



Interim Report 3rd Quarter 2009 November 12, 2009

Quarterly Highlights

*All figures NOK
(Q3 2008 in parenthesis)*

- Total Q3 revenue 1.8 million, a 12% increase over Q2
- Ending cash of 1.5 million with -2.3 million net change
- Additional facility and headcount related cost savings implemented for Q4 impact

Subsequent Events:

- Merger agreement with Best Media signed 11 November, transaction results in increase in cash of 5 million with anticipated close in Q4

Business Summary

Total sales for Q3 equalled 1.9 million. The revenue trend from Q2 reflects a stabilization of demand at current levels across all product lines. Gross margins remained at 66%. The spending target of 4 million for the quarter was achieved.

Business Outlook

The customer demand for current products has stabilized and it is anticipated this trend will continue through Q4. With additional facility and headcount cost savings implemented the spending target for Q4 has been lowered to below 2.5 million. Given the current level of sales and gross margins, cash usage will continue to be reduced. However, cash reserves at the end of the quarter are a limited 1.5 million, resulting in high financial risk. The company has pursued discussions with external companies to effect a merger of operations or strategic partnership with the goal of establishing a solid financial foundation for continued operations.

Merger Agreement

Due to overall weak product demand and continued uncertainty for timing of revenue growth the company initiated discussions with external companies to effect a merger of operations or strategic partnership. Those discussions have culminated with an agreement to merge operations with Best Media AS. Best Media provides digital media services via fiber technology to residential and small business communities. After the merger Dolphin's and Best Media's current operations will continue. Their products and technology are complementary and over time additional synergies will be explored. The merger will be implemented through a directed share issue of Dolphin stock for purchase of all outstanding Best Media shares, representing a 50% shareholding in Dolphin post transaction. Concurrent with the merger a debt financing will be completed providing 5 million in operating cash to support on-going operations and new growth initiatives. A general assembly meeting of Dolphin shareholders will be convened to approve the transaction with an anticipated close during Q4.

Financial Review: 3rd Quarter (3rd Quarter 2008 in parenthesis)

Total revenue was 1.8 million in the 3rd Quarter 2009, a decline of 65% compared to the same Quarter in 2008 (5.5 million) but an increase of 12% compared to Q2 2009 (1.7 million). Gross margin remained the same as in the 2nd Quarter at 66%.

Operating cost (ex cogs) achieved target levels, coming in at 4.1 million in the 3rd Quarter (9.4 million). Payroll expenses were 2.3 million in the 3rd Quarter (6.8 million).

EBITDA ended at -3.0 million compared to -8.2 million in the same Quarter last year. Ordinary depreciation totalled 1.0 million compared to 2.4 million in the 3rd Quarter 2008. Operating profit (EBIT) ended at -4.0 million (-8.2 million). Net financial profit was -3.6 million in the 3rd Quarter (3.2 million). Profit before taxes ended at -7.7 million in the 3rd Quarter (-5.0 million). Net profit per share ended at -3.32 in the 3rd Quarter (-2.20), and net comprehensive income per share ended at -2.33 in the 3rd Quarter (-2.89).

Equity, balance sheet and cash flow items

The Group had 17.4 million in capitalized development cost in the balance sheet as of 30.09.2009. Of this, 12.8 million is excess values from the acquisition of StarGen in 2007. Although revenue levels have stabilized, the economic outlook remains cloudy creating continued uncertainty in budgets and growth expectations. For this reason, the Group will continue to monitor asset values closely in the coming Quarters.

Total equity in the Group is 27.0 million. The equity ratio by the end of Q3 is 81% compared to 85% by the end of Q3 2008.

In Dolphin ongoing development activity is mainly limited to software development. In the 3rd Quarter Dolphin did not book any costs to capitalized development.

Net cash flow from operations was -2.0 million in the 3rd Quarter (-4.9 million). Inventory declined by about 0.3 million, receivables declined by 0.5 million and increased trade payables of 0.9 million for a net positive contribution of 1.7 million to operating cash flow. The Group had 1.5 million in cash by the end of the quarter (6.6 million).

Financing and shareholders

The running cost target for Q3 of 4 million (ex cogs) was achieved. Additional facility and headcount related cost savings have been implemented and a cost target for Q4 of 2.5 million has been established. Given the current level of sales, gross margins and unchanged working capital, cash usage will continue to be reduced. However, cash reserves at the end of the quarter are a limited 1.5 million by the end of Q3, resulting in high financial risk and potential need for further measures to address financing requirements. The company has entered into an agreement to merge with Best Media AS including infusion of an additional 5 million in cash. The transaction is intended to establish a financial foundation for continued operations.

As of November 6th, Dolphin had 627 shareholders of which the 20 largest are included in the table below.

Shareholder		% Ownership
1 GLENN NOSTDAHL KONSULENT	232,034	10.2%
2 HEKTOR AS	130,000	5.7%
3 CITIGROUP GLOBAL MARKETS INC.	105,627	4.7%
4 MP PENSJON	105,371	4.6%
5 MORGAN STANLEY & CO INC. NEW YORK	99,905	4.4%
6 GLØRSTAD	95,600	4.2%
7 FRANS ENGER AS	90,000	4.0%
8 LØYLAND	60,000	2.6%
9 ELLENES	53,350	2.4%
10 VEST EIENDOM	45,000	2.0%
11 RØDAAS ESPEN	39,119	1.7%
12 NESHEIM	38,000	1.7%
13 LGJ INVEST AS	30,813	1.4%
14 MIKALSEN	30,000	1.3%
15 SOLVANGEN MARINA AS	30,000	1.3%
16 NORDEA BANK DENMARK AS	28,652	1.3%
17 ALTEA PROPERTY DEVELOPMENT AS	23,960	1.1%
18 WÆRSTAD	21,500	0.9%
19 MILLER	19,000	0.8%
20 BECK OLE TORMOD	18,200	0.8%
 Total 20 largest shareholders	 1,296,131	 57.2%
 Other shareholders	 970,980	 42.8%
 Total outstanding shares	 2,267,111	 100.0%

Accounting principles

Dolphin Interconnect Solutions ASA follows the principles of IFRS in this report. The figures are reported in accordance with the regulations for interim reporting in IAS 34. For further reference on accounting principles, see the annual report for 2008.

The Board of Directors, Dolphin Interconnect Solutions ASA
Oslo, November 12th, 2009

Ole Henrik Eide
(Chairman)

Alf Rasmussen

Marit Døving

Tor Alfheim

Simen Thoresen
(Employee representative)

Cecilie Vanem

Dolphin Interconnect Solutions Group

Income Statement

	Q3 / 09	Q3 / 08	YTD 2009	YTD 2008	Full year 2008
OPERATING REVENUES					
Sales	1 949 688	5 487 736	9 068 675	19 565 967	24 830 368
Other operating revenue	-165 897	0	-165 897	0	8 155 320
TOTAL OPERATING REVENUE	1 783 791	5 487 736	8 902 778	19 565 967	32 985 688
OPERATING EXPENSES					
Cost of goods sold	725 068	1 866 130	2 632 116	5 959 431	7 790 841
Payroll expenses	2 325 571	6 849 385	14 353 561	19 979 986	26 080 060
Other operating expenses	1 736 516	2 525 682	6 967 149	10 451 271	14 247 351
TOTAL OPERATING EXPENSES	4 787 155	11 241 197	23 952 826	36 390 688	48 118 253
EBITDA	-3 003 364	-5 753 461	-15 050 048	-16 824 721	-15 132 565
Depreciation	1 038 454	2 441 566	3 102 874	5 381 251	6 727 607
Write off	0	0	0	10 676 139	50 975 261
OPERATING PROFIT (EBIT)	-4 041 819	-8 195 027	-18 152 923	-32 882 111	-72 835 433
NET FINANCIAL PROFIT	-3 633 652	3 173 535	-14 451 673	2 566 103	7 538 966
PROFIT BEFORE TAXES	-7 675 470	-5 021 492	-32 604 595	-30 316 008	-65 296 467
Income taxes	-138 876	-329 498	-429 826	-663 318	3 977 063
NET PROFIT	-7 536 595	-4 691 994	-32 174 770	-29 652 690	-69 273 530
OTHER COMPREHENSIVE INCOME					
Currency translation differences	2 263 584	-1 456 835	4 028 144	-1 268 644	-3 731 767
OTHER COMPREHENSIVE INCOME DIRECTLY AGAINST EQUITY	2 263 584	-1 456 835	4 028 144	-1 268 644	-3 731 767
TOTAL COMPREHENSIVE INCOME	-5 273 011	-6 148 829	-28 146 625	-30 921 334	-73 005 297
Net profit is attributable to:					
Minority Interests	0	0	-1 040 810	0	-1 422 217
Equity holders of the parent company	-7 536 595	-4 691 994	-31 133 960	-29 652 690	-67 851 313
	-7 536 595	-4 691 994	-32 174 770	-29 652 690	-69 273 530
Net comprehensive income is attributable to:					
Minority Interests	0	0	-1 040 810	0	-1 422 217
Equity holders of the parent company	-5 273 011	-6 148 829	-27 105 815	-30 921 334	-71 583 080
	-5 273 011	-6 148 829	-28 146 625	-30 921 334	-73 005 297
EARNINGS PER SHARE					
Avg.no. of shares outstanding	2 267 111	2 128 415	2 267 111	1 835 829	1 944 536
Net profit per share	-3,32	-2,20	-14,19	-16,15	-34,89
Net comprehensive income per share	-2,33	-2,89	-11,96	-16,84	-36,81

Dolphin Interconnect Solutions Group

Balance Sheet

ASSETS	30.09.2009	30.09.2008	31.12.2008
NON-CURRENT ASSETS			
Goodwill	0	7 934 875	0
Capitalized development cost	17 387 490	67 993 503	42 344 090
Deferred income tax assets	0	9 710 424	0
Operating equipment	65 905	267 635	196 727
Long term shares	2 179 699	0	0
TOTAL NON-CURRENT ASSETS	19 633 094	85 906 437	42 540 817
CURRENT ASSETS			
Inventories	9 560 011	10 191 882	11 415 016
Trade receivables	800 086	1 881 241	2 771 020
Other short term receivables	1 849 072	3 544 553	3 202 008
Cash and cash equivalents	1 541 082	6 617 408	11 832 396
TOTAL CURRENT ASSETS	13 750 252	22 235 084	29 220 441
TOTAL ASSETS	33 383 346	108 141 521	71 761 259
EQUITY AND LIABILITIES			
	30.09.2009	30.09.2008	31.12.2008
EQUITY			
Subscribed equity			
Share capital	4 534 222	4 534 222	4 534 222
Share premium fund	42 119 278	112 119 278	112 119 278
Total subscribed equity	46 653 500	116 653 500	116 653 500
Retained equity			
Retained earnings	-19 675 288	-24 379 636	-66 033 667
Total retained equity	-19 675 288	-24 379 636	-66 033 667
Minority interests	0	0	4 236 540
TOTAL EQUITY	26 978 212	92 273 864	54 856 372
NON CURRENT LIABILITIES			
Deferred income tax liability	2 405 368	7 934 875	2 857 927
Other long-term liabilities	239 761	487 159	588 633
TOTAL NON CURRENT LIABILITIES	2 645 129	8 422 034	3 446 560
CURRENT LIABILITIES			
Trade payables	2 324 022	4 903 727	9 222 440
Public duties payable	302 525	626 041	1 232 784
Other current liabilities	1 133 457	1 915 855	3 003 103
TOTAL CURRENT LIABILITIES	3 760 005	7 445 623	13 458 327
TOTAL EQUITY AND LIABILITIES	33 383 346	108 141 521	71 761 259

Dolphin Interconnect Solutions Group

Cash Flow Statement / Change in Equity

CASH FLOW STATEMENT	Q3 / 09	Q3 / 08	YTD 2009	YTD 2008	Full year 2008
Cash Flow from Operations					
Operating result before tax	-7 675 470	-5 021 492	-32 604 595	-30 316 008	-65 296 467
Depreciation & write off	1 038 454	2 441 566	3 102 874	16 057 390	57 702 868
Write down shares	0	0	8 966 852	0	0
Changes in inventories	298 847	551 690	783 670	-1 110 519	-2 201 395
Changes in receivables	482 291	1 277 484	1 755 078	1 903 563	1 457 191
Changes in trade payables	907 029	-1 970 567	-211 927	-2 137 470	1 701 547
Changes in other current assets/debt items	2 926 156	-2 182 362	6 789 073	-3 604 674	-5 974 428
Net Cash Flow from Operations	-2 022 693	-4 903 681	-11 418 975	-19 207 718	-12 610 684
Cash Flow from Investments					
Purchase of operating equipment	0	0	0	-19 005	-22 060
Purchase of intangible assets	0	-6 261 205	0	-19 116 516	-26 193 056
Exit of subsidiary	0	0	2 156 505	0	0
Net Cash Flow from Investments	0	-6 261 205	2 156 505	-19 135 521	-26 215 116
Cash Flow from Financial Activities					
Payment of long term liabilities	-163 404	-47 908	-348 872	-74 230	27 244
Issue of shares in subsidiary	0	0	0	0	5 192 025
Issue of shares	0	12 262 805	0	12 227 442	12 227 442
Net Cash Flow from Financial Activities	-163 404	12 214 897	-348 872	12 153 212	17 446 711
Net change in cash and equivalents	-2 186 097	1 050 011	-9 611 342	-26 190 027	-21 379 089
Foreign currency effect on cash	-96 648	100 948	-679 972	143 009	547 059
Opening balance, cash and equivalents	3 823 827	5 466 449	11 832 396	32 664 426	32 664 426
Closing balance, cash and equivalents	1 541 082	6 617 408	1 541 082	6 617 408	11 832 396
CHANGE IN EQUITY	Q3 / 09	Q3 / 08	YTD 2009	YTD 2008	Full year 2008
Equity opening balance	32 202 155	85 863 058	54 856 372	109 893 223	109 893 223
Total comprehensive income	-5 273 011	-6 148 829	-28 146 625	-30 921 334	-73 005 297
Issue of shares	0	13 340 000	0	13 340 000	13 340 000
Cost of issue of shares	0	-1 077 195	0	-1 112 558	-1 112 558
Issue of shares in subsidiary	0	0	0	0	5 162 024
Option granted to employees	49 068	296 830	268 465	1 074 533	578 980
Equity closing balance	26 978 212	92 273 864	26 978 212	92 273 864	54 856 372