

Merced Systems Limited
(formerly Practique Associates Limited)

REPORT AND FINANCIAL STATEMENTS

For the year ended
31 December 2008



Merced Systems Limited (formerly Practique Associates Limited)

FINANCIAL STATEMENTS

for the year ended 31 December 2008

CONTENTS

	Pages
Officers and professional advisers	1
The directors' report	2 - 3
Independent auditor's report to the members	4
Profit and loss account	5
Balance sheet	6
Notes to the financial statements	7 - 15

Merced Systems Limited
(formerly Practique Associates Limited)

OFFICERS AND PROFESSIONAL ADVISERS

YEAR ENDED 31 DECEMBER 2008

The board of directors	S J Bowe J C Walker D Wittenkamp M Glickman M Selcow
Company secretary	HE/VLG Secretaries Limited
Business address	Century Court Millenium Way Bracknell Berkshire RG12 2XT
Registered office	Century Court Millenium Way Bracknell Berkshire RG12 2XT
Auditor	Baker Tilly UK Audit LLP 1 st Floor 46 Clarendon Road Watford Hertfordshire WD17 1JJ

Merced Systems Limited

(formerly Practique Associates Limited)

DIRECTORS' REPORT

The directors present their report and the financial statements of the company for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

During 2008, the Company continued to strengthen its position in Europe as a leader in the Incentive Compensation Management (ICM) software market. The Company experienced a slight decline in revenue to £3,249,576, while incurring a loss after tax of £1,031,740. The decline in revenue and operating loss is due to a large degree as a result of two large customer projects running behind schedule and the general state of the economy. The parent company continues to be committed to investing in and developing the ongoing operations of the Company.

The Company managed to secure several key customer relationships in Europe while continuing to expand its license footprint within existing customers. The Company also added 3 new significant US customers through its relationship with Merced Systems, Inc.

The Company continued to dominate the communications and retail sectors during the year. During the fall of 2008, the Company recruited a new Operations Director to head up the customer delivery area. Additionally, the Company continued to build its sales team while continuing its development of strategic partner relationships.

CHANGE OF OWNERSHIP

On 15 May 2008, all of the share capital of Practique Associates Limited was acquired by Merced Systems, Inc. ("Merced"), an American company based in Redwood City, California.

The acquisition brings together Merced, the world leader in Performance Management software for customer-facing operations, with the leading Incentive Management Company in Europe. Combined, the two companies offer the only performance management solution on the market today that serves both sales and service organisations with deep domain expertise and in a unified fashion. These sales and service organisations include contact centres, field sales, retail sales, partner operations, back office functions and field service groups. Organisations that implement our solutions consistently improve their ability to acquire, support, and ensure the loyalty of customers with demonstrable operational efficiency gains and productivity improvements. The result of the acquisition and combination of companies is a powerful and comprehensive performance management portfolio of enormous value to customers.

Practique Associates Limited was renamed Merced Systems Limited on 1 January 2009, and remains a wholly owned subsidiary of Merced Systems, Inc.

DIRECTORS

The directors who served the company during the year were as follows:

S J Bowe
J C Walker
D Wittenkamp (appointed 16 May 2008)
M Glickman (appointed 16 May 2008)
M Selcow (appointed 16 May 2008)

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Merced Systems Limited

(formerly Practique Associates Limited)

DIRECTORS' REPORT

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 these financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. prepare the financial statements 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 enable them to ensure that the financial statements 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.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are aware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

AUDITOR

Tenon Audit Limited resigned as auditor of the company during the year and Baker Tilly UK Audit LLP were subsequently appointed as auditor.

The auditor, Baker Tilly UK Audit LLP, Chartered Accountants, has indicated its willingness to continue in office.

SMALL COMPANY PROVISIONS

This report has been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985.

Signed on behalf of the directors



D Wittenkamp

Director

Approved by the directors on 29 May 2009

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERCED SYSTEMS LIMITED
(FORMERLY PRACTIQUE ASSOCIATES LIMITED)**

We have audited the financial statements on pages 5 to 14.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

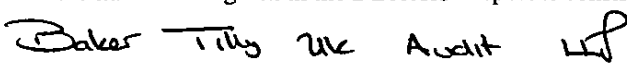
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements 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 financial statements.

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs at 31 December 2008 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.


BAKER TILLY UK AUDIT LLP

Registered Auditor
Chartered Accountants
1st Floor
46 Clarendon Road
Watford
Hertfordshire
WD17 1JJ

Date: 11 June 2009

Merced Systems Limited
(formerly Practique Associates Limited)
PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2008

	<i>Notes</i>	2008 £	2007 £
TURNOVER	2	3,249,576	3,461,475
Administrative expenses		(4,693,309)	(3,031,345)
OPERATING (LOSS)/PROFIT		(1,443,733)	430,130
Investment income		17,451	13,061
Interest payable and similar charges		(5,521)	(276)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(1,431,803)	442,915
Tax on (loss)/ profit on ordinary activities	4	400,063	(109,334)
(LOSS)/PROFIT FOR THE FINANCIAL YEAR	13	(1,031,740)	333,581

The notes on pages 7 to 14 form part of these financial statements.

Merced Systems Limited

(formerly Practique Associates Limited)

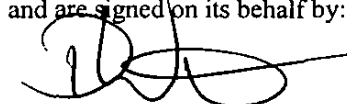
BALANCE SHEET

as at 31 December 2008

	Notes	2008 £	2007 £
FIXED ASSETS			
Tangible assets	6	126,029	115,975
CURRENT ASSETS			
Debtors	7	1,151,258	1,486,294
Cash at bank and in hand		342,683	858,787
		<u>1,493,941</u>	<u>2,345,081</u>
CREDITORS: Amounts falling due within one year	8	<u>(1,434,868)</u>	<u>(1,635,614)</u>
NET CURRENT ASSETS		<u>59,073</u>	<u>709,467</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>185,102</u>	<u>825,442</u>
CREDITORS: Amounts falling due after more than one year	10	(508,000)	-
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	11	-	(6,200)
NET (LIABILITIES)/ ASSETS		<u>(322,898)</u>	<u>819,242</u>
CAPITAL AND RESERVES			
Called-up share capital	12	100	100
Profit and loss account	13	(322,998)	819,142
SHAREHOLDERS' (DEFICIT)/ FUNDS	14	<u>(322,898)</u>	<u>819,242</u>

These financial statements have been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985 and with the Financial Reporting Standard for Smaller Entities (effective January 2007).

The financial statements were approved by the directors and authorised for issue on 29 May 2009 and are signed on its behalf by:



D Wittenkamp

Director

The notes on pages 7 to 14 form part of these financial statements

Merced Systems Limited

(formerly Practique Associates Limited)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

1. ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention, and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007).

GOING CONCERN

The accounts have been prepared on the going concern basis notwithstanding the net liabilities of £322,898 (31 December 2007: net assets of £819,242) as the directors believe that the company will continue to have access to adequate funding from the ultimate parent company Merced Systems Inc. to enable it to continue to operate as a going concern, and have received assurances to this effect. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The financial statements do not include any adjustments that would result from this basis of preparation being inappropriate.

CASH FLOW STATEMENT

The company has taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is small.

TURNOVER

The company derives its revenue from the following sources:

- Sale of software licenses
- Provision of maintenance and support services
- Consultancy
- Training

The company recognises its revenue as follows:

- Sale of software licenses
 - Revenue arising from the sale of software is recognised upon delivery of the software media with a license agreement in place
- Provision of maintenance and support services
 - Maintenance and support services are recognised rateably over the term of the contract
- Consultancy and training
 - Consultancy and training revenue is recognised as the service is performed

Merced Systems Limited

(formerly Practique Associates Limited)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

DEPRECIATION

Depreciation is calculated so as to write off the cost of an asset, net of anticipated disposal proceeds, over the useful economic life of that asset as follows:

Leasehold improvements	- over the lease term
Plant & equipment	- 25% - 33% straight line

OPERATING LEASE AGREEMENTS

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

PENSION COSTS

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year. Differences between contributions payable in the year and contributions actually paid are shown as other accruals or prepayments in the balance sheet. The assets of the scheme are held separately from those of the company in an independently administered fund.

DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

FINANCIAL INSTRUMENTS

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Merced Systems Limited

(formerly Practique Associates Limited)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

2 TURNOVER

In the period to 31 December 2008 39% (2007 – 24%) of the company's turnover was to markets outside the United Kingdom.

3 (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting)	2008 £	2007 £
Directors' emoluments	180,200	60,000
Directors' pension contributions	18,000	15,000
Staff pension contributions	92,236	56,476
Depreciation of owned fixed assets	66,562	51,493
Loss on disposal of fixed assets	-	549
Operating lease - land and buildings	114,000	114,000
Auditor's fees	10,825	3,100
Net gain/ (loss) on foreign currency translation	22,317	(268)

4 TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge in the year	2008 £	2007 £
In respect of the year		
UK corporation tax	(117,232)	107,732
Over/under provision in prior year	-	1,125
	<u>(117,232)</u>	<u>108,857</u>
Deferred tax		
Origination and reversal of timing differences	(282,831)	477
	<u>(282,831)</u>	<u>477</u>
Total deferred tax (note 11)		
	<u>(400,063)</u>	<u>109,334</u>

Merced Systems Limited

(formerly Practique Associates Limited)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

4 TAXATION ON ORDINARY ACTIVITIES (continued)

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 28.5% (2007 – 30%).

	2008 £	2007 £
(Loss)/ Profit on ordinary activities before taxation	(1,431,807)	442,915
(Loss)/ Profit on ordinary activities by rate of tax	(408,065)	132,875
Effects of		
Expenses not deductible for tax purposes	4,301	708
Depreciation for period in excess of capital allowances	4,431	451
Adjustments to tax charge in respect of previous periods	-	1,125
Trading losses carried back	(117,232)	-
Marginal relief	-	(26,926)
Utilisation and movements on tax losses	400,554	-
Short term timing differences	(1,221)	624
Total current tax (note 4(a))	(117,232)	108,857

5 DIVIDENDS

Equity dividends

	2008 £	2007 £
Paid during the year		
Equity dividends on ordinary shares	110,400	149,700

Merced Systems Limited

(formerly Practique Associates Limited)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

6 TANGIBLE FIXED ASSETS

	Leasehold improvements £	Plant & equipment £	Total £
Cost			
At 1 January 2008	46,063	229,120	275,183
Additions	15,311	61,305	76,616
	<hr/>	<hr/>	<hr/>
At 31 December 2008	61,374	290,425	351,799
	<hr/>	<hr/>	<hr/>
Depreciation			
At 1 January 2008	21,141	138,067	159,208
Charge for the year	13,343	53,219	66,562
	<hr/>	<hr/>	<hr/>
At 31 December 2008	34,484	191,286	225,770
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 2008	26,890	99,139	126,029
	<hr/>	<hr/>	<hr/>
At 31 December 2007	24,922	91,053	115,975
	<hr/>	<hr/>	<hr/>

7 DEBTORS

	2008 £	2007 £
Trade debtors	385,392	1,168,226
Amounts recoverable on long term contracts	230,736	218,000
Deferred tax asset (note 11)	276,631	-
Other debtors	258,499	100,068
	<hr/>	<hr/>
	1,151,258	1,486,294
	<hr/>	<hr/>

Merced Systems Limited

(formerly Practique Associates Limited)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

8 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008 £	2007 £
Trade creditors	187,611	167,352
Corporation tax	-	107,732
Other taxation and social security	83,041	302,231
Other creditors	1,117,890	1,058,299
Amounts owed to parent undertaking	46,326	-
	<u>1,434,868</u>	<u>1,635,614</u>

9 PENSIONS

Defined contributions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £92,237 (2007 : £56,476) during the period. Pension contributions totalling £114 (2007 : £5,547) were outstanding at the balance sheet date.

10 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2008 £	2007 £
Amounts owed to parent undertaking	508,000	-
	<u>508,000</u>	<u>-</u>

11 DEFERRED TAXATION

The movement in the deferred taxation (asset)/ provision during the year was:

	2008 £	2007 £
At 1 January	6,200	5,723
Profit and loss account movement arising during the year	(282,831)	477
	<u>(276,631)</u>	<u>6,200</u>
At 31 December	(276,631)	6,200

Merced Systems Limited

(formerly Practique Associates Limited)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

The (asset)/ provision for deferred taxation consists of the tax effect of timing differences in respect of:

	2008 £	2007 £
Excess of taxation allowances over depreciation on fixed assets	(4,580)	7,865
Trading losses carried forward	(272,051)	(1,665)
	<u>(276,631)</u>	<u>6,200</u>

The deferred tax asset has been recognised on the basis of the budget and cash flow forecasts which show the company will be profitable in the next 12 months from date of signing of the financial statements.

12 SHARE CAPITAL

Authorised share capital:

	2008 £	2007 £
10,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>

Allotted, called up and fully paid:

	2008		2007	
	No	£	No	£
Ordinary shares of £1 each	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

13 PROFIT AND LOSS ACCOUNT

	2008 £	2007 £
Balance brought forward	819,142	635,261
(Loss)/profit for the financial year	(1,031,740)	333,581
Equity dividends	(110,400)	(149,700)
	<u>(322,998)</u>	<u>819,142</u>

Merced Systems Limited

(formerly Practique Associates Limited)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2008 £	2007 £
(Loss)/profit for the financial year	(1,031,740)	333,581
Equity dividends	(110,400)	(149,700)
	<u> </u>	<u> </u>
Net (depletion)/ addition to shareholders' funds	(1,142,140)	183,881
Opening shareholders' funds	819,242	635,361
	<u> </u>	<u> </u>
Closing shareholders' (deficit)/ funds	<u>(322,898)</u>	<u>819,242</u>

15 COMMITMENTS UNDER OPERATING LEASES

At 31 December 2008 the company had aggregate annual commitments under non-cancellable operating leases as set out below:

	2008 £	2007 £
Operating leases which expire Within 2 to 5 years	114,000	114,000
	<u> </u>	<u> </u>

16 ULTIMATE HOLDING COMPANY

The ultimate parent company at 31 December 2008 was Merced Systems Incorporated, a company incorporated in the USA. The results of Merced Systems Limited are included in the consolidated financial statements of Merced Systems Incorporated. A set of the consolidated accounts can be obtained from 333 Twin Dolphin Drive, Suite 500, Redwood Shores, CA 94065.

17 RELATED PARTY TRANSACTIONS

On the 15 May 2008, the Directors S Bowe and J Walker sold their respective 50% holdings in the shares in Practique Associates Limited to Merced Systems Incorporated.

The company has taken advantage of the exemption in Financial Reporting Standard Number 8 from the requirement to disclose transactions with group companies on the grounds that consolidated financial statements are prepared by the ultimate parent company.