

Notes to the accounts continued

5 Reconciliation of pro forma financial measures

	2009 £'000	2008 £'000
Profit before income tax	3,158	5,516
Movement in fair value of interest rate cap-and-collar contract ¹	255	165
Movement in fair value of forward foreign exchange contracts ²	(325)	589
Reorganisation costs ³	1,950	–
Unwinding of discount on deferred consideration and share purchase obligation ⁴	95	312
Impairment charge ⁵	116	–
Adjusted profit before income tax	5,249	6,582

Adjusted profit before income tax has been presented to provide additional information which may be useful to the reader.

¹See note 6.

²Forward foreign exchange contracts held by the Group are recognised at fair value on the balance sheet at each reporting date and the movement on such contracts is recognised within operating expenses in the income statement. These financial instruments comprise financial products used for hedging currency exposure on US dollar and euro. The movement in fair value of the forward foreign exchange contracts since 31 July 2008 is a credit of £325,000 (2008: charge of £589,000).

³The reorganisation costs of £1,950,000 relate to redundancies across the Group, the closure of the Text 100 Seattle office and the costs associated with the merger of Inferno Communications Limited ('Inferno') into Bite Communications Limited ('Bite') on 1 May 2009. £115,000 of the costs can be attributed to the closure of the Seattle office (£82,000 due to headcount reductions and £33,000 due to other office closure costs), and £584,000 of the reorganisation costs relate to the merger of Inferno with Bite (£282,000 of these costs can be attributed to the onerous lease provision and dilapidations provision on the premises occupied by Inferno until the date of the merger. £170,000 can be directly attributed to redundancy costs and the remaining £132,000 relates to other office closure costs). The remaining £1,251,000 of reorganisation costs have been incurred as a result of headcount reductions required to reflect revenue expectations in the worsening economy.

⁴A total interest charge of £95,000 (2008: £312,000) has been recognised during the period. £61,000 (2008: £128,000) of the charge relates to the unwinding of the discount on the deferred consideration payable for OutCast Communications Corporation (a wholly owned subsidiary of the Group since June 2005), and £34,000 (2008: £184,000) relates to the unwinding of the discount on the share purchase obligation for Lexis Public Relations Limited (a wholly owned subsidiary of the Group since October 2008). This interest charge is notional and relates to the difference between the discounted liability recognised and the actual liability settled.

⁵In accordance with the Group's accounting policy, the carrying values of goodwill and intangible assets with indefinite useful lives are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. An impairment charge has been recognised for the goodwill recognised by Bite Communications Limited ('Bite') on acquisition of Credo Communications Limited ('Credo') on 31 December 2005. The operations were transferred into Bite and the decision has been made to write down the goodwill by £116,000 due to Credo client revenue reductions. See note 11.

6 Finance expense

	2009 £'000	2008 (restated)* £'000
Financial liabilities at amortised cost		
Bank interest payable	454	393
Unwinding of discount on deferred consideration	61	128
Financial liabilities at fair value through profit and loss		
Unwinding of discount on share purchase obligation	34	184
Movement in fair value of interest rate cap-and-collar contract	255	165
Other		
Finance lease interest	35	21
Other interest payable	–	1
Finance expense	839	892

*See note 1A.