

01/10/1997

Xpedite Systems Limited

Report and Accounts

31 December 1997



Xpedite Systems Limited

DIRECTORS' REPORT

DIRECTORS

R S Vaters
R B Andersen Jnr.

SECRETARY

D Proctor

AUDITORS

Ernst & Young
Cloth Hall Court
14 King Street
Leeds
LS1 2JN

BANKERS

Midland Bank plc
13 Parliament Street
York YO1 1XS

SOLICITORS

Paul Hastings Janofsky & Walker LLP
The International Financial Centre
Old Broad Street
London EC2N 1HQ

REGISTERED OFFICE

Xpedite House
Pioneer Business Park
Amy Johnson Way
Clifton Moor
York
YO30 4GJ

Xpedite Systems Limited

DIRECTORS' REPORT

The directors present their report and the accounts for the year ended 31 December 1997.

RESULTS AND DIVIDENDS

The profit for the year after taxation, amounted to £5,409,174 (1996 - £3,379,596). Dividends and redemption of premiums on cumulative preference shares amounted to £682,458 (1996 - £672,865). The balance of £4,726,716 (1996- £2,706,731) will be transferred to reserves.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the company is to provide a facsimile broadcast service and other related enhanced facsimile and messaging services. The year saw further progress and the results as disclosed within the accompanying financial statements are considered highly satisfactory.

On 17th December 1997 the ordinary shares of the company were acquired by Xpedite Systems (Holdings) UK Ltd whose ultimate holding company is Xpedite Systems Inc of Eatontown, New Jersey, U.S.A. On 27 February 1998 Xpedite Systems Inc was itself acquired by Premiere Technologies Inc., of Atlanta, USA.

FIXED ASSETS

Movements in fixed assets in the year are summarised in Note 10 to the financial statements. The main expenditure in the year on tangible fixed assets was on computer and communications equipment to expand the fax broadcast system and on the purchase of a freehold property which was fitted out for use as the company's head office.

DIRECTORS AND THEIR INTERESTS

The directors who held office in the year and their interest in the share capital of the company were as follows:


	<i>At 31 December 1997</i>		<i>At 31 December 1996</i>	
	<i>£1 preference shares</i>	<i>£1 ordinary shares</i>	<i>£1 preference shares</i>	<i>£1 ordinary shares</i>
J McMonigall (Resigned 17 December 1997)	-	-	-	-
D Proctor (Resigned 17 December 1997)	-	-	19,712	50,000
R.S Vaters (Appointed 17 December 1997)	-	-	-	-

R B Andersen Jnr. was appointed as a director on 11 March 1998.

AUDITORS

Ernst & Young were appointed as auditors during the year following the acquisition of the company.

By order of the board


D Proctor
Secretary

28th July 1998

Xpedite Systems Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS
to the members of Xpedite Systems Limited

We have audited the accounts on pages 5 to 17 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

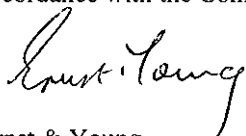
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Chartered Accountants
Registered Auditor
Leeds

28 August 1998

Xpedite Systems Limited

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1997

	<i>Notes</i>	<i>1997</i> £	<i>1996</i> £
TURNOVER			
Continuing operations	2	19,729,611	16,333,132
Cost of sales		(7,733,924)	(8,984,235)
GROSS PROFIT		11,995,687	7,348,897
Administration expenses		(3,702,885)	(2,631,380)
OPERATING PROFIT			
Continuing operations	3	8,292,802	4,717,517
Interest receivable		46,255	12,654
Interest payable	6	(197,357)	(456,203)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		8,141,700	4,273,968
Tax on profit on ordinary activities	7	(2,732,526)	(894,372)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		5,409,174	3,379,596
Appropriations in respect of non-equity shares	8	(682,458)	(672,865)
RETAINED PROFIT FOR THE YEAR	16	4,726,716	2,706,731

RECOGNISED GAINS AND LOSSES

The accounts have been prepared on an unmodified historical cost basis. There are no recognised gains or losses other than as shown above.

Xpedite Systems Limited

CONSOLIDATED BALANCE SHEET

at 31 December 1997

	Notes	1997 £	1996 £
FIXED ASSETS			
Tangible fixed assets	10	2,869,213	1,864,630
CURRENT ASSETS			
Debtors	11	3,961,584	4,761,650
Cash		2,600,277	419,765
		6,561,861	5,181,415
CREDITORS: amounts falling due within one year	12	(6,148,147)	(5,308,574)
NET CURRENT ASSETS/(LIABILITIES)		413,714	(127,159)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,282,927	1,737,471
CREDITORS: amounts falling due after more than one year	13	-	(3,515,000)
PROVISIONS FOR LIABILITIES AND CHARGES	14	(65,318)	-
		3,217,609	(1,777,529)
CAPITAL AND RESERVES			
Called up share capital	15	6,151,842	5,329,033
Profit and loss account	16	5,366,502	1,194,173
		11,518,344	6,523,206
Goodwill write-off reserve	16	(8,300,735)	(8,300,735)
TOTAL SHAREHOLDERS' FUNDS		3,217,609	(1,777,529)
Shareholders' funds:			
Equity interest		842,609	(7,323,093)
Non-equity interest		2,375,000	5,545,564
		3,217,609	(1,777,529)



R B Andersen
Director

28 July 1998

Xpedite Systems Limited

COMPANY BALANCE SHEET

at 31 December 1997

	Notes	1997 £	1996 £
FIXED ASSETS			
Investments	9	8,433,196	8,433,196
Tangible fixed assets	10	2,869,213	1,864,630
		<u>11,302,409</u>	<u>10,297,826</u>
CURRENT ASSETS			
Debtors	11	4,007,624	4,971,794
Cash		2,590,256	404,779
		<u>6,597,880</u>	<u>5,376,573</u>
CREDITORS: amounts falling due within one year	12	(6,147,687)	(5,484,513)
NET CURRENT ASSETS/(LIABILITIES)		450,193	(107,940)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>11,752,602</u>	<u>10,189,886</u>
CREDITORS: amounts falling due after more than one year	13	-	(3,515,000)
PROVISIONS FOR LIABILITIES AND CHARGES	14	(65,318)	-
		<u>11,687,284</u>	<u>6,674,886</u>
CAPITAL AND RESERVES			
Called up share capital	15	6,151,842	5,329,033
Profit and loss account	16	5,535,442	1,345,853
TOTAL SHAREHOLDERS' FUNDS		<u>11,687,284</u>	<u>6,674,886</u>
Equity interests		9,312,284	1,129,322
Non-equity interests		2,375,000	5,545,564
		<u>11,687,284</u>	<u>6,674,886</u>



R B Andersen
Director

1998

Xpedite Systems Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

1. ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The principal accounting policies are set out below.

Basis of consolidation

The group financial statements consolidate the financial statements of Xpedite Systems Limited and its subsidiaries. When businesses are acquired or sold during the year, their results are included from or to the date on which control passes.

As permitted under FRS1 (revised), a cashflow statement has not been presented, as the consolidated accounts of Xpedite Systems Inc, which include the accounts of Xpedite Systems Limited are publicly available.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. The cost of assets is written off in equal annual instalments over estimated useful asset lives, which are as follows:

Motor vehicles:	3 years
Computers, equipment and furniture	3-5 years

Foreign exchange

Transactions denominated in foreign currencies are converted into sterling at the rate ruling at the transaction date. Assets and liabilities denominated in foreign currencies are included in the balance sheet at the rates prevailing at that date. Any translation differences arising are dealt with in the profit and loss account.

Lease and hire purchase arrangements

Assets held under hire purchase arrangements and their related obligations are recorded at the value of the asset at inception. The amount by which payments exceed the recorded liability are treated at finance charges and are written off over the term of the hire purchase agreement so as to give a constant rate of charge.

Rental costs under operating leases are charged to the profit and loss account in the period in which they are incurred.

Goodwill

Goodwill represents the difference between the value of a business acquired, as represented by the consideration paid, and the fair value of the net assets acquired and is written off to a goodwill reserve on consolidation.

Investments

Fixed asset investments are stated at cost unless, in the opinion of the directors, there has been a permanent diminution in value, in which case an appropriate provision is made.

Taxation

The charge for taxation is based upon the results for the year and takes into account deferred taxation, calculated on the liability method, which is provided to the extent that the directors consider a liability will crystallise in the foreseeable future.

Xpedite Systems Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

2. TURNOVER

Turnover represents the invoiced value of services provided in the period, excluding Value Added Tax. It is attributable to one activity, the provision of a facsimile broadcast service and other related enhanced facsimile and messaging services.

3. OPERATING PROFIT

This is stated after charging:

	1997 £	1996 £
Rentals under operating leases		
Plant and machinery	20,558	57,147
Land and buildings	69,922	86,675
Depreciation		
Owned assets	602,128	476,305
Assets held under hire purchase contracts	-	2,316
Auditors' remuneration - audit services	12,000	12,000
	<u> </u>	<u> </u>

4. DIRECTORS' EMOLUMENTS

	1997 £	1996 £
Emoluments	71,375	73,888
	<u> </u>	<u> </u>

During the year there was one director who exercised share options

5. STAFF COSTS

The average number of employees during the year was as follows:

	1997 No.	1996 No.
Sales	19	12
Administration	48	51
	<u> </u>	<u> </u>
	67	63
	<u> </u>	<u> </u>
	1997 £	1996 £
Salaries (including directors' emoluments)	2,279,069	1,847,884
Social security costs	214,037	160,078
	<u> </u>	<u> </u>
	2,493,106	2,007,962
	<u> </u>	<u> </u>

Xpedite Systems Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

6. INTEREST PAYABLE

	1997 £	1996 £
Hire purchase interest	-	50
Interest on loans repayable within five years	197,357	456,153
	<u>197,357</u>	<u>456,203</u>

7. TAXATION

	1997 £	1996 £
Current year corporation tax at 31.5%	2,760,666	1,081,289
Prior years	(93,458)	(186,917)
Deferred tax	65,318	-
	<u>2,732,526</u>	<u>894,372</u>

8. APPROPRIATIONS IN RESPECT OF NON-EQUITY SHARES

	1997 £	1996 £
Cumulative redeemable preference share dividend	237,500	237,500
Cumulative redeemable A preference share redemption premium	444,958	435,365
	<u>682,458</u>	<u>672,865</u>

9. INVESTMENTS IN SUBSIDIARIES

<i>Company</i>	<i>Subsidiary undertakings</i>
Cost and Net Book Value at 1 January 1997 and 31 December 1997	<u>£8,433,196</u>

The company owns 100% of the ordinary share capital of Transmit International Limited and of Connaught Commercial Services Limited. The principal activity of the subsidiary undertakings is the provision of fax broadcast services.

The directors consider that the investments have suffered no impairment in value and it is appropriate to carry the investments at a cost.

Xpedite Systems Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

10 TANGIBLE FIXED ASSETS

	<i>Freehold property</i>	<i>Motor vehicles</i>	<i>Computers, equipment & furniture</i>	<i>Total</i>
Group and company				
Cost				
At 1 January 1997	90,000	11,595	2,692,481	2,794,076
Additions	1,010,697	-	596,669	1,607,336
Disposals	-	-	(1,380)	(1,380)
At 31 December 1997	1,100,697	11,595	3,287,770	4,400,062
Depreciation				
At 1 January 1997	-	10,429	919,017	929,446
Charge for the year	-	1,166	600,962	602,128
Disposals	-	-	(725)	(725)
At 31 December 1997	-	11,595	1,519,254	1,530,849
Net book amount				
At 31 December 1997	1,100,697	-	1,768,516	2,869,213
At 31 December 1996	90,000	1,166	1,773,464	1,864,630

11 DEBTORS

	<i>1997 £</i>	<i>Group 1996 £</i>	<i>1997 £</i>	<i>Company 1996 £</i>
Trade debtors	3,471,119	4,294,176	3,462,105	4,241,181
Amounts owed by related parties	314,211	304,373	314,211	304,373
Amount owed by subsidiary undertakings	-	-	61,682	313,485
Other debtors and prepayments	176,254	163,101	169,626	112,755
	3,961,584	4,761,650	4,007,624	4,971,794

Xpedite Systems Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

12. CREDITORS (amounts falling due within one year)

	<i>Group</i>		<i>Company</i>	
	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>
	£	£	£	£
Bank loan (Note 13)	-	1,485,000	-	1,485,000
Trade creditors	903,705	1,533,210	903,902	1,533,210
Dividend payable	9,110	603,349	9,110	603,349
Amounts owed to parent undertaking	1,031,608	-	1,031,608	-
Amounts owed to related parties (Note 20)	349,640	243,299	349,640	243,299
Corporation tax	2,765,491	905,349	2,764,834	1,081,288
Other taxes and Social security costs	809,921	442,247	809,921	442,247
Other creditors and accruals	278,672	96,120	278,672	96,120
	<u>6,148,147</u>	<u>5,308,574</u>	<u>6,147,687</u>	<u>5,484,513</u>

13. CREDITORS (amounts falling due after more than one year)

	<i>Group and Company</i>	
	<i>1997</i>	<i>1996</i>
	£	£
Bank loan	-	3,515,000

The loan outstanding in 1996 was repaid in full in the current year.

Aggregate amounts repayable

	<i>Group and company</i>	
	<i>1997</i>	<i>1996</i>
	£	£
Within one year	-	1,485,000
Between one and two years	-	1,515,000
Between two and five years	-	2,000,000
	<u>-</u>	<u>5,000,000</u>

Xpedite Systems Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

14. PROVISIONS FOR LIABILITIES AND CHARGES

Group and Company

The movements in deferred taxation shown in the accounts during the current and previous years are as follows:

	1997 £	1996 £
At 1 January	-	-
Charge for the year	65,318	-
	<u>65,318</u>	<u>-</u>

Deferred taxation provided in the accounts is as follows:

	1997 £	Amount Provided 1996 £	1997 £	Not- Provided 1996 £
Capital allowances	74,668	-	74,688	105,314
Short term timing differences	(9,369)	-	(9,369)	(13,656)
	<u>65,318</u>	<u>-</u>	<u>65,318</u>	<u>91,658</u>

Xpedite Systems Limited

NOTES TO THE ACCOUNTS at 31 December 1997

15. CALLED UP SHARE CAPITAL

	31 December 1997		31 December 1996	
	Number	£	Number	£
Authorised				
Ordinary shares of £1	10,219,168	10,219,168	83,333	83,333
A ordinary shares of £1	250,000	250,000	250,000	250,000
Cumulative redeemable preference shares of £1	2,775,000	2,775,000	2,775,000	2,775,000
Cumulative redeemable A preference shares of £1	2,712,094	2,712,094	2,712,094	2,712,094
Cumulative redeemable B preference shares of £1	6,238,778	6,238,778	6,238,778	6,238,778
	<u>22,195,040</u>	<u>22,195,040</u>	<u>12,059,205</u>	<u>12,059,205</u>
Issued and fully paid				
Ordinary shares of £1	9,903,217	3,526,842	60,000	60,000
A ordinary shares of £1	250,000	250,000	250,000	250,000
Cumulative redeemable preference shares of £1	2,375,000	2,375,000	2,375,000	2,375,000
Cumulative redeemable A preference shares of £1	-	-	2,644,033	2,644,033
Cumulative redeemable B preference shares of £1	-	-	-	-
	<u>12,528,217</u>	<u>6,151,842</u>	<u>5,329,033</u>	<u>5,329,033</u>

During the year 9,868,218 ordinary £1 shares were issued for cash at par which was used to finance the purchase by the company of 48,334 of its own ordinary £1 shares for an aggregate consideration of £6,424,709 and further, the redemption of the A preference shares then in issue to the value of £2,644,033, which were redeemed at a premium of £999,345. In addition 23,333 ordinary shares of £1 each were issued at par under a share option scheme. The full amount paid as consideration for the buy back of ordinary shares has been applied as a reduction in the value of the ordinary share capital of the company as shown above and as permitted by the Companies Act 1985.

The A ordinary and ordinary shares have equal voting rights. None of the cumulative redeemable preference shares have voting rights. The A and B cumulative redeemable preference shares rank pari passu with the preference shares for capital distribution purposes. The A ordinary shares rank pari passu to the ordinary shares for dividend and in priority to them for capital distribution purposes, but behind the cumulative redeemable preference shares for both.

The cumulative redeemable A preference shares were redeemed at a premium representing 17.5% of the paid up amount in issue per annum. The premium for the year ended 31 December 1997 was £ 444,758 (1996 - £435,365). These shares were redeemed in accordance with their condition of issue upon the sale of the ordinary shares of the company by the previous shareholders.

Xpedite Systems Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

15. CALLED UP SHARE CAPITAL (continued)

The cumulative redeemable B preference shares are entitled to receive a dividend at the annual rate of 15% of the paid amount. No cumulative redeemable B preference shares have been issued.

The cumulative redeemable A preference share dividend is to be paid in priority to the dividends for cumulative redeemable B preference shares and both in priority to the cumulative redeemable preference shares.

No dividends were payable in respect of the cumulative redeemable preference shares in respect of accounting periods up to 31 December 1994. Subject to availability of appropriate distributable reserves, dividends are to be declared payable in respect of subsequent periods at the rate of 10% of the paid up amount. The dividend amount in respect of the year was £237,500 (1996 £237,500). The cumulative redeemable preference shares were originally redeemable when agreement was reached for the sale of the ordinary and A ordinary shares but instead were acquired under the terms of eventual sale agreement and remain in issue but may be redeemed at anytime .

16. RESERVES

	<i>Profit and loss account</i>		<i>Goodwill write-off reserve</i>	
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	£	£	£	£
Balance at 1 January 1997	1,194,173	1,345,853	(8,300,735)	-
Profit for the year	4,726,716	4,743,976	-	-
Adjustment in respect of accumulated premium on redemption of preference shares	(554,387)	(554,387)	-	-
Balance at 31 December 1997	<u>5,366,502</u>	<u>5,535,442</u>	<u>(8,300,735)</u>	<u>-</u>

A separate profit and loss account for the parent company has not been presented as permitted by Section 230 of the Companies Act 1985. The profit for the year after appropriations in respect of non equity shares is shown above . (1996 - £2,512,788).

Xpedite Systems Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997	Group 1996	1997	Company 1996
	£	£	£	£
Profit for the year	5,409,174	3,379,596	5,426,434	3,185,653
Dividends and redemption premium	(1,236,845)	(603,349)	(1,236,845)	(603,349)
Redemption of Preference Shares	(2,644,033)	-	(2,644,033)	-
Adjustment to non equity capital	-	800	-	800
New share capital issued	9,891,551	10,000	9,891,551	10,000
Share buy back - reduction	(6,424,709)	-	(6,424,709)	-
Adjustment to goodwill	-	1,355	-	-
Goodwill written off on acquisition	-	(2,111,679)	-	-
Net addition to/(reduction in) shareholders' funds	4,995,135	676,723	5,012,398	2,593,104
Shareholders' funds at 1 January	(1,777,529)	(2,454,252)	6,674,886	4,081,782
Shareholders' funds at 31 December	3,217,609	(1,777,529)	11,687,284	6,674,886

18. CAPITAL COMMITMENTS

	1997 £	1996 £
Authorised and contracted	-	810,000

19. OPERATING LEASE COMMITMENTS

The group and company are committed to make the following payments in respect of operating leased in the year ending 31 December 1998:

	Land and buildings		Other	
	1997	1996	1997	1996
	£	£	£	£
Leases which expire within:				
One year	27,800	8,128	8,784	16,230
Two to five years	41,202	48,025	15,557	13,752

Xpedite Systems Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

20. RELATED PARTIES

Xpedite Systems Inc ("XSI") a US corporation acquired control of the shares of the company during the year, under the terms of an agreement with the previous shareholders of the company. XSI has similar arrangements with a French company, Xpedite Systems SA ("XSF") whereby it can acquire that company in the future and also has acquired a German company Xpedite Systems GmbH ("XSG") which are engaged in the same area of business as Xpedite Systems Limited. Under the terms of a license agreement between the company and XSI, royalty payments are made to XSI as a fixed percentage of sales less communication costs. This is included in charges payable by the group. During the ordinary course of business the company has entered into certain transactions with XSI, XSF and XSG which are summarised below:

	1997 £'000	1996 £'000
Sales by the group	911	889
Purchase of tangible fixed assets	104	609
Charges payable by the company, reflected in costs of sales	2,454	2,048
Proceeds from the sale of intangible assets	-	1,152

21. ULTIMATE CONTROL

The Directors consider that at the date of the balance sheet Xpedite Systems Inc, a company registered in the United States, had ultimate control over the group's business. However, subsequent to that date, Xpedite Systems Inc have themselves been acquired by Premiere Technologies Inc of Atlanta, Georgia, USA on 27 February 1998.