

Earnings for the 1st half-year 2010 Impacted by allowance depreciation for subsidiary Robust financial structure

Lyon, 28 September 2010 — **Arkoon Network Security is a leading player in the end-to-end security solutions market, focussing on network security, communications, data and end-point protection. The company is listed on the Paris NYSE Alternext stock market.**

Activities: a better business climate

After a year marked by weak corporate investment in information technology for 2009, ARKOON NETWORK SECURITY observed a slight improvement in the business climate for the first half-year of 2010. Nonetheless, product sales growth is not yet the order of the day because the segments in which the company operates run on long cycles. Turnover was €4.4m at 30 June 2010 compared with €4.8m for the prior year.

Continued good performance was recorded for recurring income from maintenance contracts, software updates and subscriptions to security services, representing 56% of aggregate turnover recorded for the period; in fact, contract renewals posted overall growth of 11%. This performance provides an insight into clients' confidence in the quality of services and solutions delivered by ARKOON.

ARKOON NETWORK SECURITY also reorganised its business during the half-year and created two business lines: "Network Security", encompassing the FAST UTM appliance business; and "Software", including the Security Box data protection business and the StormShield end point security range from its subsidiary SkyRecon Systems.

Sales volume picks up, not yet transmuted into earnings

Gross margin on sales declined by 9.6% due to unfavourable translation differences for purchases (euro/dollar parity), rife competition, and sporadic technical support for stabilisation of the FAST V5 version.

Although operating expenses excluding depreciation and amortisation were kept well under control, falling by 2% to €5.74m, EBITDA is -€452K compared with -€4K for the same period in 2009. After depreciation and other allowances of €989K, including €788K for R&D, an operating loss of €1.46m was recorded compared with -€0.94m at 30 June 2009.

Caution on 30 June 2010 closing

It should be borne in mind that ARKOON NETWORK SECURITY acquired SkyRecon Systems in November 2009 to broaden and complete its business line expertise with the SkyRecon StormShield software application. This subsidiary, not consolidated to date, immediately underwent heavy reorganisation due to its tricky financial situation. Headcount was reduced to 17 by mid-2010 and infrastructure costs were lowered by 38%.

SkyRecon Systems generated turnover of €701K at 30 June 2010, with a net loss of €959K, thus performing 33% below expectations at the time of acquisition.

SkyRecon's current difficulties and the sluggish market in which it is positioned caused the group to be cautious when appraising SkyRecon value for closing at 30 June 2010. It was therefore decided to book an allowance for overall depreciation of €3.38m.



The aim was to take safeguard measures against SkyRecon Systems' turnaround difficulties but recognition of this allowance had a strong impact on ARKOON NETWORK SECURITY performance.

Simplified income statement as at 30 June 2010 before allowance for depreciation

K€	30 June 2010	30 June 2009
Turnover	4,413	4,828
EBITDA	-452	-43
Operating income	-1,462	-944
Net income	-1,084	-662

After taking into account the allowance for exceptional depreciation due to SkyRecon Systems, a net income of €4.47m is recorded for the period.

A robust ARKOON NETWORK SECURITY balance sheet

K€	30 June 2010	31 December 2009
Shareholders' equity	9,166	13,618
Cash position	2,927	4,744
Financial debt	356	327

ARKOON NETWORK SECURITY recorded a strong cash position at 30 June 2010, just strengthened by the new lines of credit provided by its banking partners. ARKOON NETWORK SECURITY has therefore the resources required for its development to continue.

Trends anticipated for the second half-year

For the purpose of strengthening its sales dynamics, ARKOON NETWORK SECURITY continues to improve its organisation and the capabilities of its partner and retailer network. The Group also continues its product development in line with IT evolutions,, its R&D expenditure totalling €1.6m for the period.

Hence, ARKOON NETWORK SECURITY will attend the "Assises de la Sécurité" in Monaco next October to present several new products including:

- The Virtual Edition range for FAST360 UTM offer, enabling infrastructure upgrade from 100 to 6,000 users with all the security functions activated (Firewall, Antivirus, Antispam, URL filtering, VPN SSL)
- Security BOX for Microsoft SharePoint enabling the protection of all data stored and shared on SharePoint servers, thus ensuring that any collaborative work, between different departments of a company, can be carried out in safety
- Launch of StormShield Personal Edition, a free tool for protection against major risks when browsing on the Internet, and for operating system and applications.

On the business side, ARKOON NETWORK SECURITY anticipates a gradual return to investment in information technology security by companies and major accounts. 2010 should therefore be a year of adjustment with stepped-up marketing and sales activities, although sales are expected to be slightly lower than the prior year. In the longer term, the Group's technology expertise and reputation for products with strong added value will form solid foundations for its future development.



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About Arkoon Network Security 

As a recognised pioneer in IT infrastructure protection, since its foundation, Arkoon (www.arkoon.net) has made the commitment to offer the appropriate certified solutions for the protection of sensitive data and infrastructures.

Arkoon solutions are incorporated into the protection system of the client organisation, regardless of its size, thereby providing a cost-effective response to its security objectives.

Arkoon protects information, communications, infrastructures and computers with a range of complementary solutions:

- Security BOX software suite, preserving the confidentiality, integrity and authenticity of any information stored or shared within the organisation, as required, whether between PCs or a PC and a smartphone. Security BOX encryption is certified Common Criteria EAL4+.
- FAST360 appliance range, integrating native Fast Applicative Shield Technology (FAST), patented by Arkoon, to protect infrastructures and communications. FAST360 is certified Common Criteria EAL2+.
- Stormshield software application, designed and marketed by SkyRecon, a subsidiary of Arkoon specialising in behavioural security software solutions, offers comprehensive protection for the system, applications and data on any desktop or laptop computer.

Founded in 2000, its registered office situated in Lyon, Arkoon Network Security is listed on the Paris NYSE Alternext market. Its solutions are marketed all over the world through a network of certified partners and subsidiaries. A large majority of Arkoon's clients are formed of companies listed on Eurostoxx 100, public bodies and thousands of medium-sized enterprises. Arkoon solutions are rolled out in more than 60 countries.

Arkoon Network Security has OSEO "Innovative Enterprise" certification and has been distinguished as a member of the OSEO Excellence network composed of 2,000 companies.

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