



ARC International plc Announces Unaudited Interim Results

For the six months ended 30 June 2009

ARC International (LSE: ARK), a leading provider of customisable Solutions-to-Silicon IP for consumer product and semiconductor companies worldwide, today announces its unaudited interim results for the six months ended 30 June 2009.

Financial Highlights

- ▶ Revenue for six months ended 30 June 2009 is in line with expectations at £7.3 million (\$11.0 million), a decrease of 22% (H108: £9.3 million, \$18.3 million)
- ▶ Restructuring of operations commenced on 30 June expected to deliver cost savings estimated at £6.0 million on an annualised basis and recognisable from H2 2009, achieved at a cash cost of £2.8 million
- ▶ Net loss before restructuring charges stands at £4.3 million (H108: £2.0 million)
- ▶ Period-end cash and short-term investments of £9.1 million (31 December 2008: £12.7 million)
- ▶ Loss per share of 4.48p (H108: 1.35p)

Operational Highlights

- ▶ 24 customer contracts completed in the period, including six new customers
- ▶ Dr Geoff Bristow appointed Chief Executive Officer in May, and Charles Rendell appointed Chief Financial Officer in June
- ▶ New processor range to be announced in November 2009 aimed at half the power consumption of the ARC 600, which is already 25% lower power than its nearest competitor
- ▶ Following the introduction of its "Sound-to-Silicon" solutions, the Company has revealed a strong market position in flash memory controllers, to be launched as "Storage-to-Silicon"

Commenting on the results Dr Geoff Bristow, ARC International Chief Executive Officer, said, "ARC has a core competence in lower power embedded technology which has been used to establish a previously unsung leadership position in the control of embedded flash memory. The same power-performance profile which gave us a strength in this application space is now set to help us build a presence in other emerging embedded markets such as security (e.g. secure card and identity verification with fingerprint recognition). We are now planning to capitalise on these competitive strengths with our new "Storage-to-Silicon" and "Security-to-Silicon" vertical solutions.

"At the same time we continue to win new licences with our "Sound-to-Silicon" offering. This includes the Sonic Focus audio enhancement software, which as we announced yesterday, we are taking into the portable telephone space to improve the clarity of phone calls. This is potentially a large market for us.

"All this is made possible by two centres of development expertise in San Jose, USA and St Petersburg, Russia. In St Petersburg we have 50 skilled software mathematicians, already well-respected for their codec development but who are being employed as part of our engine for innovation.

"By significantly reducing our cost base elsewhere, without impacting our core competencies we have enhanced the Company's ability to try and capitalise on these opportunities."

Chief Executive Officer's Review

Trading overview

ARC International plc announces trading results that, as outlined in our Trading Update of 30 June 2009, are in line with previously announced expectations. Our revenue performance for the six months to 30 June 2009 was £7.3 million (\$11.0 million). Whilst general trading conditions have remained challenging with lengthy sales cycles, we have continued to sign deals and generate royalty revenues.

During the period we completed 24 customer engagements. Six of these engagements were completed for new ARC customers such as Augusta. We have continued to sign engagements post period end, some of which have involved solutions in our newer "Solutions-to-Silicon" and "Storage-to-Silicon" verticals. In July this year Initio, a leading provider of high-quality cost-effective integrated circuits and solutions for storage devices, took a licence for the extendable and configurable ARC 600 family of "Storage-to-Silicon" cores to help it address opportunities in the USB 3.0 and solid state drive (SSD) controller markets. Similarly in July, DensBits Technologies Limited agreed to take an ARC 600 licence which will see ARC's technology used in a new generation of multi-bit per cell Flash technology.

Refocusing operations

Following my appointment on 5 May 2009 as Chief Executive Officer, a strategic review of all operations was undertaken and the following operational decisions are in the process of implementation:

Focused development groups established

ARC has formed an Advanced Software Group ("ASG") in St Petersburg (built around the team acquired with Alarity Inc. in 2007) to focus on new areas of IP as well as continuing its leading-edge codec development. In addition, an Advanced Technology Group ("ATG") will be established around our existing San Jose operation in order to focus on hardware development and systems IP.

Operational efficiencies identified

In a return to a start-up culture of innovation, the Company has begun to make a transition to virtualisation and teleworking, such that the Company's premises now only consist of the ASG, ATG, and a network of sales offices in St Albans, Israel, Russia, Taiwan and elsewhere.

All other existing ARC sites are in the process of being closed. The Company's previous headquarters in St Albans wound down its development operations on 31 July 2009 and a number of key processor architects and other technical staff are relocating to the ATG in San Jose.

Elsewhere, work has begun on rationalising the Company's five data centres into two computer centres, expected to deliver an annualised cost saving of more than 75% from H209.

Once fully complete, the streamlining of global operations that has taken place will have resulted in the loss of 34 staff worldwide. Following the restructuring, the group now employs 114 direct staff, excluding its partnership operations in Hyderabad.

Strengthening our strategic position

As a result of these operational changes, the Company has improved its ability to execute its stated strategy, which is further supported by the following realignments and actions:

From "Sound-to-Silicon" to Solution and Storage

The Company's "Sound-to-Silicon" approach offers an integrated combination of software, extended CPUs and other design IP as a complete solution for customers requiring an audio subsystem on a chip. This is now marketed as one of the Company's "Solutions-to-Silicon". A second such offering, "Storage-to-Silicon" will be launched in September, recognising the Company's achievement in the field of embedded memory controllers, where it already has a significant market share.

In addition, ARC has now adopted a policy of, where possible, seeking to conduct two-way licencing deals with many of its customers and collaborators in a partnership strategy to be known as "IP-in/IP-out" in order to accelerate the time-to-market of ARC's future Solutions to Silicon, whilst improving cost effective development and expanding the product portfolio.

Processor refresh

The Company's ARC 600 processor range, which on average uses 25% less power than its nearest competitor for embedded subsystem applications, will be the basis of an instruction-set compatible new generation development aimed at a further halving of power-performance ratio. The new processor range, to be named the ARC 6000, will be discussed in detail in November 2009. Further announcements will be made at the same time in relation to the ARC 700 series of processors.

Chief Executive Officer's Review

Leveraging Sonic Focus

Our Sonic Focus audio enhancement software will now be offered on non-ARC platforms, as well as part of ARC's Sound-to-Silicon solution. Whilst customers of the integrated ARC solution will continue to have the best audio quality possible for consumer devices, whilst minimising the costs of speakers and earphones, the Board believes that it is important for the Sonic Focus brand to be better publicised and available.

Starting in the second half of 2009, ARC will adopt a policy of publishing results identifying the contribution of Sonic Focus.

Financial impact

As a result of the above operational and strategic changes, the Board considers that the financial outlook of the Company has been improved as follows:

- ▶ The actions to realign the cost base of the business are expected to generate annualised cost savings of £6.0 million (\$10.0 million), with benefits being recognised in the second half of 2009.
- ▶ The rationalisation actions are expected to result in cash charges of approximately £2.8 million (\$4.6 million), with the cash cost in the current financial year not expected to exceed £2.1 million (\$3.5 million). The remainder of the rationalisation cost is to be incurred in the following three years. The impact on intangible assets and other assets has been £0.9 million to date.

Outlook

Whilst we are mindful that conditions in our markets remain tough and are expected to remain so in the short to medium term, we continue to win orders. We intend to stay focused on our strategic plans, delivering in those areas where we have historic strength, whilst focusing on the opportunities that our "Storage-to-Silicon" and "Security-to-Silicon" offerings now target. By significantly reducing our cost base without impacting our core competencies we have enhanced the Company's ability to try and capitalise on these opportunities.

Chief Financial Officer's Review

For the six months ended 30 June 2009

Revenue

Total revenue in sterling for the period was £7.3 million, down 22% over the same period last year (H108: £9.3 million), which in US dollars is \$11.0 million (H108: \$18.3 million). Of this, licence and engineering revenue was £2.6 million (\$4.1 million) (H108: £4.3 million, \$8.4 million), maintenance and service revenue was £1.0 million (\$1.4 million) (H108: £0.8 million, \$1.6 million) and royalty revenue was £3.6 million (\$5.5 million) (H108: £4.2 million, \$8.3 million).

Looking at revenue in terms of geography, revenue in Europe accounted for 20% (H108: 16%); revenue in North America accounted for 63% (H108: 51%); and revenue in Asia accounted for 17% (H108: 33%) of total revenue.

Cost of sales and operating expenses

Cost of sales decreased 14% to £0.6 million (H108: £0.7 million). Gross margin was maintained at 92% (H108: 92%) Net operating expenses increased by 4% in the period to £11.8 million (H108: £11.4 million).

The Company had 141 employees at 30 June 2009 compared with 209 employees at 30 June 2008. The 33% decline in headcount was due to the restructuring efforts undertaken in 2008 and 2009. Research and development costs increased during the period by 18% to £5.3 million (H108: £4.5 million) due mainly to spending on subcontracted research and development offset by reduced staff related costs. Sales and marketing expenses decreased during the period by 13% to £2.7 million (H108: £3.1 million). General and administration costs decreased 9% in the period to £2.1 million (H108: £2.3 million). Other expenses recorded during the period, included depreciation and amortisation, which increased 6% to £1.7 million (H108: £1.6 million) due to the additional amortisation of intangibles purchased from the acquisitions.

Restructuring charges

The Company incurred £2.3 million of restructuring charges in the period which comprised redundancy costs for 34 employees, disposal of assets, and a provision for impairment of the investment in associate, Adaptive Chips Inc. In the second half of this financial year, the Company expects to incur further restructuring charges comprising of rationalisation of office locations, provision for further disposals of assets and consolidations of data centres.

Finance income

Interest income decreased by 60% in the period to £0.2 million (H108: £0.5 million) as a result of the decrease in the Company's average cash balance and the decrease in interest rates earned on its investments.

Profitability

Net loss for the period before restructuring charges was £4.3 million (H108: £2.0 million). Net loss for the period after restructuring charges was £6.5 million (H108: £2.0 million).

Cash flow and balance sheet

The net cash outflow from operations during the period increased to £4.0 million (H108: £3.0 million). Capital expenditure, including payments for previous acquisitions was £0.5 million (H108: £3.5 million). The movement in cash and short-term investments during the period under review amounted to an outflow of £3.5 million (H108: £4.7 million). Net assets as at 30 June 2009 stood at £16.0 million (31 December 2008: £21.5 million), including cash and short-term investments of £9.1 million (31 December 2008: £12.7 million).

Loss per share

For the period ended 30 June 2009 the loss per share was 4.48p (H108: loss per share of 1.35p).

Dividend

In light of the Company's strategic plans, the Board has decided not to propose an interim dividend for the six months ended 30 June 2009 (H108: Nil).

Responsibility Statement of the Directors in respect of the Interim Financial Report

We confirm that to the best of our knowledge:

- ▶ The condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- ▶ The interim management report includes a fair review of the information required by:
 - a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last Annual Report that could do so.

Signed on behalf of the Board

Dr G Bristow
4 August 2009

Condensed Consolidated Income Statement

For the six months ended 30 June 2009

	Note	Six months ended 30 June 2009 before restructuring (unaudited) £000	Six months ended 30 June 2009 restructuring (unaudited) £000	Six months ended 30 June 2009 Total (unaudited) £000	Six months ended 30 June 2008 (unaudited) £000
Revenue		7,259	–	7,259	9,251
Cost of sales		(609)	–	(609)	(694)
Gross profit		6,650	–	6,650	8,557
Operating expenses	4	(11,832)	(2,258)	(14,090)	(11,419)
Operating loss		(5,182)	(2,258)	(7,440)	(2,862)
Finance income		168	–	168	485
Finance expense		(6)	–	(6)	–
Share of post-tax profit/(loss) of associate		16	–	16	(8)
Loss before income tax		(5,004)	(2,258)	(7,262)	(2,385)
Tax credit		749	–	749	373
Loss for the period		(4,255)	(2,258)	(6,513)	(2,012)
Weighted average number of shares				145,506,363	149,037,037
Basic and diluted loss per share – pence				(4.48)	(1.35)

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

	Six months ended 30 June 2009 (unaudited) £000	Six months ended 30 June 2008 (unaudited) £000
Loss for the period	(6,513)	(2,012)
Other comprehensive income		
Currency translation difference	653	(147)
Total comprehensive income for the period attributable to owners of the parent	(5,860)	(2,159)

Condensed Consolidated Statement of Changes in Shareholders' Equity

(unaudited)	Share capital £000	Share premium £000	Other reserves £000	Cumulative translation adjustment £000	Retained earnings £000	Total* £000
At 1 January 2008	153	3,683	61,037	(511)	(34,089)	30,273
Share-based payments	–	–	167	–	–	167
Exchange loss	–	–	–	(147)	–	(147)
Loss for the period	–	–	–	–	(2,012)	(2,012)
At 30 June 2008	153	3,683	61,204	(658)	(36,101)	28,281
Change in value of ESOP reserve	–	–	–	–	(768)	(768)
Share-based payments	–	–	85	–	–	85
Exchange loss	–	–	–	(804)	–	(804)
Loss for the period	–	–	–	–	(5,289)	(5,289)
At 31 December 2008	153	3,683	61,289	(1,462)	(42,158)	21,505
Shares issued	1	382	–	–	–	383
Share-based payments	–	–	(33)	–	–	(33)
Exchange gain	–	–	–	653	–	653
Loss for the period	–	–	–	–	(6,513)	(6,513)
At 30 June 2009	154	4,065	61,256	(809)	(48,671)	15,995

* All attributable to owners of the parent.

Condensed Consolidated Balance Sheet

As at 30 June 2009

	Note	30 June 2009 (unaudited) £000	31 December 2008 (a) £000
Assets			
Non-current assets			
Intangible assets	7	10,293	11,600
Property, plant and equipment		1,432	1,970
Investment in associate		–	443
Other receivables		438	442
		12,163	14,455
Current assets			
Trade and other receivables		4,032	4,060
Current corporation tax receivable		692	931
Short-term investments		3,815	8,037
Cash and cash equivalents		5,313	4,631
		13,852	17,659
Total assets		26,015	32,114
Liabilities			
Current liabilities			
Loans and borrowings		78	78
Trade and other payables		6,415	7,529
Deferred income tax liabilities		17	–
Provisions for other liabilities and charges	9	1,741	871
		8,251	8,478
Net current assets		5,601	9,181
Non-current liabilities			
Loans and borrowings		60	99
Other payables		58	101
Deferred income tax liabilities		975	1,073
Provisions for other liabilities and charges	9	676	858
		1,769	2,131
Net assets		15,995	21,505
Shareholders' equity			
Ordinary shares		154	153
Share premium		4,065	3,683
Other reserves		61,256	61,289
Cumulative translation adjustment		(809)	(1,462)
Retained earnings		(48,671)	(42,158)
Total shareholders' equity		15,995	21,505

a) The year ended 31 December 2008 figures are extracted from the audited financial statements for the year ended 31 December 2008.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2009

	Note	Six months ended 30 June 2009 (unaudited) £000	Six months ended 30 June 2008 (unaudited) £000
Cash flows from operating activities			
Net loss for the year		(6,513)	(2,012)
Adjustments for:			
Gain/(loss) on foreign exchange		653	(54)
Interest receivable		(163)	(485)
Tax credit		(749)	(373)
Bad debt recovery		(60)	–
Amortisation		1,233	1,007
Depreciation		446	476
Loss on disposal of property, plant and equipment		140	7
Asset disposal arising from restructuring		261	–
Provision for investment in associate		552	–
Share-based award (income)/expense		(33)	167
Share loss/(income) from associate		(16)	8
Decrease in inventories		–	70
(Increase)/decrease in trade and other receivables		404	(1,586)
Decrease in trade and other payables		(884)	(206)
Increase in provisions		767	30
Net cash used in operations		(3,962)	(2,951)
Interest received & paid		131	497
Taxes paid		(1)	(27)
Tax credits received		854	1,368
Net cash used in operating activities		(2,978)	(1,113)
Cash flows from investing activities			
Purchase of property, plant and equipment		(102)	(680)
Purchase of intangible assets		(341)	(775)
Disposal of tangible fixed assets		–	7
Disposal of intangible fixed assets		140	–
Movements on short-term investments		4,223	450
Investment of Associate		–	(3)
Acquisition of Sonic Focus	10	–	(1,943)
Acquisition of Alarity		(97)	(85)
Net cash used in investing activities		3,823	(3,029)
Effects of exchange rate changes		(163)	(93)
Net increase/(decrease) in cash and cash equivalents		682	(4,235)
Cash and cash equivalents at 1 January		4,631	10,100
Cash and cash equivalents at end of period		5,313	5,865

Notes to the Accounts

1 Basis of presentation

These condensed consolidated interim financial statements have been prepared in accordance with the accounting policies set out in the Annual Report of ARC International plc for the year ended 31 December 2008. The prior year comparatives are derived from audited financial information for ARC International plc as set out in the Annual Report for the year ended 31 December 2008 and the unaudited financial information in the condensed consolidated interim financial statements for the six months ended 30 June 2008. These condensed consolidated interim financial statements have been prepared under the historical cost convention, except in respect to certain financial instruments. This condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU. As required by the Disclosure and Transparency Rules of the Financial Services Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2008 except for the impact of the adoption of the Standards and Interpretations described below. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the group as at and for the year ended 31 December 2008.

IAS 1 (revised 2007) Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009)

The revised standard has introduced a number of terminology changes (including revised titles for the condensed financial statements) and has resulted in a number of changes in presentation and disclosure. However, the revised standard has had no impact on the reported results or financial position of the group.

IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009)

The group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments.

The segments identified in the financial statements for the year ended 31 December 2008 under IAS 14 do not differ materially from those required in accordance with IFRS 8.

The consolidated accounts incorporate the accounts of the Company and of each of its subsidiaries for the period to 30 June 2009. All new acquisitions are accounted for under the purchase method from the date of acquisition.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The condensed consolidated interim financial statements for the six months ended 30 June 2009 are unaudited but have been reviewed by the auditors. The condensed consolidated interim financial statements for the six months ended 30 June 2009 were approved by the directors on 4 August 2009.

The comparative figures for the financial year ended 31 December 2008 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

2 Segment information

The group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the Chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as a starting point for the identification of such segments. As a result, following the adoption of IFRS 8, the identification of the group's reportable segments has changed.

The group provides intellectual property for multimedia subsystems and configurable CPU/DSP processors. The group has one type of business segment in providing the products to customers. It is this information that is reviewed by the Board. There is therefore only one operating segment and no further segmental information is reported.

Notes to the Accounts

3 Income tax credit

Interim period income tax is accrued based on the average annual effective income rate of 28% (H1 2008: 28.5%).

4 Summary of net operating expenses

	Six months ended 30 June 2009 (unaudited) £000	Six months ended 30 June 2008 (unaudited) £000
Operating expenses		
Research and development	(5,272)	(4,506)
Sales and marketing	(2,734)	(3,053)
General and administrative	(2,147)	(2,283)
Other expenses	(1,679)	(1,577)
Restructuring costs	(2,258)	–
Net operating expenses	(14,090)	(11,419)

5 Key management compensation

	Six months ended 30 June 2009 (unaudited) £000	Six months ended 30 June 2008 (unaudited) £000
Salaries and short-term employee benefits	661	660
Post-employment benefits	18	24
Share-based payments	–	56
	679	740

Key management comprise of executive and non-executive directors and certain managers.

6 Loss per ordinary shares

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted number of shares in issue during the year, excluding those held in the Employee Benefit Trust.

For diluted loss per share, the weighed average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. Diluted loss per share and the basic loss per share are the same for the six months ended 30 June 2009 and 30 June 2008 as in these loss-making periods the effect of potential dilutive shares would be anti-dilutive.

	30 June 2009 (unaudited)	30 June 2008 (unaudited)
Issued ordinary shares at 1 January	152,703,048	152,703,048
Effect of own shares held in Employee Benefit Trust	(7,641,799)	(3,666,011)
Effect of share options exercised	61,011	–
Effect of shares issued during the year	384,103	–
Weighted average number of ordinary shares	145,506,363	149,037,037

Notes to the Accounts

7 Intangible assets

Group	Goodwill £000	Computer software £000	Developed and in process technology £000	Customer relationships £000	Brand name and other £000	Intangible assets total £000
Cost						
At 1 January 2008	17,011	6,690	3,890	404	228	28,223
Additions	–	2,036	249	–	–	2,285
Acquisition of subsidiary	2,042	7	1,275	317	445	4,086
Exchange difference	96	–	(6)	–	–	90
At 31 December 2008	19,149	8,733	5,408	721	673	34,684
Additions (note 10)	197	341	–	–	–	538
Disposal for the period	–	(517)	–	–	–	(517)
Exchange difference	–	(362)	–	–	–	(362)
At 30 June 2009	19,346	8,195	5,408	721	673	34,343
Amortisation and impairment losses						
At 1 January 2008	(13,580)	(5,913)	(1,054)	(76)	(94)	(20,717)
Charge for the period	–	(855)	(1,127)	(184)	(102)	(2,268)
Exchange difference	–	(8)	(90)	(1)	–	(99)
At 31 December 2008	(13,580)	(6,776)	(2,271)	(261)	(196)	(23,084)
Charge for the year	–	(417)	(655)	(102)	(59)	(1,233)
Disposal for the period	–	103	–	–	–	103
Exchange difference	–	161	3	–	–	164
At 30 June 2009	(13,580)	(6,929)	(2,923)	(363)	(255)	(24,050)
Net book value						
At 1 January 2008	3,431	777	2,836	328	134	7,506
At 31 December 2008	5,569	1,957	3,137	460	477	11,600
At 30 June 2009	5,766	1,266	2,485	358	418	10,293

8 Contingent liabilities

Claims of patent infringement are occasionally made against products that incorporate either an ARC core or a component that, in turn, includes an ARC core. In such circumstances, the design or operation of the ARC core may be relevant to any response to that claim of infringement. ARC has provided and expects to continue to provide assistance to its licensees, in the form of technical information regarding the ARC product and/or the validity of the patents in question. To date, no licensee has insisted upon nor has ARC accepted a duty to indemnify the licensee in connection with any such claim. Accordingly, the directors are of the opinion, and have been so advised that the risk to the Company arising from any claims of patent infringement of which ARC is aware is remote and no provision has been made in the accounts.

9 Provision for other liabilities and charges

(unaudited)	Restructuring £000	Onerous leases £000	Office restoration costs £000	Total Provision £000
At 1 January 2008	–	–	183	183
Provisions made in the year	–	–	50	50
At 30 June 2008	–	–	233	233
Provisions made in the year	1,131	1,142	10	2,283
Utilised	(790)	–	(12)	(802)
Foreign exchange	15	–	–	15
At 31 December 2008	356	1,142	231	1,729
Provisions made in the year	1,856	–	30	1,886
Utilised	(731)	(195)	–	(926)
Released	(150)	–	(79)	(229)
Foreign exchange	(43)	–	–	(43)
At 30 June 2009	1,288	947	182	2,417
Non-current	–	566	110	676
Current	1,288	381	72	1,741

Notes to the Accounts

10 Business combinations

The group purchased 100% of the voting shares of Sonic Focus Inc. on 11 February 2008 for a total consideration of £2,813,000.

All assets and liabilities were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill in the condensed consolidated financial statements.

The initial accounting for the acquisition was determined provisionally. Any adjustments to the fair values of the acquired assets and liabilities will be recorded within 12 months of the acquisition date.

From the date of acquisition to 30 June 2008, the acquisition contributed £38,000 to revenue, £371,000 to the operating expenses (excluding amortisation), £138,000 of amortisation of intangible assets, and £471,000 to net loss.

The results of operations, as if the acquisition had been made at 1 January 2008, would be as follows:

	£000	
Revenue		9,333
Net loss		(2,021)
		£000
	Carrying values pre-acquisition £000	Provisional fair values £000
Intangible fixed assets	22	2,042
Property, plant and equipment	53	53
Trade and other receivables	69	69
Cash and cash equivalents	68	68
Trade and other payables	(780)	(780)
Deferred tax	–	(542)
Net assets acquired	(568)	910
Goodwill		1,903
Consideration		2,813
Consideration satisfied by cash paid in the period ended 30 June 2008		1,748
Deferred consideration satisfied by cash to be paid in the six months ended 31 December 2008		46
Deferred consideration to be satisfied by issuing shares after 30 June 2008		756
Transaction costs		263
		2,813

Part of the cost of the Sonic Focus acquisition will be satisfied in shares. 2,728,915 shares will be issued in two equal instalments: 15 months and 30 months after the date of acquisition. The fair value of these instruments is shown in the table above and has been calculated by reference to the ten-day average closing share price prior to the completion of the acquisition on 11 February 2008 and converted into US dollars using the average interbank exchange rate over the same ten-day period. On 11 May 2009, the Company issued 1,364,385 shares to satisfy the first instalment.

Goodwill represents the value of the assembled work force and other potential future economic benefit that is anticipated will be derived from the integration of the technology offered by Sonic Focus with the existing products of the group.

The outflow of cash and cash equivalents in the period on the acquisition of Sonic Focus Inc. is calculated as follows:

	£000
Cash consideration	1,748
Transaction costs	263
Cash acquired	(68)
	1,943

The intangible assets acquired as part of the acquisition of Sonic Focus Inc. can be analysed as follows:

	£000
Developed core technology	1,194
Customer relationships	317
Trade name	423
In process technology	86
Other	22
	2,042

Notes to the Accounts

10 Business combinations continued

Goodwill on acquisition

(unaudited)	Sonic Focus £000	Tenison Design £000	Teja Technologies £000	Alarity Corporation £000	Total £000
At 1 January 2008	–	992	478	1,961	3,431
Acquired	1,903	–	–	67	1,970
Foreign exchange movement	25	–	–	–	25
At 30 June 2008	1,928	992	478	2,028	5,426
Increase in goodwill	66	–	–	6	72
Foreign exchange	23	–	–	48	71
At 31 December 2008	2,017	992	478	2,082	5,569
Increase in goodwill	197	–	–	–	197
At 30 June 2009	2,214	992	478	2,082	5,766

The increase in the goodwill for the Sonic Focus Inc. acquisition represents a revision to the provisional values on the deferred tax.

11 Statement of principal risks and uncertainties

Pursuant to the requirements of the new Disclosure and Transparency Rules, ARC provides the following information on its principal risks and uncertainties: The principal risks and uncertainties facing the Company over the next six months are broadly unchanged from those described in the Annual Report for the year ended 31 December 2008. These are set out in the directors' report beginning on page 15, together with commentary on the Board's approach to mitigating the risks and uncertainties, under the following headings:

- ▶ Its ability to produce new products that satisfy the target markets.
- ▶ The Company operates an intellectual property (IP) business model that relies on licencing IP to customers for integration into their own products.
- ▶ Competitive pressures; ARC's competitors include major corporations that have a larger base of software support for their product range and much larger installed customer base.
- ▶ Factors outside ARC's control such as a downturn in the semiconductor industry and adverse economic conditions.
- ▶ Safeguarding and enforcing its intellectual property rights, and protecting against challenges by third parties.
- ▶ The departure of key personnel.
- ▶ Currency and hedging risks (a substantial proportion of ARC group revenues are in US dollars), interest rate risks and credit risks.
- ▶ Integration of the new business.

12 Related party transactions

Transactions related to directors and key management are shown in note 5.

The group has transactions with the associate company, Adaptive Chips Inc. Adaptive Chips provides engineering services on an arm's length basis amounting to £1,083,000 (2008: £204,000) to the group. As of 30 June 2009, the Company has £159,000 payable outstanding to Adaptive Chips.

Investment of approximately £552,000 that the group had made into Adaptive Chips Inc. has been provided for and is included in the restructuring charge.

13 Events after the end of the reporting period

On 21 July 2009 the board of Adaptive Chips Inc. resolved to recommend to the shareholders that the company be orderly wound down and file for dissolution.

Independent Review Report to ARC International plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009, which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in shareholders' equity, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules (the DTR) of the UK's Financial Services Authority (the UK FSA). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRS as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

M Matthewman
For and on behalf of
KPMG Audit Plc
Chartered Accountants
St Albans

4 August 2009

About ARC International plc

ARC International is a world-leading provider of consumer IP to OEM and semiconductor companies globally. ARC's award-winning, vertically integrated audio and video solutions enable high-quality multimedia content to be captured, shared, and played on a wide range of electronics devices. ARC's 150+ customers collectively ship hundreds of millions of ARC-Based™ chips annually in products such as PCs and laptops, digital and mobile TVs, portable media players, flash storage, digital cameras, network appliances, and medical and government systems.

ARC International maintains a worldwide presence with corporate and research and development offices in San Jose and Lake Tahoe, California, St Albans, England, St Petersburg, Russia and Hyderabad, India. For more information visit www.ARC.com. ARC International is listed on the London Stock Exchange as ARC International plc (LSE: ARK).

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