

## **SUMMARY OF PRELIMINARY FULL YEAR ANNOUNCEMENT**

Name of Listed Issuer: Diligent Board Member Services, Inc

Reporting Period: 12 months to 31<sup>st</sup> December 2009

### **CONSOLIDATED INCOME STATEMENT**

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

#### **OPERATING REVENUE**

5,000,639 : 71% : 2,930,702

#### **OPERATING SURPLUS (DEFICIT) BEFORE INCOME TAX**

(4,125,653) : 77% : (17,615,804)

#### **OPERATING SURPLUS (DEFICIT) AFTER INCOME TAX**

(4,161,990) : 76% : (17,648,602)

### **PRELIMINARY FULL YEAR REVIEW**

From the Chairman and Chief Executive

Diligent Board Member Services Inc. ("Diligent") is pleased to announce its full year results for the 12 months ending 31 December 2009. These results are presented in compliance with US GAAP.\*

The 2009 financial year was an exceptional one for Diligent. In the face of what many commentators described as the worst financial crisis in decades, Diligent produced record-breaking sales growth across its key performance metrics. In these dire conditions, companies still sought to implement and upgrade Diligent Boardbooks as a way to save costs, improve efficiencies and broaden their corporate governance and compliance standards.

#### **Operating Performance**

Diligent achieved a number of milestones in the period under review. It signed 110 new agreements during the year (up 63% on the corresponding period) generating an additional \$US2.5 million in annual recurring revenue. This takes the cumulative annualised license fees total to \$US6.3 million as at 31 December 2009. This recurring revenue increases with each sale. Diligent's ability to continue to significantly grow its recurring revenue each quarter confirms that its SaaS (Software-as-a-Service) business model is strongly positioned for the future.

Actual annual sales, which is revenue generated from existing and new contacts or upgrades, exceeded \$US5.0 million for the first time - a year-to-year increase of 71%. The year also saw Diligent reach new highs in quarterly sales performance, with the fourth quarter its best ever since inception with the addition of 41 new agreements for boardbook licenses producing \$US0.75 million in recurring revenue.

The drivers behind Diligent's significant sales growth include:

- Greater brand recognition of the Diligent Boardbooks product.
- Client referrals.
- A highly skilled and focused sales force.

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

- Faster sales turnaround driven, in part, by a general return of business confidence.
- High customer confidence in, and satisfaction with, the product; supporting a trend where existing clients continue to upgrade services, add new users and provide new client referrals.

It should be noted that this growth has been achieved even though the number of trained sales staff has remained relatively consistent throughout 2009 and significantly down from sales staffing levels of 2008.

As at 31 December 2009, Diligent has 284 worldwide clients (up 63%) and over 7,300 users of its Diligent Boardbooks product. In addition to the financial services sector which has been the main target group, Diligent has successfully expanded into numerous other sectors as well, including energy, oil and gas, health care, and universities. In spite of the financial stress in the key US market, an impressive list of new clients has been added, including several international brand names. Further inroads have also been made into Canada, with major energy companies and one of Canada's largest pension funds selecting the Diligent Boardbooks board portal to provide them with real time access to their vital board materials.

Whilst Diligent has achieved significant revenue growth it has also managed costs. Cost of revenues as a percentage of revenues decreased to 43.7% in 2009, compared with 64.1% for 2008, as a result of the greater economies of scale achieved through an increased client base.

Cash used in operating activities for the year ended December 31, 2009 was \$US2.5 million, compared with \$US11.4 million for 2008. This reduction in cash used in operations resulted from an increase in revenues of \$US2.1 million and a decrease in operating expenses of \$US5.4 million. During 2008, Diligent incurred significant expenses to expand its sales and marketing efforts. By the end of 2008, it had scaled back expenses, which is reflected in the results for 2009. Additionally, there is an increase of approximately \$US1.0 million in cash attributable to deferred revenue from license agreements which have not yet been fully recognized as revenue.

As of December 31, 2009, the company had approximately \$US1.2 million of cash reserves and accounts receivable of approximately \$US0.3 million. The primary source of the liquidity for the past year has come from the financing secured in March, 2009 when \$US3.0 million of financing was obtained from Spring Street Partners, L.P. and Carroll Capital Holdings, LLC, who collectively purchased 30 million shares of newly-created Series A Preferred Stock for \$US0.10 per share.

### **Outlook**

At the current level of reduced expenses, coupled with current sales growth forecasts, Diligent's management believes that it will achieve cash flow breakeven around the end of the third quarter of the current financial year.

On January 18, 2010, Diligent reached an agreement in principle for a \$US1.0 million line of credit from Spring Street Partners, L.P. The credit agreement is in the process of being finalized. As stated above, management believes its current funding will be sufficient to support sales growth and achieve cash flow breakeven around the end of the third quarter of 2010. However, this line of credit offers the Company cash flow support if needed.

On February 9, 2010, the Company entered into an agreement with Services Share Holding, LLC ("SSH LLC"), which requires shareholder approval in May 2010. The agreement provides for the repayment of approximately \$US1.0 million in cash from SSH LLC in partial satisfaction of the outstanding SSH LLC note held by the Company (the "Note"). The cash was obtained from the sale by SSH LLC of 4,823,000 shares of Diligent stock, owned by SSH LLC and held as collateral for the Note, in eight separate transactions. The agreement also calls for the surrender and cancellation of 11,650,000 Diligent shares which were held as collateral for the Note. The repayment of the

remaining outstanding principal of approximately \$US3.1 million (which, subsequent to the surrender of the 11,650,000 shares, will be secured by 5,205,597 shares of Diligent stock) will be extended by two years to October 2012 and the increased interest payments (from 5% to 6.5%) will be due annually, as opposed to quarterly. If approved by our shareholders, the additional cash of \$US1.0 million will provide further financial flexibility.

### **Conclusion**

The 2009 financial year has been a defining one for Diligent. Its excellent sales performance in such harsh economic conditions provides a new level of confidence moving forward. It sees the Company start the year with \$US6.3 million of contracted annual revenue and the opportunity to significantly add to this total throughout 2010.

Costs have been managed down. Diligent's current operating expenses and expected capital expenditures are fixed, predictable and adequate to support budgeted growth.

At the current level of reduced expenses, coupled with current sales growth forecasts, management believes it will achieve cash flow breakeven around the end of the third quarter of 2010. This is a significant milestone – from an operating, financing and investment perspective.

As confidence returns to US companies and the Diligent sales pipeline continues to grow, the Company is considering gradual expansion of its sales force to take advantage of growth opportunities. Given the sales performance to date, management has now achieved a proven model when it comes to driving results from its sales force. Moreover, the online board portal industry remains in its early stages with market penetration still relatively low.

In conclusion the outlook for Diligent in the current financial year is robust.

[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/nzdiligentbooks/investor.shtml>

**Diligent Board Member Services, Inc.**  
**Consolidated Balance Sheets**  
**(Unaudited)**

	December 31,	December 31,
	2009	2008
<b><u>A S S E T S</u></b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,129,591	\$ 1,265,347
Term deposit	72,530	58,150
Accounts receivable, net	303,331	390,180
Prepaid expenses and other current assets	183,368	222,617
<b>Total current assets</b>	<b>1,688,820</b>	<b>1,936,294</b>
Property and equipment, net	1,312,959	1,116,007
Note receivable from affiliate, net of valuation allowance	1,361,791	1,361,791
Restricted cash - security deposits	221,886	246,685
<b>Total assets</b>	<b>\$ 4,585,456</b>	<b>\$ 4,660,777</b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 144,751	\$ 256,319
Accrued expenses and other liabilities	253,089	218,541
Deferred revenue	1,593,351	601,408
Current portion of obligations under capital leases	113,418	114,308
Payables to affiliates	5,762	49,578
<b>Total current liabilities</b>	<b>2,110,371</b>	<b>1,240,154</b>
<b>Non-current liabilities:</b>		
Obligations under capital leases, less current portion	147,092	50,816
Other noncurrent liabilities	44,252	-
<b>Total non-current liabilities</b>	<b>191,344</b>	<b>50,816</b>
<b>Total liabilities</b>	<b>2,301,715</b>	<b>1,290,970</b>
<b>Commitments and contingencies</b>		
<b>Redeemable preferred stock:</b>		
Series A convertible redeemable preferred stock, \$.001 par value, 50,000,000 shares authorized, 30,000,000 and 0 shares issued and outstanding (liquidation value \$4,766,712)	3,149,851	-
<b>Stockholders' (deficiency) equity:</b>		
Common Stock, \$.001 par value, 250,000,000 shares authorized, 90,440,000 shares issued and outstanding	90,440	90,440
Additional paid-in capital	24,532,622	24,618,070
Accumulated deficit	(25,480,649)	(21,318,658)
Accumulated other comprehensive loss	(8,523)	(20,045)
<b>Total stockholders' (deficiency) equity</b>	<b>(866,110)</b>	<b>3,369,807</b>
<b>Total liabilities, redeemable preferred stock and stockholders' (deficiency) equity</b>	<b>\$ 4,585,456</b>	<b>\$ 4,660,777</b>

**Diligent Board Member Services, Inc.**  
**Consolidated Statements of Operations**  
**(Unaudited)**

	Year	Year		
	ended	ended		
	December 31,	December 31,		
	2009	2008		
Revenues	\$ 5,000,639	\$ 2,930,702		
Cost of revenues	2,186,850	1,878,027		
<b>Gross profit</b>	<b>2,813,789</b>	<b>1,052,675</b>		
<b>Operating expenses:</b>				
Selling and marketing expenses	2,436,912	6,216,087		
General and administrative expenses	3,944,363	5,418,747		
Research and development expenses	730,201	955,385		
Depreciation and amortization	418,644	278,295		
<b>Total operating expenses</b>	<b>7,530,120</b>	<b>12,868,514</b>		
<b>Operating loss</b>	<b>(4,716,331)</b>	<b>(11,815,839)</b>		
<b>Other income (expenses):</b>				
Impairment loss on note receivable from affiliate	-	(5,800,000)		
Interest income, net	358,446	601,280		
Foreign exchange transaction gain (loss)	60,893	(601,245)		
Other	171,339	-		
<b>Total other income (expenses)</b>	<b>590,678</b>	<b>(5,799,965)</b>		
<b>Loss before provision for income taxes</b>	<b>(4,125,653)</b>	<b>(17,615,804)</b>		
Provision for income taxes	36,337	32,798		
<b>Net loss</b>	<b>\$ (4,161,990)</b>	<b>\$ (17,648,602)</b>		
Net loss per share (basic and diluted)	\$ (0.05)	\$ (0.17)		
Weighted average shares outstanding (basic and diluted)	90,371,507	102,397,907		

**Diligent Board Member Services, Inc.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

	Year ended	Year ended
	December 31, 2009	December 31, 2008
<b>Cash flows from operating activities:</b>		
Net loss	\$ (4,161,991)	\$ (17,648,602)
<b>Adjustments to reconcile net loss to cash used in operating activities:</b>		
Impairment loss on note receivable from affiliate	-	5,800,000
Depreciation and amortization	418,644	278,295
Share-based compensation	203,253	920,783
Accrued interest receivable	-	(346,559)
Allowance for doubtful accounts	-	7,125
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	86,849	(105,520)
Prepaid expenses and other current assets	39,249	(110,965)
Restricted cash - security deposits	24,799	(202,944)
Accounts payable and accrued expenses	(77,020)	(264,465)
Deferred revenue	991,943	374,730
Payable to affiliates	(43,816)	(103,319)
Other noncurrent liabilities	44,252	-
<b>Net cash used in operating activities</b>	<b>(2,473,838)</b>	<b>(11,401,441)</b>
<b>Cash flows from investing activities:</b>		
Redemption of investment in term deposit, net	-	18,630
Cash acquired in acquisition, net of purchase price	-	83,593
Purchase of property and equipment	(377,857)	(885,114)
<b>Net cash used in investing activities</b>	<b>(377,857)</b>	<b>(782,891)</b>
Proceeds from preferred stock issuance	2,861,150	-
Cash paid for note receivable from affiliate	-	(100,000)
Payments of obligations under capital leases	(140,361)	(105,356)
<b>Net cash (used in) provided by financing activities</b>	<b>2,720,789</b>	<b>(205,356)</b>
Effect of exchange rates on cash and cash equivalents	(4,850)	(20,045)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(135,756)</b>	<b>(12,409,733)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1,265,347</b>	<b>13,675,080</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 1,129,591</b>	<b>\$ 1,265,347</b>



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

					Accumulated	
		Common	Additional		Other	Total
	Common	Stock	Paid-in-	Accumulated	Comprehensive	Stockholders'
	Shares	\$.001 Par Value	Capital	Deficit	Income (Loss)	Equity/(Deficit)
<b>Balance at</b>						
<b>December 31, 2007</b>	<b>104,000,000</b>	<b>\$ 104,000</b>	<b>\$ 23,754,427</b>	<b>\$ (3,670,056)</b>	<b>\$ -</b>	<b>\$ 20,188,371</b>
Net loss	-	-	-	(17,648,602)	-	(17,648,602)
Foreign exchange translation adjustment	-	-	-	-	(20,045)	(20,045)
<b>Total comprehensive loss</b>	-	-	-	-	-	(17,668,647)
Write off related party receivable	-	-	(70,700)	-	-	(70,700)
Share-based compensation, net of forfeitures	440,000	440	920,343	-	-	920,783
Cancellation of shares	(14,000,000)	(14,000)	14,000	-	-	-
<b>Balance at</b>						
<b>December 31, 2008</b>	<b>90,440,000</b>	<b>\$ 90,440</b>	<b>\$ 24,618,070</b>	<b>\$ (21,318,658)</b>	<b>\$ (20,045)</b>	<b>\$ 3,369,807</b>
Net loss	-	-	-	(4,161,991)	-	(4,161,991)
Foreign exchange translation adjustment	-	-	-	-	11,522	11,522
<b>Total comprehensive loss</b>	-	-	-	-	-	(4,150,469)
Share-based compensation, net of forfeitures	-	-	203,253	-	-	203,253
Amortization of offering cost	-	-	(21,989)	-	-	(21,989)
Accrual of in-kind dividend	-	-	(266,712)	-	-	(266,712)
<b>Balance at</b>						
<b>December 31, 2009</b>	<b>90,440,000</b>	<b>\$ 90,440</b>	<b>\$ 24,532,622</b>	<b>\$ (25,480,649)</b>	<b>\$ (8,523)</b>	<b>\$ (866,110)</b>

**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 NZSX Listing Rules. Diligent is providing as supplemental information that the Net Tangible Assets at 31 December 2009 and 2008 are \$US0.03 and \$US0.04 per share, respectively.