Interim Results

For the six months ended 30 September 2008

Eckoh plc
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Eckoh plc
Unaudited interim results for the six months ended 30 September 2008

Eckoh plc ("Eckoh" or "the Group"), the UK's largest provider of hosted speech recognition services, announces a profit for the six months to 30 September 2008

	6 months ended 30 Sept 2008 £'000	Restated 6 months ended 30 Sept 2007 £'000	Year ended 31 March 2008 £'000
Turnover	**9,980**	16,256	25,590
Gross profit	**3,349**	2,717	6,011
Operating loss	**(99)**	(1,575)	(2,746)
Profit/(loss) for the period	**91**	(219)	470
Adjusted profit/(loss) before taxation[1]	**181**	(1,186)	(1,629)
Cash and short-term investments	**5,063**	5,736	6,837

Highlights:

Restructured business and focus on margins delivers profits earlier than expected
- A transformation in profitability with an adjusted profit before taxation[1] for the period of £0.2m (H1 2007/8: loss of £1.2m, and a full year 2007/8 loss of £1.6m)

- Speech Solutions revenues amounted to £3.3m (H1 2007/8: £3.1m). Gross profit increased by 16% to £2.2m (H1 2007/8: £1.9m) due to an improved performance by higher margin clients

- Client IVR revenues amounted to £6.7m (H1 2007/8: £13.2m). Gross profit increased by 38% to £1.1m (H1 2007/8: £0.8m) due to renegotiated/improved contract terms

- Results of cost reduction programme in 2007/8 taking effect with administrative expenses reducing by 20% to £3.4m (H1 2007/8: £4.3m)

- Balance sheet holds £5.1m cash and short-term investments and has a £2.7m receivable from Symphony Telecom and £1.2m receivable remaining from the sale of the Connection Makers businesses and no debt

- Impact of some significant recent contract wins yet to be reflected in financials

Significant developments and outlook:
New Speech Solutions contracts will continue to drive growth and profitability
- New three year multi-million pound contract with global financial services company to provide a VoiceXML telephony platform for handling customer enquiries across Europe, with revenue generation expected in the fourth quarter of the financial year

- Three year contract with the Ministry of Justice to provide an automated fine payment service for the Magistrate's Courts network across England and Wales with revenue generation commencing in the third quarter of the financial year

[1] Profit before taxation, intangible asset amortisation and exceptional items (note 13)

- Pan-European call routing network established enabling Eckoh to terminate calls from all major European territories in the UK on Eckoh's new VoiceXML telephony platform, so opening up the wider European market from our UK base

- Tough macro-economic conditions causing companies to consider taking up automated speech solutions in order to reduce costs and maintain high level of customer services

- New contracts are being delivered largely from existing cost base, so incremental revenues will flow through substantially to profit retained by the business

- Improved financial performance from the increase in gross profits and the reductions in the cost base is expected to continue in 2008/9 and into 2009/10

Nik Philpot, Chief Executive Officer, commented today:

"The first half of 2008/9 has been very successful for Eckoh and we are delighted with the strong progress made since the Group restructuring last year. Not only have we moved into profit earlier than expected but this has been achieved without the benefit of the recently announced new contracts.

The Group is now at that critical tipping point where each new contract win should take the Group further into profit.

Our long term visibility of revenues remains excellent as we continue to retain our existing customers on long term renewals and without compromising our margin. At the same time the Board continues to actively explore all strategic options to deliver shareholder value which it believes is currently not reflected in the share price. As a result, the Group looks forward to the future with confidence."

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Introduction
During 2007/8, the restructuring of the Group was completed with the sale of the non-core Connection Makers businesses and the remaining overhead reduced to service the ongoing business effectively.

The financial benefits of these steps can now be seen with the Group moving into profitability ahead of expectations. Whilst headline revenue has declined, this has come from a reduction in the very low margin IVR revenue that the Group was generating in the first half of 2007/8. The revenue of £16.3m from the first half of last year has reduced to £10.0m for the most recent six months; however, the margin generated by that revenue has increased by 19% from £2.7m to £3.3m. This demonstrates that the focus on generating higher margin revenues, particularly by the Speech Division, is delivering results.

The administrative expenses of the business, which include all costs in the business other than any revenue share payments made to clients, have also reduced. In the six month period these expenses have declined by 20% from £4.3m to £3.4m demonstrating the success of the cost reduction exercise undertaken last year, and these efforts to reduce unnecessary cost are continuing.

The adjusted (before taxation, intangible asset amortisation and exceptional items) profit of £0.2m is a transformational result in comparison to the £1.2m loss made in the first half of 2007/8.

Speech Solutions
The Speech Solutions division continues to make excellent progress and whilst the revenue growth in this period of 6% appears moderate, (H1 2008.9: £3.3m, H1 2007/8: £3.1m) the margin on these revenues has increased from 60% to 68% thereby generating a 16% increase in gross profit to £2.2m (H1 2007/8: £1.9m). Over time we would expect margin to continue to rise slowly as older contracts which involve some revenue sharing from inbound telephony traffic are replaced or renegotiated with fee based agreements.

Since its inception the Speech division has been built on providing high quality, high value services to blue chip clients secured on long term contracts. Churn in existing clients is extremely low enabling the division to layer any new business wins on top of those existing revenues, and as revenues are generally underpinned by either fixed fees or guaranteed call volumes this gives excellent visibility of future income.

The recently announced contract wins with the Ministry of Justice and a global financial services company are significant in terms of value and length and will commence generating revenues in the second half of 2008/9 before getting up to full run rate in the early months of 2009/10.

The technical resource required to deploy a solution for a large contract such as these is not usually directly comparable to their higher value, so over time they will also deliver proportionally greater profit. In addition, the major consumption of technical resources is generally in the creation of new services and in the initial period after launch, with a lower level of effort required to maintain them. As a result, new services are usually able to be developed by the existing technical team which will mean that any future increases in overhead should be marginal as new contracts are secured.

As stated in the preliminary results statement, the prospects for the division would benefit from three key factors – the challenging macro-economic climate, a trend towards the repatriation of non-UK based call centres and the creation of a pan-European network to deliver calls back to Eckoh's call platform in the UK. Since that announcement, the economic climate has worsened and certainly indications are that companies are increasingly looking for ways that they can limit their short term expenditure but still deliver a high-level of customer service improvements by utilising an "on demand" offering such as the one Eckoh provides.

Eckoh's "on demand" proposition is that more rudimentary and repetitive customer service tasks can and should be handled by an automated system, leaving highly trained agents to work on more complex queries. If companies adopt this strategy then on-shoring is a real possibility with no increase in costs and with the associated benefits that a UK call centre operation is perceived to bring.

Finally, the Group is already seeing the returns from our decision to establish a pan-European telephony network having secured our first contract, and this is of such high caliber that it should assist us in winning additional business going forward. Eckoh will continue to focus on organically growing the UK business and will look to open up the European markets through this new network capability and partnerships. The Board looks forward to the Speech division continuing to grow and delivering strong and sustainable profit into the future.

Client IVR

The revenue model of the Client IVR division has been completely remodelled over the past year to the extent that we have seen a reduction in revenue of 49% to £6.7m (H1 2007/8: £13.2m) but an increase in gross margins from 6% to 17% which has led to an overall increase in gross profit of 38% to £1.1m (H1 2007/8: £0.8m). As a result, the contribution generated by the division is significantly greater in the period than in the whole of 2007/8.

This positive change in fortune has come about predominantly by altering the way that we operate with our broadcast clients which has removed the extremely low margin premium rate TV revenue. Our broadcast work is now done on a professional fee basis as opposed to the traditional revenue share model. The division still operates on a revenue share basis with our print, publishing and network clients, but these typically operate on far higher margins than the broadcast sector because the number of services that are delivered is much higher but the response levels to each service is lower.

The period has seen a much calmer regulatory environment than was witnessed during 2007. Consumer confidence in premium services is returning as the positive steps taken by the industry and by the regulators start to take effect, and this in turn will encourage media owners to re-enter the market in a more aggressive manner.

Eckoh's reputation in the industry is now one of a professional, compliance based, operation and is a key selling point to the division's customers. Considerable investment was made to ensure services were compliant and that systems and procedures were implemented to ensure that compliance failures would be highly unlikely in the future. The staff in this division are highly trained on compliance issues and there is an in-house team who can be consulted on compliance questions. Eckoh's approach to compliance is unrivalled in the industry, making it the obvious choice for those media owners who take this issue as seriously when they appointing a new service provider for their premium rate services.

With decreasing revenues from advertising, media owners are expected to renew efforts to generate revenue from the provision of premium rate services. Eckoh is among the first and small number of companies to be recently granted permission by PhonePayPlus (the regulator formerly known as ICSTIS) to operate premium rate services in this sector. On a wider basis the breadth of technical expertise across the Group in voice, mobile and web technology means that Eckoh are well equipped to provide both innovative and complex services to attract any such new business.

Administrative expenses

Eckoh first announced a plan to significantly reduce administrative expenses in the interim results of 2007/8 but it is only now that we can see the results of these efforts. Administrative expenses in the first half of the year have reduced by 21% to £3.4m (H1 2007/8: £4.3m).

Administrative expenses include all costs of running the business apart from revenue share payments to clients which are included within cost of sales. A significant portion of this saving has been made by reducing headcount to be aligned with the operation of a smaller business, but this has been complemented by a review of external suppliers and contracts. Further reductions are expected in the coming months as we take advantage of breaks in property leases to reduce out property costs and continue to look for other opportunistic savings. However, the company is beginning to grow rapidly and these savings will be offset to some degree by increases in headcount to service and obtain a larger client base.

Balance Sheet

The working capital cycle of the business does benefit from receiving the call revenue from the networks before having to pass it on to clients. This benefit was often significant during periods when large volumes of calls were being handled for ITV. Much of this benefit has now unwound due to a reduction in those volumes which has resulted in the cash and short term investments balance having reduced to £5.1m (£5.7m on 30/9/07). However, the trade receivable and payable balances are now very similar and this cash balance more accurately reflects the liquidity of the group. In addition, £2.7m remains owing from Symphony Telecom Limited from the sale of that subsidiary in 2006 with the remaining instalments due in June 2009 and June 2010. There is also £1.2m outstanding in consideration owing from the sale of the Connection Makers businesses in 2007 which is due to be fully paid by the end of 2009.

In summary, the group has a very liquid balance sheet, no debt and is beginning to generate additional cash resources. In the currently challenging economic environment, it is a comfort to the Group's existing and prospective clients that Eckoh operates from such a strong base.

Outlook

Since early 2005, Eckoh's strategy has been to simplify the Group by selling mature non-core activities to focus on the growth opportunity that the Speech Solutions division provides, with support from the complementary Client IVR division. Although this process has taken some time to complete, the Group is now at that critical tipping point where each new contract win should take the group further into profit.

Our long term visibility of revenues remains excellent as we continue to retain our existing customers on long term renewals and without compromising our margin. Additionally, the operational gearing in the business means that new contracts are being delivered largely from the existing cost base, so incremental revenues are expected to flow through substantially to profit retained by the business.

Eckoh's progress reinforces its market leading position in the sector and with the imminent deployment of the new contracts and a strong sales pipeline, the Group expects to build on the momentum achieved in the first half of the year.

The directors recognise that the current share price fails to recognise the value of the business at much more than the value of the assets on the balance sheet. They remain convinced that the growth and promise of the trade within the group is significantly undervalued and will continue to explore ways of unlocking that value for shareholders.

Consolidated interim income statement
for the period ended 30 September 2008

	Six months ended 30 September 2008 £'000 (unaudited)	Restated Six months ended 30 September 2007 £'000 (unaudited)	Year ended 31 March 2008 £'000 (audited)
Continuing operations			
Revenue	**9,980**	16,256	25,590
Cost of sales	**(6,631)**	(13,539)	(19,579)
Gross profit	**3,349**	2,717	6,011
Administrative expenses	**(3,448)**	(4,292)	(8,757)
Loss from operating activities	**(99)**	(1,575)	(2,746)
Interest receivable	**220**	271	569
Profit/(loss) before taxation	**121**	(1,304)	(2,177)
Taxation	**-**	-	-
Profit/(loss) for the period from continuing operations	**121**	(1,304)	(2,177)
Discontinued operations			
Post tax (loss/)profit for the period from discontinued operations	**(30)**	1,085	2,647
Profit/(loss) for the period	**91**	(219)	470
Attributable to equity holders of the parent	**91**	(219)	470
	91	(219)	470
Earnings/(loss) per share expressed in pence per share			
Basic and diluted	**0.05**	(0.11)	0.24
Earnings/(loss) per share from continuing operations expressed in pence per share			
Basic and diluted	**0.06**	(0.66)	(1.09)

Consolidated interim balance sheet
as at 30 September 2008

	30 September 2008 £'000 (unaudited)	Restated 30 September 2007 £'000 (unaudited)	31 March 2008 £'000 (audited)
Assets			
Non-current assets			
Intangible assets	**160**	104	114
Property, plant and equipment	**644**	909	743
Financial assets	**-**	288	-
Other receivables	**1,865**	2,879	3,293
	2,669	4,180	4,150
Current assets			
Inventories	**31**	6	13
Trade and other receivables	**6,553**	8,292	6,382
Short-term investments	**3,530**	1,530	1,530
Cash and cash equivalents	**1,533**	4,206	5,307
	11,647	14,034	13,232
Assets held for sale	**-**	902	-
Total assets	**14,316**	19,116	17,382
Liabilities			
Current liabilities			
Trade and other payables	**(4,621)**	(9,694)	(7,896)
Obligations under finance lease	**(4)**	(7)	(5)
	(4,625)	(9,701)	(7,901)
Liabilities directly associated with assets held for sale	**-**	(606)	-
Non-current liabilities			
Obligations under finance lease	**-**	(2)	(2)
Provisions	**(120)**	(75)	(17)
	(120)	(77)	(19)
Net assets	**9,571**	8,732	9,462
Shareholders' equity			
Share capital	**499**	499	499
Capital redemption reserve	**198**	198	198
Share premium	**694**	695	695
Currency reserve	**(38)**	(15)	(27)
Retained earnings	**8,218**	7,355	8,097
Total shareholders' equity	**9,571**	8,732	9,462

Consolidated interim statement of changes in equity

as at 30 September 2008
(unaudited)

	Share capital £'000	Capital redemption reserve £'000	Share premium £'000	Retained earnings £'000	Currency reserve £'000	Total shareholders equity £'000
Balance at 1 April 2007	491	198	477	7,530	(7)	8,689
Profit for the period	-	-	-	(219)	-	(219)
Exchange differences and net income recognised directly in equity	-	-	-	-	(8)	(8)
Total recognised income and expense	-	-	-	(219)	(8)	(227)
Share based payment charge	-	-	-	44	-	44
Shares issued under the option schemes	8	-	226	-	-	234
Shares held by Share Incentive Plan	-	-	(8)	-	-	(8)
Balance as at 30 September 2007	499	198	695	7,355	(15)	8,732
Balance as at 1 October 2007	499	198	695	7,355	(15)	8,732
Profit for the period	-	-	-	689	-	689
Exchange differences and net income recognised directly in equity	-	-	-	-	(12)	(12)
Total recognised income and expense	-	-	-	689	(12)	677
Share based payment charge	-	-	-	53	-	53
Balance at 31 March 2008	499	198	695	8,097	(27)	9,462
Balance at 1 April 2008	499	198	695	8,097	(27)	9,462
Profit for the period	-	-	-	91	-	91
Exchange differences and net income recognised directly in equity	-	-	-	-	(11)	(11)
Total recognised income and expense	-	-	-	91	(11)	80
Share based payment charge	-	-	-	30	-	30
Shares held by Share Incentive Plan	-	-	(1)	-	-	(1)
Balance at 30 September 2008	**499**	**198**	**694**	**8,218**	**(38)**	**9,571**

Consolidated interim cash flow statement
for the period ended 30 September 2008

	Six months ended 30 September 2008 £'000	Restated Six months ended 30 September 2007 £'000	Year ended 31 March 2008 £'000
	(unaudited)	(unaudited)	(audited)
Cash flows from operating activities			
Continuing operations			
Profit/(loss) after taxation	**121**	(1,304)	(2,177)
Interest expense	**(220)**	(271)	(569)
Depreciation of property, plant and equipment	**239**	324	597
Amortisation of intangible assets	**44**	119	153
Impairment of investment	**-**	-	288
Share based payments	**30**	15	34
Exchange differences	**(11)**	(8)	(20)
Operating profit/(loss) before changes in working capital and provisions	**203**	(1,125)	(1,694)
(Increase)/decrease in inventories	**(18)**	11	4
Decrease in trade and other receivables	**187**	22	1,835
Decrease in trade and other payables	**(3,276)**	(2,989)	(5,516)
Increase/(decrease) in provisions	**103**	(460)	(499)
Cash utilised in operations	**(2,801)**	(4,541)	(5,870)
Interest paid	**-**	-	-
Net cash utilised in continuing operating activities	**(2,801)**	(4,541)	(5,870)
Discontinued operations			
(Loss)/profit after taxation	**(30)**	1,085	2,647
Profit on disposal	**-**	-	(2,066)
Interest income	**(15)**	-	(62)
Taxation recognised in income statement	**45**	15	10
Depreciation of property, plant and equipment	**-**	35	37
Amortisation of intangible assets	**-**	20	23
Share based payments	**-**	29	63
Disposal of property, plant and equipment	**-**	(142)	36
Operating loss before changes in working capital and provisions	**-**	1,042	688
(Increase)/decrease in trade and other receivables	**-**	(564)	622
Increase/(decrease) in trade and other payables	**-**	59	(681)
Cash generated from operations	**-**	537	629
Taxation	**(45)**	(15)	(10)
Net cash (utilised in)/generated from discontinued operating activities	**(45)**	522	619

Cash flows from investing activities			
Continuing operations			
Purchase of property, plant and equipment	**(140)**	(221)	(336)
Purchase of intangible fixed assets	**(90)**	(62)	(109)
(Increase)/decrease in short term investments	**(2,000)**	1,000	1,000
Loans repaid by third parties	**500**	-	1,500
Interest received	**220**	267	591
Net cash (utilised in)/generated from continuing investing activities	**(1,510)**	984	2,646
Discontinued operations			
Purchase of property, plant and equipment	**-**	(13)	(13)
Purchase of intangible fixed assets	**-**	(37)	(38)
Net proceeds on disposal of business operations	**585**	-	666
Net cash generated from/(utilised in) discontinued investing activities	**585**	(50)	615
Cash flows from financing activities			
Continuing operations			
Issue of shares	**-**	218	226
Capital element of finance lease rental payments	**(3)**	2	-
Net cash generated from continuing investing activities	**(3)**	220	226
Decrease in cash and cash equivalents	**(3,774)**	(2,865)	(1,764)
Cash and cash equivalents at the start of the period	**5,307**	7,071	7,071
Cash and cash equivalents at the end of the period	**1,533**	4,206	5,307

Eckoh plc significant Consolidated Interim Financial Statements for the period ended 30 September 2008

1. Restatement of prior year comparatives

The 2007 comparative figures in the consolidated income statement, the consolidated balance sheet and the consolidated cash flow statement have been restated since their publication in December 2007. The restatement was required was required in order to reflect the results, assets and cash flows from the Chat division of Connection Makers within discontinued operations. The reported profit and net assets for the period are not affected by the restatement.

2. General information

The financial information set out in this interim report for the six months ended 30 September 2008 and the comparative figures for the six months ended 30 September 2007 are unaudited. This financial information does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985.

3. Basis of preparation

These consolidated interim financial statements (‘the interim financial statements’) of Eckoh plc are for the six months ended 30 September 2008. These interim financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (November 2008). The interim financial statements do not comprise statutory accounts as defined in section 240 of the Companies Act 1985 and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 March 2008. Those accounts have been reported on by the Group's auditors and delivered to Companies House. The report of the auditors was not qualified, did not contain an emphasis of matter paragraph and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

The interim financial statements have been prepared in accordance with the accounting policies set out below which are based on the recognition and measurement principles of IFRS in issue as adopted by the European Union (“EU”) and effective at 31 March 2009 or are expected to be adopted and effective at 31 March 2009. As permitted by the AIM Listing Rules, the Group has elected not to comply with IAS 34 ‘Interim financial reporting’.

The interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit and loss.

The principal accounting policies, which have been consistently applied to all of the periods presented, are described below.

4. Segment analysis

The Group's primary operating segments reflect the internal financial reporting structure. Eckoh plc operates two business segments Speech Solutions and Client IVR, these business segments are reported within continuing operations. Discontinued operations relate to the Connection Makers business operations. All revenue originates from the United Kingdom. Unallocated centrals costs, assets and liabilities and cash flows relate to the entity as a whole and can not be allocated to individual segments. The revenues and operating results generated by the business segments are summarised as follows:

Six months ended 30 September 2008	**Speech Solutions £'000**	**Client IVR £'000**	**Central costs £'000**	**Total continuing operations £'000**	**Discontinued operations £'000**	**Total £'000**
Revenue	3,269	6,711	-	**9,980**	-	**9,980**
Gross profit	2,236	1,113	-	**3,349**	-	**3,349**
Administrative expenses	(1,329)	(686)	(1,433)	**(3,448)**	-	**(3,448)**
Net interest receivable	-	-	220	**220**	15	**235**
Profit/(loss) before taxation	907	427	(1,213)	**121**	15	**136**
Taxation	-	-	-	**-**	(45)	**(45)**
Profit/(loss) after taxation	**907**	**427**	**(1,213)**	**121**	**(30)**	**91**

Six months ended 30 September 2007	Speech Solutions £'000	Client IVR £'000	Central costs £'000	Total continuing operations £'000	Discontinued operations £'000	Total £'000
Revenue	3,099	13,157	-	16,256	3,897	20,153
Gross profit	1,873	844	-	2,717	1,907	4,624
Administrative expenses	(1,501)	(1,007)	(1,784)	(4,292)	(1,391)	(5,683)
Net interest receivable	-	-	271	271	-	271
Profit/(loss) before taxation	372	(163)	(1,513)	(1,304)	516	(788)
Taxation	-	-	-	-	(15)	(15)
Post tax gain from disposal of operations	-	-	-	-	584	584
Profit/(loss) after taxation	372	(163)	(1,513)	(1,304)	1,085	(219)

Year ended 31 March 2008	Speech Solutions £'000	Client IVR £'000	Central costs £'000	Total continuing operations £'000	Discontinued operations £'000	Total £'000
Revenue	6,065	19,525	-	25,590	4,682	30,272
Gross profit	3,881	2,130	-	6,011	2,177	8,188
Administrative expenses	(2,845)	(2,065)	(3,847)	(8,757)	(1,648)	(10,405)
Net interest receivable	-	-	569	569	62	631
Profit/(loss) before taxation	1,036	65	(3,278)	(2,177)	591	(1,586)
Taxation	-	-	-	-	(10)	(10)
Post tax gain from disposal of operations	-	-	-	-	2,066	2,066
Profit/(loss) after taxation	1,036	65	(3,278)	(2,177)	2,647	470

5. Categories of financial assets and financial liabilities

	Loans and receivables		
	30 Sept 2008	30 Sept 2007	31 March 2008
Current financial assets	**£'000**	£'000	£'000
Trade receivables	**2,083**	2,404	968
Other receivables	**53**	152	53
Loans and receivables	**2,103**	2,135	1,752
Short-term investments	**3,530**	1,530	1,530
Cash and cash equivalents	**1,533**	4,206	5,307
Total current financial assets	**9,302**	10,427	9,610
Non-current financial assets			
Loans and receivables	**1,865**	2,879	3,293
Total non-current financial assets	**1,865**	2,879	3,293
Total financial assets	**11,167**	13,306	13,903
Financial liabilities			
Trade payables	**(1,670)**	(5,556)	(3,983)
Other payables	**(35)**	(42)	(84)
Obligations under finance lease	**(4)**	(9)	(7)
Total financial liabilities	**(1,709)**	(5,607)	(4,074)

6. Adjusted profit/(loss) before tax

	30 Sept 2008 £'000	30 Sept 2007 £'000	31 March 2008 £'000
Profit/(loss) before tax from continuing operations	121	(1,304)	(2,177)
Add back:			
Amortisation	44	118	152
Impairment charges	-	-	288
Restructuring costs	16	-	108
Adjusted profit/(loss) before tax	181	(1,186)	(1,629)