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Forbidden Technologies* Satisfactory Results and Positive Outlook - Reiterate stance of Buy with target price of 87.8p (down from 92p)

On May 27th, Forbidden Technologies, the 'cloud' based professional video solution provider, released its final results for the 12-months ended 31 December 2009 under International Financial Reporting Standards. Sales rose by 131.7% from £121,199 to £280,826 due to increased repeat orders from existing clients as well new customers; a trend that has continued into the current year.

Key	Data
EPIC	FBT
Share Price	20p
Spread	18p – 22p
NMS	3,000
Total Number of issued shares	79,352,500
Market Cap	£15.9 million
12 Month Range	7p – 28p
Market	AIM
Website	www.forbidden.com
Sector	Software & Computer Services
Contact	Stephen Streater Chief Executive Officer 020 8879 7245

Gross profit increased by 115% from £98,172 to £250,656 while the margin expanded from 81.0% to 89.3% reflecting the changing mix of the business toward partner sales, which are generating faster product uptake; in the past year over 1 million hours of new video content has been produced using FORscene. The gross margin is sustainable at the 90% level, possibly higher, due to the reduced sales and marketing support demands.

Operating losses shrank from £107,012 to £90,536 despite Forbidden increasing its administrative expenses by 64.5% to £341,192 as a result of an earlier decision to establish and develop the group's international technical and marketing support capability. This will remain a feature for the next couple of years but should result in further growth in partnerships and FORscene usage, which should stimulate higher sales revenues growth.

Net finance charges shrank from £3,709 to £2,404 due to the group raising £452,800 (2008: £300,000) through option exercises and a placing and resulted in a full year loss of £92,940 compared with £110,721 and the loss per share shrinking from 0.10p to 0.07p.

Table: Profit & Loss £000

Year ended 31 December	2009	2008
Revenue	**280,826**	**121,199**
Cost of sales	(30,170)	(23,027)
Gross profit	**250,656**	**98,172**
Margin	*89.3%*	*81.0%*
Administrative costs	(341,192)	(205,184)
Operating profit/(loss)	**(90,536)**	**(107,012)**
Net finance income/(expense)	(2,404)	(3,709)
Pre-tax profit/(loss)	**(92,940)**	**(110,721)**
Income tax	36,261	34,320
Profit/(loss) after tax	**(56,679)**	**(76,401)**
EPS (p)	**(0.07)**	**(0.10)**

Source: Company

During the past year the group has been strengthening and developing its distribution and marketing channels by partnering with industry giants within the primary target markets of Broadcast (including all post-production companies), Professional web video and to a lesser extent in-house video and serious hobbyists (via Clesh). Forbidden has secured, and continues to develop, relationships with Broadcast Interactive Media ('BIM'), Chyron, True Tube and Brightcove that has resulted in FORscene content usage growing from 100 hours per week to 10,000 hours.

BIM has licensed FORscene to more than 60 US television stations while FORscene has been integrated into Chyron's AXIS graphics system which has already resulted in multiple US opportunities. FORscene has been integrated into True Tube's SUNY is opening up a new market opportunity in education while Brightcove is creating opportunities in the web arena. The group has indicated that other partnership agreements are in various stages of negotiation while last year's increased marketing activity has increased the frequency of direct sales enquires.

Indeed, it would appear that the synchronised global recession has accelerated the video market's shift to digital decisively toward lower cost web, and increasingly cloud, based production solutions. It is this accelerated shift as well as the rapid uptake of FORscene by the video industry's giants and their customers accelerating usage that has encouraged the group to build out more rapidly its global business development and technical sales support capabilities. Consequently, during, at least the next two years, administrative costs will continue to increase more rapidly than previously anticipated. However, these costs should comfortably lag the growth in sales and as a result enable the group, on our revised and more conservatively based sales projections, to still close the current financial year the right side of break even while confirming our earlier expectation of the group moving more decisively into profit the following year.

Table: Profit & Loss £000

Financial year ended 31 December	2011E	2010E	2009A	2008A
Revenue	**1,200**	**600**	**280.8**	**121.2**
Cost of sales	(1,20)	(60)	(30.2)	(23.0)
Gross profit	**1,080**	**540**	**250.7**	**98.2**
Margin	*90.0%*	*90.0%*	*89.3%*	*81.0%*
Administration costs	(765)	(510)	(341.2)	(205.2)
Operating profit/(loss)	**315**	**30**	**(90.5)**	**(107.0)**
Margin	*26.3%*	*5.0%%*	*(32.2%)*	*(88.3%)*
Net finance expenses	(5)	(3)	(2.4)	(3.7)
Pre-tax profit/(loss)	**310**	**27**	**(92.9)**	**(110.7)**
Margin	*25.8%*	*4.5%*	*(33.1%)*	*(91.3%)*
EPS (p)	0.39	0.03	(0.07)	(0.10)

Source: Growth Equities & Company Research
Notes: Data for financial years 2008 and 2009 may not add up correctly due to rounding.

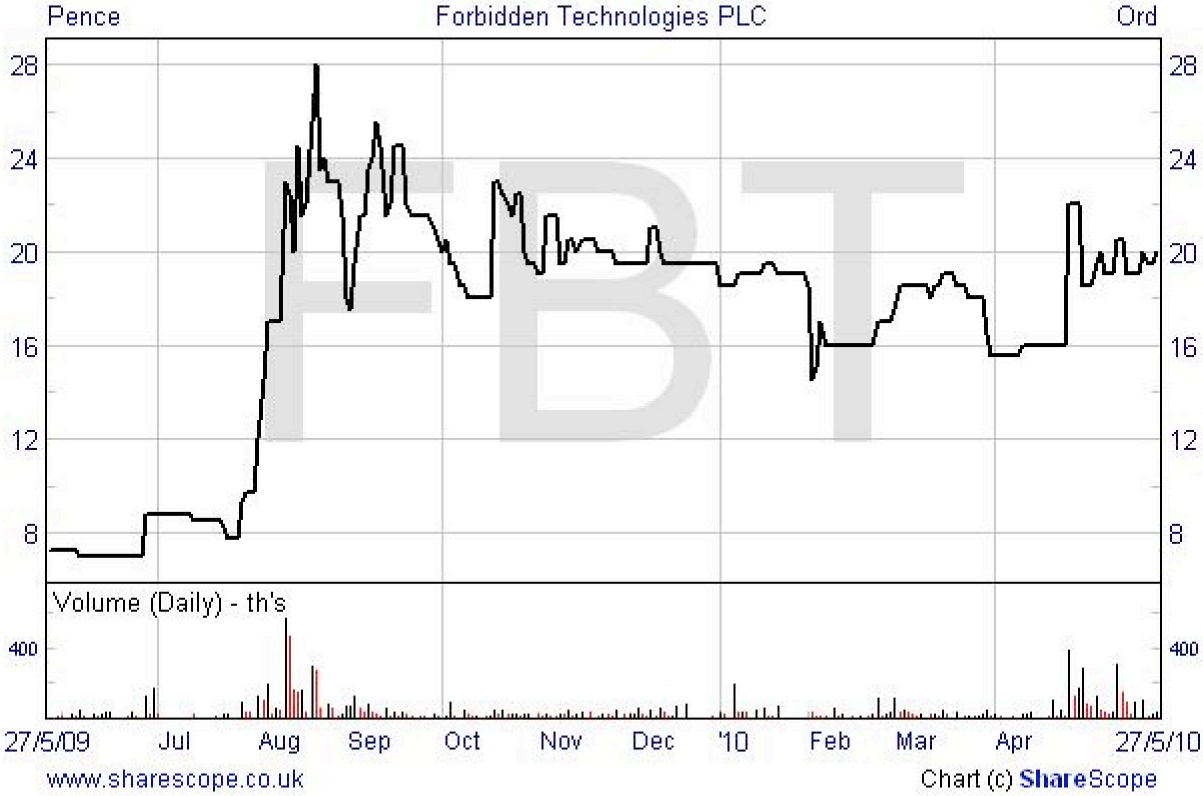
Forbidden Technologies remains in its early commercialisation phase and therefore, not yet exhibiting its true potential in financial terms. However, there is growing corporate activity within the web video market and as demonstrated by Google's acquisition of On 2 Technologies, a leading developer of video compression technology, these businesses can go for multiples of sales revenues; Google paid 7.6 times On 2 Technologies 2008 revenues. It is arguably that Forbidden Technologies could command a considerably higher multiple because its technology, embodied within FORscene, extends beyond just video compression.

Nevertheless, valuing emergent technology plays is fraught with risk, most notably a newer and possibly better replacement technology. Forbidden falls into this category because the Company, since 1998, has been developing a software video editing suite based upon a long held vision of how the internet and media would converge. The difference between then and now is that all the technologies exist in terms of internet hardware delivery infrastructure, storage and server capacity, computer processing power, etc. Moreover, convergence is happening (e.g., digital media, IPTV, etc.), which is stimulating demand for more and newer content while finally the global recession appears to be encouraging a more rapid change in established media work practices that favours companies such as Forbidden.

With very conservatively estimated sales revenues at least doubling annually and potentially being sustained at that rate beyond the forecasting period to 31 December 2011 while cost increases comfortably lag this growth rate, pre-tax profit and earnings per share should increase rapidly; for example earnings per share on very conservative revenue growth projections are forecast to grow 13-fold!

Nevertheless, whatever valuation methodology is applied to the present but realistically forecastable expectations, it should only be viewed, and used, as an indication of potential because Forbidden Technologies is engaged in numerous partnership discussions each of which can substantially transform revenue growth and consequently earnings growth.

In this vein, we have applied an Enterprise/Sales ('EV/Sales) valuation metric to Forbidden to provide an indicative target price. Applying the 2009 financial year multiple of 58.5 times to that of 2011's conservative sales of £1.2 million indicates upside potential to 87.8p, marginally below our previous target price of 92p. Therefore, with the shares trading at 20p, we continue to recommend Forbidden Technologies as a **BUY**.



Forecasts Table

Year to 31 December	Sales (£000)	Pre-Tax Profit (£000)	Earnings Per Share (p)	Price Earning Ratio (x)	Dividend (p)	Yield (%)
2008A	121.2	(110.7)	(0.10)	NA	0.0	0.0
2009A	280.8	(92.9)	(0.07)	NA	0.0	0.0
2010E	600.0	27.0	0.03	666.7	0.0	0.0
2011E	1,200	310.0	0.39	51.3	0.0	0.0

Source: Company and Growth Equities & Company Research

Forbidden Technologies is a corporate client of Bishopsgate Communications, a subsidiary of RHS, the ultimate owner of GECR. The SF t1ps Smaller Companies Growth Fund which is managed by a subsidiary of RSH, the ultimate owner of GE&CR, owns shares in Forbidden Technologies.

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