subject to interest rate risk on its cash and short-term investments. If interest rates were to fluctuate proportionally by 10% from existing rates, interest income would be increased or decreased by approximately $50 per year. The Company is not exposed to interest rate risk on debt as the Company has no long-term debt.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to ensure that it has sufficient liquidity to meet its obligations, mainly accounts payable, accrued liabilities and deferred revenue, when due. The Company does not have any short-term borrowing or debt facilities and settles its financial obligations out of cash. The ability to do so relies on the Company's ability to generate cash from operations and collect accounts receivable in a timely manner and by maintaining sufficient cash on hand. As at October 31, 2010 the Company's current liabilities, all of which fall due for payment within twelve months of the balance sheet date, were $47,162 (2009 - $35,091). At October 31, 2010 the Company has a working capital surplus of $60,003 (2009 - $78,485).

Corporate Directory

BOARD OF DIRECTORS

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

Eric Demirian[1]
Chief Executive Officer
Parklea Capital Inc.

Reid Drury[1] [3]
Partner and Vice President
Polar Capital Corporation

John Gibson[1][2][3]
President and Chief Executive Officer
E.E.S. Financial Services Limited

Paul Stoyan[3]
Chairman
Gardiner Roberts LLP

Pierre Lassonde[2]
Chairman
Franco-Nevada Corporation

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Corporate Governance Committee

EXECUTIVE OFFICERS

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

Douglas C. Bryson
Vice President Finance and
Corporate Secretary

Todd M. May
Vice President and
General Counsel

Anthony R. Pearlman
President
Asset Management Division

Steven W. Dodenhoff
President
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Stock Information

Shares of Enghouse Systems Limited are traded on the Toronto Stock Exchange under the symbol ESL

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Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held on Wednesday, March 9, 2011 at 4:30 p.m. at the TMX Broadcast Center, Toronto, Ontario, Canada

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