

DIL - Preliminary 2010 Annual Results

SUMMARY OF PRELIMINARY FULL YEAR ANNOUNCEMENT

Name of Listed Issuer: Diligent Board Member Services, Inc

Reporting Period: 12 months to 31st December 2010

CONSOLIDATED INCOME STATEMENT

(Format – Current full year \$US: up (down) % : Previous corresponding full year \$US)

REVENUE FROM ORDINARY ACTIVITIES

8,300,958 : 66% : 5,000,639

PROFIT (LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX

2,105,163 : 155% : (3,825,653)

PROFIT (LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX

2,080,944 : 154% : (3,861,990)

DIVIDEND

Nil : n/a : Nil

PRELIMINARY FULL YEAR REVIEW

Commentary from the Chairman and Chief Executive

Diligent Board Member Services Inc. (“Diligent”) is pleased to announce its full year results for the 12 months ended 31 December 2010. These results are presented in compliance with US GAAP*, are reported in US dollars and are in the stages of final audit.

On a macroeconomic level, the 2010 financial year was characterized by extraordinarily expansive monetary and fiscal policies undertaken by central banks and governments throughout the world. And while economic activity expanded in China and the Asian region economies throughout the year, in North America and Europe unemployment remained high and corporate capital expenditures remained decidedly subdued. Against this somewhat uneven global economic backdrop, Diligent produced record breaking results across a wide number of key financial performance metrics.

2010 PERFORMANCE HIGHLIGHTS

- New Annualised License Fees (“ALF”) in 2010 of \$US3.7 million (\$NZ4.9 million) – 55% higher than 2009
- Total Annualised Licence Fee income in 2010 of \$US10.0 million (\$NZ13.3 million) – 59% higher than 2009
- Sales Revenue in 2010 of \$US8.3 million (\$NZ11.1 million) – 66% higher than 2009
- Net Upgrades from existing customers of \$US654,000 in 2010 – 85% higher than 2009

**The financial statements are in the process of being audited and are therefore subject to adjustment. All amounts are in \$US unless otherwise stated.*

- Net Additional License Agreements of 172 in 2010 – 56% higher than 2009; and Cumulative License Agreements of 456 for 2010 – 61% higher than 2009
- Achieved Positive Operating Cash Flow for the 2010 financial year

OPERATING PERFORMANCE

The 2010 financial year was record breaking in many respects for Diligent. As noted above, the company achieved extraordinary growth in Annual Sales Revenues, Annual License Fees, License Sales and Net Upgrades. Most importantly, Diligent increased gross margins in every quarter of 2010 as we began to achieve scale and realize the leverage inherent in our subscription based Software-as-a-Service (SaaS) business.

The drivers behind Diligent’s significant sales growth include:

- Growing brand recognition of the Diligent Boardbooks[®] product as the leading provider of “best in class” web-based board reporting software;
- High customer confidence and satisfaction with the product, as demonstrated by the record Net Upgrades in service.
- The introduction of an Apple iPad compatible version of Diligent Boardbooks in September, 2010 and the acceptance of Boardbooks for iPad 1.0 into the Apple App Store in early January, 2011;
- Highly skilled and focused sales force – the ratio of sales revenue sold per sales person for 2010 is among the highest in the Software-as-a-Service industry worldwide;

Diligent recorded net positive Cash Flow from operations for the 2010 financial year of \$US17,843 versus net negative cash flow from operations of \$US2.5 million in 2009. The company’s cash position also improved substantially with cash at year end totalling \$US3.2 million.

Diligent generates its income from subscription-based revenue that recurs each year and increases with each new license agreement or upgrade. As mentioned, Diligent posted record sales for the year – surpassing \$US1 million in quarterly sales in Annualised Licence Fee (ALF) income for the first time with \$US1.56 million (\$NZ2.1 million) of sales reported in the fourth quarter of last year, surpassing the previous best by more than 80%. Importantly, the momentum that drove the increase in sales is continuing in the current financial year.

On a year on year basis new ALF income was up 55% at \$US3.7 million (\$NZ4.9 million). This strong sales performance saw total Annualised License Fees exceed \$US10 million (\$NZ13.3 million) in 2010 – up from \$US6.32 million a year earlier. Actual sales revenue for the financial year under review was \$US8.3 million (\$NZ11.1 million), up 66% on the corresponding period.

During 2010 Diligent added 172 new licenses bringing the total of worldwide clients that have signed a contract with the company to 456. Diligent now serves over 800 individual boards and has over 12,000 users worldwide.

New sales growth over the 2010 financial year was strong across all industry sectors as well as all geographic regions. Whilst confidentiality arrangements limit Diligent from disclosing its client base, among those recent new clients who have permitted disclosure are AOL, Exxon Mobil and the BBC. The addition of such key corporate clients such as these demonstrates the value that Diligent brings to the market place.

A key selling feature, especially among the large multinational clients, is that Diligent owns and manages its own infrastructure and its systems are secured through some of the strongest security technology available. This means Diligent's clients can be confident that their most intimate corporate information is protected against infrastructure failure and that their critical data is secure and always available.

Customer satisfaction is such that Diligent's retention rate remains very high – in fact not only are customers demonstrably satisfied with the Boardbook product and services, upgrades from existing customers continue to provide a significant boost to sales. In 2010 ALF added through net upgrades totalled a record for the company of \$US654, 000.

Without doubt Diligent's success continues to be based on an easy-to-use system that allows executives to efficiently manage communications with boards and to provide them with real-time access to their vital board materials. Diligent Boardbooks – which has a growing reputation for offering the highest quality product service and support – is an environmentally friendly solution for organisations to manage their boards and meeting groups.

The 2010 financial year also saw Diligent report a profit of \$US2.1 million, representing a \$US6.0 million turnaround on the previous year, which included a \$US4.3 million noncash revaluation of a note relating to a loan to its affiliate, SSH. The carrying value of the loan had previously been reduced to reflect the estimated fair value of the company's shares which are owned by SSH and held as collateral for the loan. The total shares held as security for the loan as at 31 December 2010 was 4,930,597. The loan is fully repayable in October 2012.

Gross profit was \$US5.5 million in 2010 - almost double what it was a year earlier and over 5 times higher when compared to 2008. Gross margins increased to 66.6% in 2010 compared to 56.3% in 2009, a significant improvement that demonstrates the positive effects of greater scale and the inherent leverage in our Software-as-a-Service business model.

The improved sales revenues and operating performance was achieved while controlling the overhead cost base, with total operating expenses of \$US7.9 million, up just 5.5% on the previous year. It should be noted that the business model has been refined with profit growth being driven off a cost base that is over 60% lower than what it was in 2008 (\$US12.9 million).

Outlook

Diligent's management demonstrated its ability to drive substantial growth with increased efficiency in 2010 as the company achieved positive operating Cash Flow for the first time in its history. Looking forward to 2011, we expect to build on the positive trends and record breaking performance delivered in the 2010 financial year.

The increasing demand for Boardbooks has resulted in an extraordinarily full sales pipeline and as a result we have expanded our sales force and support staff both in NZ and the US. With cash on its

balance sheet of \$US3.2million, Diligent is well placed to fund any growth opportunities that fit its model, such as the recent expansion into Asia through the opening of a subsidiary in Singapore to service what is expected to be a burgeoning market.

In conclusion, Diligent is positioned to execute on its promise to deliver “best in class” board portal software and support to its customers and to deliver value to its shareholders. We look forward to an exciting year ahead.

[signed by Chairman and or Chief Executive]

Detailed Information: The preliminary Full Year Announcement and detailed financial statements can be located in the Investor Center section of our website under “Shareholder Reporting”.
<http://www.boardbooks.co.nz/diligentbooks/nz-reporting.shtml>

Diligent Board Member Services, Inc.
Consolidated Balance Sheets

	Unaudited	
	December 31, 2010	December 31, 2009
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 3,212,449	\$ 1,129,591
Term deposit	97,300	72,530
Accounts receivable, net	494,048	303,331
Prepaid expenses and other current assets	323,911	183,368
Total current assets	4,127,708	1,688,820
Property and equipment, net	1,082,104	1,312,959
Note receivable from affiliate, net of valuation allowance	1,875,685	1,661,791
Restricted cash - security deposits	226,617	221,886
Total assets	\$ 7,312,114	\$ 4,885,456
<u>LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 84,388	\$ 144,751
Accrued expenses and other liabilities	915,431	253,089
Deferred revenue	2,849,225	1,593,351
Current portion of obligations under capital leases	86,230	113,418
Payables to affiliates	-	5,762
Total current liabilities	3,935,274	2,110,371
Non-current liabilities:		
Obligations under capital leases, less current portion	60,861	147,091
Other noncurrent liabilities	50,255	44,252
Total non-current liabilities	111,116	191,343
Total liabilities	4,046,390	2,301,714
Commitments and contingencies		
Redeemable preferred stock:		
Series A convertible redeemable preferred stock, \$.001 par value, 50,000,000 shares authorized, 32,667,123 and 30,000,000 shares issued and outstanding (liquidation value \$5,259,406 and \$4,766,712)	3,177,291	3,149,851
Stockholders' equity (deficiency):		
Common Stock, \$.001 par value, 250,000,000 shares authorized, 81,968,001 and 90,440,000 shares issued and outstanding	81,968	90,440
Additional paid-in capital	23,107,919	24,532,622
Accumulated deficit	(23,099,704)	(25,180,648)
Accumulated other comprehensive loss	(1,750)	(8,523)
Total stockholders' equity (deficiency)	88,433	(566,109)
Total liabilities, redeemable preferred stock and stockholders' equity	\$ 7,312,114	\$ 4,885,456

Diligent Board Member Services, Inc.
Consolidated Statements of Operations

	Unaudited	
	Year ended December 31, 2010	Year ended December 31, 2009
Revenues	\$ 8,300,958	\$ 5,000,639
Cost of revenues	2,774,217	2,186,850
Gross profit	5,526,741	2,813,789
Operating expenses:		
Selling and marketing expenses	2,658,301	2,436,912
General and administrative expenses	3,847,156	3,944,363
Research and development expenses	963,916	730,201
Depreciation and amortization	472,593	418,644
Total operating expenses	7,941,966	7,530,120
Operating loss	(2,415,225)	(4,716,331)
Other income (expenses):		
Impairment recovery on note receivable from affiliate	4,300,000	300,000
Interest income, net	233,388	358,446
Foreign exchange transaction gain (loss)	(13,000)	60,893
Other	-	171,339
Total other income	4,520,388	890,678
Income (loss) before provision for income taxes	2,105,163	(3,825,653)
Provision for income taxes	24,219	36,337
Net income (loss)	\$ 2,080,944	\$ (3,861,990)
Net income (loss) per share:		
Basic	\$ 0.02	\$ (0.04)
Diluted	\$ 0.02	\$ (0.04)
Weighted average shares outstanding:		
Basic	84,487,207	90,371,507
Diluted	119,388,351	90,371,507

Diligent Board Member Services, Inc.
Consolidated Statements of Cash Flows

	Unaudited Year ended December 31, 2010	Year ended December 31, 2009
Cash flows from operating activities:		
Net income (loss)	\$ 2,080,944	\$ (3,861,990)
Adjustments to reconcile net loss to cash used in operating activities:		
Impairment recovery on note receivable from affiliate	(4,300,000)	(300,000)
Depreciation and amortization	472,593	418,644
Share-based compensation	601,541	203,253
Allowance for doubtful accounts	-	(7,125)
Straight-line rent adjustment	6,003	44,252
Changes in operating assets and liabilities:		
Accounts receivable	(190,717)	93,974
Prepaid expenses and other current assets	(140,543)	39,249
Restricted cash - security deposits	(4,731)	24,799
Accounts payable and accrued expenses	242,641	(77,020)
Deferred revenue	1,255,874	991,943
Payables to affiliates	(5,762)	(43,816)
Net cash provided by (used in) operating activities	17,843	(2,473,837)
Cash flows from investing activities:		
Purchase of property and equipment	(232,339)	(377,858)
Net cash used in investing activities	(232,339)	(377,858)
Cash flows from financing activities:		
Net proceeds from preferred stock issuance	-	2,861,150
Cash received from partial prepayment of note receivable from affiliate	1,010,430	-
Proceeds from issuance of common stock through private placement	1,398,096	-
Proceeds from exercise of stock options	29,642	-
Additional investment in term deposit	(25,000)	
Payments of obligations under capital leases	(113,419)	(140,361)
Net cash provided by financing activities	2,299,749	2,720,789
Effect of exchange rates on cash and cash equivalents	(2,395)	(4,850)
Net increase (decrease) in cash and cash equivalents	2,082,858	(135,756)
Cash and cash equivalents at beginning of year	1,129,591	1,265,347
Cash and cash equivalents at end of year	\$ 3,212,449	\$ 1,129,591

Supplemental disclosure of cash flow information:

Cash paid during the year for :

Interest	\$ 47,155	\$ 32,256
Income taxes	\$ 17,222	\$ 20,457
Supplemental disclosure of noncash investing and financing activities:		
Property and equipment acquired under capital leases	\$ -	\$ 235,747
Prepayment of principal on note receivable from affiliate in exchange for 11,650,000 shares	\$ 3,075,676	\$ -
Accrual of preferred stock dividend	\$ 359,338	\$ -

Diligent Board Member Services, Inc.
Consolidated Statements of Changes in Stockholders' Equity (Deficiency) and Comprehensive Income (Loss)
(Unaudited)

	Common Shares	Common Stock \$.001 Par Value	Additional Paid-in- Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity(Deficiency)
Balance at January 1, 2009	90,440,000	\$ 90,440	\$ 24,618,070	\$ (21,318,658)	\$ (20,045)	\$ 3,369,807
Net loss	-	-	-	(3,861,990)	-	(3,861,990)
Foreign exchange translation adjustment	-	-	-	-	11,522	11,522
Total comprehensive loss	-	-	-	-	-	(3,850,468)
Share-based compensation, net of forfeitures	-	-	203,253	-	-	203,253
Amortization of offering costs	-	-	(21,989)	-	-	(21,989)
Accrual of preferred stock dividend	-	-	(266,712)	-	-	(266,712)
Balance at December 31, 2009	90,440,000	\$ 90,440	\$ 24,532,622	\$ (25,180,648)	\$ (8,523)	\$ (566,109)
Net income	-	-	-	2,080,944	-	2,080,944
Foreign exchange translation adjustment	-	-	-	-	6,773	6,773
Total comprehensive loss	-	-	-	-	-	2,087,717
Share-based compensation, net of forfeitures	-	-	601,541	-	-	601,541
Cancellation of common stock	(11,650,000)	(11,650)	(3,064,026)	-	-	(3,075,676)
Issuance of shares in private placement	3,000,000	3,000	1,395,096	-	-	1,398,096
Exercise of stock options	178,001	178	29,464	-	-	29,642
Amortization of preferred stock offering costs	-	-	(27,440)	-	-	(27,440)
Accrual of preferred stock dividend	-	-	(359,338)	-	-	(359,338)
Balance at December 31, 2010	81,968,001	\$ 81,968	\$ 23,107,919	\$ (23,099,704)	\$ (1,750)	\$ 88,433

Supplemental Information

NZX has confirmed that for the purpose of the Listing Rules the Financial Reporting Act 2003 (New Zealand) will apply to Diligent as an "Issuer" and "Reporting Entity" for the purposes of that Act. This allows Diligent to report in New Zealand in US\$ and according to US Generally Accepted Accounting Principles (GAAP). GAAP reporting does not provide, or allow, for the presentation of Net Tangible Assets per Share as is required under NZX Listing Rules. Diligent is providing as supplemental information that the Net Tangible Assets at 31 December 2010 and 2009 are \$US0.04 and \$US0.03 per share, respectively.