10 June 2014

Eckoh plc
("Eckoh" or "the Company")

Full year results for the year ended 31 March 2014

Eckoh plc (AIM: ECK), a global provider of secure payment products and customer service solutions, is pleased to announce its final results for the year ended 31 March 2014.

Financial Highlights:

- Revenue up 28% to £14.0m (FY13: £11.0m)
- Gross profit up 23% to £10.2m (FY13: £8.3m)
- Adjusted* Operating profit increased by 48% to £2.2m (FY13: £1.5m)
- EBITDA** increased by 32% to £3.2m (FY13: £2.4m)
- Cash generated from operating activities increased by 91% to £4.8m (FY13: £2.5m)
- Cash and short term investment balance remains strong at £7.3m (FY13: £8.5m) following £3.6m cash outflow from acquisition of Veritape Limited ('Veritape') in June 2013
- The Board recommends a 25% increase in full year dividend to 0.3125 pence per share for the year ended 31 March 2014 (FY13: 0.25 pence per share)

Operational Highlights:

- Strong trading performance from both core Eckoh business and Veritape
    - Combined hosted and on-site payments proposition driving significant sales opportunities in the UK and internationally
- Capita partnership gaining market traction
    - New client mandates include Yodel and Telefonica UK (O2)
- New payment contracts secured in the period include 5 multi-year contracts with large blue-chip companies, combined new contracts worth a minimum of £17m in value.
- 100% renewal of 12 clients with contracts expiring in the period, including Affinity Water, Barclays, Utilita, BAA and two government agencies
- U.S opportunity to provide secure payment solutions continues to gather significant momentum
    - Subsidiary trading entity Eckoh Inc. is now in operation and US website now live - http://www.eckoh.us/

Current Trading:

- 5-year Exclusive Distributor Agreement with large US partner
- Patent awarded for Eckoh CallGuard product

*Adjusted Operating Profit is Operating Profit excluding expenses relating to share option schemes and acquisitions
**EBITDA is the profit before tax adjusted for depreciation, amortisation, finance income, finance expense and expenses relating to share option schemes and acquisitions

Nik Philpot, Chief Executive Officer, commented today:

"We are delighted to be announcing another strong set of full year results. Our business pipeline continues to expand and the opportunities that now exist from our established channel partner network are significant.

"The launch of our US subsidiary is another important milestone for the Group as we look to capitalise on our strong presence in the secure payment market in the UK. The opportunities that exist in North America for our services are vast and through our new partnership we would hope to rapidly gain market traction given the lack of credible alternatives to our existing product portfolio.

We have started the new financial year well and expect to replicate the strong performance from previous years. Our ongoing investment in both people and products will enable the Group to continue to capitalise on a number of significant market opportunities."

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Notes to Editors:

About Eckoh plc

About Eckoh plc
Eckoh plc (AIM: ECK) is a global provider of secure payment products and customer service solutions, working with organisations in over 10 countries around the world.

Eckoh has a range of secure payment products that are designed to help merchants become compliant with the Payment Card Industry Data Security Standards ('PCI DSS') and to reduce the risk of fraud by eliminating card data from contact centres and IT environments. Eckoh's CallGuard product can be deployed on the customer's site or hosted in the Cloud. It allows Contact Centres to take card payments from customers without their agents seeing, hearing or accessing card data in any way. Eckoh have been a PCI DSS Level One accredited Service Provider since 2010 and currently process over $1 billion in card payments annually.

Eckoh's customer service solutions enable payments, transactions and enquiries to be processed without the caller needing to talk to a contact centre agent. This significantly reduces our clients' costs, whilst freeing up their agents to deal with more complex enquiries. These solutions are delivered over the phone, web and mobile devices. Eckoh is the largest provider of such hosted services in the UK.

For more information, visit: www.eckoh.com or www.eckoh.us

Introduction

We are pleased to report another strong 12 months of trading for the Group buoyed by the positive impact of Veritape and the excellent progress in our core Eckoh business. As highlighted in our Interim statement in November 2013, we identified three critical catalysts for growth, which were:

- The integration of Veritape (acquired in June 2013)
- Our secure payment products portfolio
- Ongoing development of new indirect sales channels

We are delighted to be able to report not only on the successful and ongoing execution of these initiatives but also the implementation of new strategic plans that we anticipate will underpin further growth in shareholder value, beyond that which has already been delivered over the past year.

The main new strategy for this year is our establishment and acceleration of growth in the largest payments market in the world, the US. We believe that the opportunity for deploying our payment products has strengthened further as a result of recent adverse publicity in the market relating to data breaches. This has now fuelled a re-evaluation of card and data security processes that has coincided with us establishing a market presence, which leads us to believe that significant sales growth can be delivered over time.

Therefore, our near term growth strategy has evolved to the following:

- Establish and expand our US footprint to capitalise on secure payment opportunities
- Leverage channel partners in both UK and US markets
- Maximise international opportunity for the combined Eckoh and Veritape product line
    - Bring the new payment product OneProx to market
- Continue to invest in R&D to underpin next generation product development and maintain market leading position
- Continue to evaluate acquisition opportunities

Operational Review

Our strong growth achieved during 2013/4 is underpinned by new contract wins primarily for payment services in addition to two significant deals secured through our new partnership with Capita Customer Management ("Capita") for customer service solutions. The first of these Capita contracts was a five-year agreement to provide automated tracking and re-delivery services to Yodel, the UK's largest parcel delivery company who were an existing client of Capita.

The second in particular demonstrates our close partnership with Capita in which we supported them in their successful bid to secure a ten-year contract with Telefonica UK (O2) worth £1.2 billion. Eckoh's contract is worth a small proportion of the overall value, at a minimum of £11m over ten years, but it represents our most valuable contract to date and highlights the significant impact Capita, and other channel partners can have on our business.

We continue to work alongside Capita, on a number of other new business opportunities for both existing and prospective clients, providing them with a specialist technology capability. Our commitment to the partnership is such that we now have four full time employees dedicated to securing and managing new contracts. Whilst we expect the number of contracts won through the Capita channel to be relatively low in volume, we are confident that each contract would immediately be amongst our largest in terms of monetary value with significant impact to the Group.

The PCI DSS requirements for organisations who take card payments when the cardholder is not present, such as those transactions made over the phone, web or on a mobile device, are extensive and involve significant risks. Eckoh's secure payment products help resolve this problem and we continue to make excellent sales progress, securing a number of lucrative contracts with blue chip organisations. These include a 5-year contract with a global financial services company who provide pre-paid credit cards, through which we have already deployed services in 14 different languages. Then more recently in April we announced three payments contracts with companies in the FTSE 250 including two retailers and a logistics organisation. In total the new contracts won during the period deliver aggregated value of over £17m.

Our high levels of recurring revenue (82%) are derived not only from our pricing model but also on our proven ability to retain clients and maintain pricing through multiple contact renewals. Many of our clients have been with us for a decade yet we continue to broaden and enhance their service where possible. In the year we renewed 100% of the 12 contracts that came up for renewal, which equated to over 20% of our pre-Veritape client base and included a number of our most significant clients. Our acquisition of Veritape has in part changed our traditional sales model. Veritape's model has been to charge a large upfront fee with a 15% support and maintenance agreement thereafter. This has slightly eroded our overall recurring revenues (by 6%), however, we have now established a rental option for Veritape product lines which should see the recurring base increase again over time.

During the year, we have made significant investment in the business focusing our efforts on Research and Development ('R&D') to ensure that Eckoh's solutions satisfy an evolving market requirement. To that end we have recruited three employees solely focused on accelerating our R&D efforts. This is further supported by the continuing expansion of our mobile team that has enabled the Group to make further progress in assisting and advising clients in providing mobile services to their customers. Going forward, we would expect these teams to collaborate on projects that more directly relate to payment-based activity, a significant growth opportunity for the Group.

The Market Opportunity

Eckoh's diverse products are now used across multiple sectors and service large and fast growing end markets. Over the past decade Eckoh's business model has evolved considerably ensuring that high levels of recurring revenue are matched by long-term and durable customer relationships.

We originated as a provider of automated speech recognition solutions that enable consumers to easily self-serve over the telephone, rather than having to speak to a contact centre agent. To this day Eckoh is still considered to be the market leader in designing, deploying and hosting complex speech applications in the UK. Over time Eckoh has developed a portfolio of multi-channel products that allow clients to deploy an Eckoh automated service over the phone, web or mobile channel. Currently more than half of Eckoh's clients take services that encompass at least two channels of delivery, the combination of phone and mobile being the most common.

Since 2010, when Eckoh first achieved the Payment Card Industry Data Security Standards ('PCI DSS') Level 1 Service Provider status, the importance of PCI DSS as a global standard has grown and with it the pressure on companies to comply. In the same period, Eckoh has developed and launched a number of payment products designed to help these companies to outsource to us the huge challenge of PCI compliance. The importance we place on this payment proposition as a driver for Eckoh's future growth prospects was demonstrated when we acquired Veritape, another specialist in the provision of secure payment products, in June 2013. This acquisition has enabled us to offer to deploy PCI compliant services for our clients in either our hosted environment or on the client's premises.

This combination of secure payment products with our broad portfolio of customer service solutions is extremely complementary. However, looking forward we expect the two to converge into an even more unified proposition. Whilst Eckoh can and does host customer service applications from across the globe on our UK platform, the payment products provide us with arguably the more straightforward opportunity to internationalise the business. A payment service has far fewer cultural and language differences and the variation between client deployments is relatively limited. As a result, our R&D efforts will focus not only on continuing to develop and enhance the payment services but also the customer service applications that are more aligned to operating alongside payments. We are also working on delivering these services through a technical framework, designed specifically for an omni-channel world where consumers can interact seamlessly between communication channels. These applications include the identification and verification of the customer, financial orientated information enquiries, the ability to easily review and authorise payment transactions, and the personalisation and segmentation of purchasing behaviour to maximise customer value.

US Market Expansion

Following the full integration of Veritape, which was acquired in June 2013, Eckoh began to focus on the US market. Management believed there was a significant sales opportunity in the US where Veritape had already secured its largest client. Connextions, a large business outsource provider, now owned by healthcare provider Optum, had installed the CallGuard On-Site product into multiple contact centres across America. As PCI DSS is a global standard, US organisations taking card payments over the phone also need a solution that enables them to become PCI compliant and prevent their contact centre agents from getting access to card information. At present, there are no US-based companies who provide these solutions. It was also clear that US organisations prefer to contract with other US companies, we therefore made the decision to establish a US company and Eckoh, Inc. was incorporated in November 2013.

In February 2014 the same month we hired our first US employee, Target Corporation, the second largest discount retailer in the US after Wal-Mart, disclosed that it had suffered a data breach that had resulted in the details of over 40 million credit and debit cards being compromised. This was arguably the most significant breach in US history. They have since disclosed that they have incurred expenses of over $60m directly arising from the breach and that profit from the fourth quarter fell by almost 50% compared to the previous year. This has also resulted in the resignation of the CEO and CIO. It is estimated that the overall impact on Target and related third party organisations could ultimately reach one billion dollars.

As the market for customer service solutions is advanced and competitive in the US, Eckoh has decided to focus on our secure payment portfolio. Our marketing strategy is focused on fraud as well as PCI DSS drivers and we have consolidated all payment solutions under the CallGuard brand, where we have CallGuard On-site and CallGuard Hosted as the primary solutions. We also expect to launch later in the year an additional hosted solution, currently called OneProx, which is a framework for protecting card information inside a merchant's IT environment. With OneProx, sensitive card data is either tokenised or encrypted prior to entering a merchant's IT systems, and stays secure throughout the transaction. Prior to transactions being authorised, Eckoh reverses the tokenising or encryption, and submits the customer's card details to the payment service provider as normal. OneProx is a particularly lightweight implementation, in many cases involving no change for the merchant. It is equally applicable to payments made through contact centres, on websites, through mobile devices, and in stores. We view this product, which has patents pending, as a tremendous addition to our offering and one that will broaden our addressable market.

Our current investment into the US market at this point is relatively modest with only a small number of employees who are largely supported by the UK operation. But we announced yesterday a significant and exclusive five year distribution contract with a US partner, one of the leading providers of business process outsourcing and communication services in the US. This agreement, which commences in July and is expected to be fully operational from October, has minimum revenue payments to Eckoh over the term of totalling $24m, which become payable based on achieving certain annual sales criteria. The partnership gives us access to a significant number of the very largest organisations in the US, many of whom are handling millions of card transactions. It will also provide us with extensive hosted platform capability in the US for delivering the CallGuard Hosted and OneProx products to the market. The need to invest more meaningfully in our US operation will be driven by both the scale of the direct sales pipeline and the speed with which the partnership delivers customers.

We have launched our US website (www.eckoh.us) and have seen US sales enquiries increase substantially since the Target breach became public. Several of these enquiries have already moved to Proof of Concept stage and we would expect to see a proportion of these then moving to contract.

The US Contact Centre market is around 10 times the size of the UK, based purely on the number of agents employed. There are around 5.7m contact centre agents and research suggests that around 70% of these are taking card payments over the phone. With the opportunity for Eckoh's products being in its infancy we are confident that we will see significant growth coming from the US over the coming years. Once we can demonstrate that we can successfully scale the business through this approach it opens up the opportunity of taking the model to other territories where contact centre services and card not present transactions are significant.

Current Trading and Outlook

Looking further into the future, it is clear that smartphone and tablet devices will ultimately replace the desktop or home PC as the tool of choice from which consumers will interact with the organisations with whom they transact. This has led to the huge and on-going investment by global companies such as Apple, Google, Microsoft and Amazon into developing interfaces that allow consumers to interact through both text and voice. As an organisation that specialises in designing applications that use text and voice entry we believe we are extremely well placed to benefit from this global investment that will help drive consumer behaviour over the next five years.

Many of the contracts secured in the second half of the year contributed little or no revenue to the strong results seen in the second half of the 2013/4 financial year. These services will all be fully implemented in the first half of 2014/5 and will lead to further revenue and margin growth in the year ahead.

We are very pleased to announce that we have been successful in having our patent awarded for the technology built into the CallGuard On-Site product. This validation of our innovation and ground-breaking payment products will only strengthen our ability to take market share in this global market for PCI compliant solutions.

We enter the new financial year with every expectation that we will be able to execute on the high volume of pipeline opportunities that currently exist. In addition to the usual fluid pipeline of activity, we are confident about the potential for further large contracts coming through Capita and the opening of the US market, which whilst in its infancy, is a significant market opportunity for the Group.

Financial Review

Revenue & Margin

2013/4 saw a period of strong growth in revenue arising from both organic growth in the existing Eckoh business and the addition of Veritape revenue. Revenue excluding Veritape grew by 16% from £11.0m to £12.7m. Veritape contributed revenue of £1.3m in the 9 months they were included within the Group.

Included within Administrative Expenses was £1.2m of expenses relating to the acquisition including the amortisation of £1.0m of acquired intangible assets. We also saw £1.3m (2013: £0.4m) of expenses arising from the accounting of share option schemes. Much of this expense arose from the 148% increase seen in the share price during the year from 15.75p to 39.12p. Combined these additional expenses drove a non-adjusted operating loss of £0.2m (2013: operating profit of £1.1m).

Excluding those costs relating to the acquisition and share options, Operating Profits grew by 48% to £2.2m from £1.5m.

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Turnover	**14,035**	10,985	10,392	9,003
Gross profit	**10,215**	8,294	7,895	6,663
Administrative Expenses	**10,425**	7,180	6,788	6,036
Expenses relating to share options schemes	**(1,247)**	(375)	(150)	(75)
Amortisation and expenses relating to acquisitions	**(1,165)**	-	-	-
Adjusted* Administrative Expenses	**8,013**	6,805	6,638	5,961
Operating profit / (loss)	**(210)**	1,114	1,107	627
Adjusted* Operating profit / (loss)	**2,202**	1,489	1,257	702

*excludes expenses relating to share options schemes and acquisitions

Despite the inclusion of Administrative Expenses of Veritape and investment in headcount to support Capita and Research & Development activity, Adjusted Administrative Expenses only increased by 18% to £8.0m demonstrating the operational gearing inherent in the business. This is further illustrated in the tables above and below where the trend for accelerating profit is evident. This increase in profitability is further reflected in the cash generation seen from the business. Adjusted EBITDA grew by 25% to £3.2m in the year.

	2014 £'000	2013 £'000
Profit before tax	**(1,367)**	1,188
Amortisation of intangible assets	**1,306**	276
Depreciation	**678**	656
Acquisition Costs	**175**	
Expenses relating to share options schemes	**1,247**	375
Finance expense	**1,214**	-
Net interest receivable	**(57)**	(74)
Adjusted EBITDA	**3,196**	2,421

This cash generation further strengthened the debt free balance sheet with cash ending the year at £7.3m (31/3/13: £8.5m) despite a cash outflow of £3.6m from the Veritape acquisition and a £0.5m dividend payment. The Board remains extremely confident about the prospects of the business and is proposing an increase in the dividend to be paid in September of 25% to 0.3125p per share.

Consolidated statement of comprehensive income
for the year ended 31 March 2014

	Notes	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Continuing operations					
Revenue			**14,035**		10,985
Cost of sales			**(3,820)**		(2,691)
Gross profit			**10,215**		8,294
Administrative expenses before expenses relating to share options schemes, acquisition costs and amortisation of acquired intangible assets		**(8,013)**		(6,805)	
Profit from operating activities before expenses relating to share option schemes, acquisition costs and amortisation of acquired intangible assets		**2,202**		1,489	
Amortisation of acquired intangible assets		**(990)**		-	
Acquisition costs		**(175)**		-	
Expenses relating to share option schemes		**(1,247)**		(375)	
Total Administrative expenses			**(10,425)**		(7,180)
(Loss) / profit from operating activities			**(210)**		1,114
Finance expense	4		**(1,214)**		-
Finance income			**57**		74
(Loss) / profit before taxation			**(1,367)**		1,188
Taxation			**1,665**		720
Total comprehensive income for the year attributable to the equity holders of the parent company			**298**		1,908
Profit / (loss) per share (pence)					
Basic earnings per 0.25p share	3		**0.14**		0.93
Diluted earnings per 0.25p share			**0.12**		0.89

Consolidated statement of financial position

as at 31 March 2014

	2014	2013
	£'000	£'000
Assets		
Non-current assets		
Intangible assets	**9,636**	311
Property, plant and equipment	**862**	1,184
Deferred Tax Asset	**4,267**	2,040
	14,765	3,535
Current assets		
Inventories	**104**	-
Trade and other receivables	**3,576**	3,331
Short-term investments	**-**	3,000
Cash and cash equivalents	**7,341**	5,497
	11,021	11,828
Total assets	**25,786**	15,363
Liabilities		
Current liabilities		
Trade and other payables	**(5,444)**	(2,204)
Contingent Consideration	**(1,952)**	-
	(7,396)	(2,204)
Non-current liabilities		
Contingent consideration	**(2,941)**	-
Deferred tax liability	**(1,123)**	-
Provisions	**(43)**	(43)
	(4,107)	(43)
Net assets	**14,283**	13,116
Shareholders' equity		
Share capital	**540**	522
ESOP Reserve	**(22)**	(128)
Capital redemption reserve	**198**	198
Share premium	**2,411**	1,331
Currency reserve	**(41)**	(41)
Retained earnings	**11,197**	11,234
Total shareholders' equity	**14,283**	13,116

Consolidated statement of changes in equity

as at 31 March 2014

	Share Capital £'000	ESOP Reserve £'000	Capital redemption reserve £'000	Share premium £'000	Retained earnings £'000	Currency reserve £'000	Total shareholders equity £'000
Balance at 1 April 2012	499	-	198	695	9,511	(41)	10,862
Total comprehensive income for period	-	-	-	-	1,908	-	1,908
Dividends paid in the year	-	-	-	-	(407)	-	(407)
Shares issued under the share option schemes	23	-	-	636	-	-	659
Shares transacted through Employee Benefit Trust	-	(128)	-	-	(38)	-	(166)
Share based payment charge	-	-	-	-	260	-	260
Balance at 31 March 2013	522	(128)	198	1,331	11,234	(41)	13,116
Balance at 1 April 2013	522	(128)	198	1,331	11,234	(41)	13,116
Total comprehensive income for period	-	-	-	-	298	-	298
Dividends paid in the year	-	-	-	-	(540)	-	(540)
Shares issued under the share option schemes	18	-	-	1,080	-	-	1,098
Shares transacted through Employee Benefit Trust	-	106	-	-	(1,036)	-	(930)
Share based payment charge	-	-	-	-	599	-	599
Deferred tax on share options	-	-	-	-	642	-	642
Balance at 31 March 2014	540	(22)	198	2,411	11,197	(41)	14,283

Consolidated statement of cash flows
for the year ended 31 March 2014

	Notes	2014 £'000	2013 £'000
Cash flows from operating activities			
Cash generated in operations	2	**4,816**	2,520
Taxation		**-**	-
Net cash generated in operating activities		**4,816**	2,520
Cash flows from investing activities			
Acquisition of subsidiary		**(3,599)**	
Purchase of property, plant and equipment		**(355)**	(352)
Purchases of intangible fixed assets		**(603)**	(201)
Decrease / (Increase) decrease in short-term investments		**3,000**	(2,000)
Interest received		**55**	74
Net cash utilised in investing activities		**(1,502)**	(2,479)
Cash flows from financing activities			
Dividends paid		**(540)**	(407)
Issue of shares		**-**	659
Shares acquired by Employee Benefit Trust		**(930)**	(166)
Net cash generated in / (utilised) in financing investing activities		**(1,470)**	86
Increase in cash and cash equivalents		**1,844**	127
Cash and cash equivalents at the start of the period		**5,497**	5,370
Cash and cash equivalents at the end of the period		**7,341**	5,497

1. Basis of preparation
The preliminary results of Eckoh plc have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards ("IFRS") in issue as adopted by the European Union and effective at 31 March 2014. These statements do not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006, but have been derived from those accounts. Statutory accounts for the year ended 31 March 2013 have been delivered to the Registrar of Companies but those for the year ended 31 March 2014 have not yet been delivered. The auditors have reported on the accounts for the year ended 31 March 2014; their report was not qualified, did not include references to any matters to which the auditors drew attention to by way of emphasis without qualifying their report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

2. Cash flow from operating activities

	2014	2013
	£'000	£'000
Cash flows from operating activities		
Profit after taxation	**298**	1,908
Interest income	**(57)**	(74)
Finance expense	**1,214**	-
Taxation	**117**	-
Increase in deferred tax asset	**(1,782)**	(720)
Depreciation of property, plant and equipment	**678**	656
Amortisation of intangible assets	**1,306**	276
Share based payments	**599**	260
Operating profit before changes in working capital and provisions	**2,373**	2,306
Decrease / (increase) in inventories	**(75)**	19
Decrease / (increase) in trade and other receivables	**(139)**	252
(Decrease) in trade and other payables	**2,657**	(57)
Net cash generated in operating activities	**4,816**	2,520

3. Earnings per share
Basic earnings per ordinary share is calculated on the basis of the weighted average number of ordinary shares of 214,704,448 (2013: 205,568,912) in issue during the year ended 31 March 2014 after adjusting for shares held by the Employee Share Ownership Plan of 9,156 (2013: 9,156) and shares held in the Employee Benefit Trust of 55,343 (2013: 810,000) and the profit for the period attributable to equity holders of the parent of £298,000 (2013: £1,908,000).

In calculating diluted earnings per share, the weighted average number of ordinary shares in issue, after adjusting for shares held by the Employee Share Ownership Plan and Employee Benefit Trust, is further adjusted to include the dilutive effect of potential ordinary shares. The potential ordinary shares represent share options granted to employees where the exercise price is less than the average market price of ordinary shares in the period, and contingently issuable ordinary shares as a result of the Veritape Limited acquisition (see note 4). The total number of options in issue is disclosed in note 23. The dilutive effect of potential ordinary shares outstanding at the end of the year is 39,468,000 (2013: 10,393,000).

	2014	2013
Denominator	**'000**	'000
Weighted average number of shares in issue in the period	**214,704**	205,569
Shares held by employee ownership plan	**(9)**	(9)
Shares held in Employee Benefit Trust	**(55)**	(810)
Number of shares used in calculating basic earnings per share	**214,640**	204,750
Dilutive effect of share options	**39,468**	10,393
Number of shares used in calculating diluted earnings per share	**254,108**	215,143

4. Acquisition of Veritape Limited

On 10 June 2013, the Company acquired the entire issued share capital of Veritape Limited ("Veritape"), a provider of Payment Card Industry Data Security Standards ("PCI DSS") compliant call recording software and on premise secure payment solutions. The initial consideration comprised £5.1m of cash funded by existing cash from the combined entity and £1.1m payable in ordinary shares of Eckoh plc. This has resulted in an increase in share capital and share premium of £1.1m during the period. Additional contingent consideration of up to £1.7m of cash and up to 16.7m ordinary shares of Eckoh plc can be earned dependent on the achievement of profit before tax targets. To earn the entire contingent consideration, profit before tax of £3.6m must be achieved over the first 26 month period following 1 July 2013.

The fair value calculations of contingent consideration are based on forecast profits of Veritape over the 26-month assessment period and, at the date of acquisition, it was estimated having performed a weighted probability exercise that £1.5m of cash and 14.3m shares will be issued in contingent consideration. Using the share price at the date of acquisition of 15.4825p, the fair value of the equity element of the contingent consideration was valued at £2.2m.

As at 31 March 2014, the weighted probability exercise was reviewed and estimated that £1.0m of cash and 9.9m shares would be issued in contingent consideration. However, the share price of Eckoh plc was 39.125p and the fair value of the equity element of the contingent consideration as at that date was therefore considered to be £3.9m. The increase in fair value of the shares from the date of acquisition to 31 March 2014 offset by a reduction in the estimated cash contingent consideration has resulted in a finance expense of £1.2m being charged to the income statement in the period.

The Company incurred acquisition-related costs of £0.2m relating to external legal fees, due diligence and valuation fees, which have been included in Administrative expenses in the Group's consolidated statement of comprehensive income.

Analysis of assets and liabilities acquired:

£000's	Book value	Fair value adjustments	Fair value on acquisition
Intangible assets	-	6,610	6,610
Trade and other receivables	128	(23)	105
Deferred tax asset	1	-	1
Inventories	29	-	29
Cash and cash equivalents	1,480	-	1,480
Trade and other payables	(342)	(123)	(465)
Deferred tax liability	-	(1,321)	(1,321)
Net assets acquired	**1,296**	**5,143**	**6,439**
Goodwill			3,418
Consideration paid			**9,857**
Satisfied by			
Cash			5,079
Shares			1,098
Cash – contingent consideration			1,472
Shares – contingent consideration			2,208
Total purchase consideration			**9,857**
Net cash flow on acquisition			
Cash consideration paid			5,079
Cash acquired			(1,480)
Cash flow on acquisition			**3,599**

Goodwill arising from the acquisition is attributable to the expected synergistic benefits expected from combining the operations of Veritape and Eckoh, including the comprehensive suite of products available to enable organisation to comply with PCI DSS, as well as the workforce acquired.

On acquisition of Veritape, all assets were fair valued and appropriate intangible assets recognised following the principles of IFRS3. Management identified three material intangible assets:

I. **CallGuard**: CallGuard is the core proposition of Veritape allowing Contact Centres to remove credit cardholder data from their call recording systems and avoiding Contact Centre agents from being able to gain access to this data. Revenue growth has been rapid with management believing the growth will continue and that the product will have a minimum useful economic life of at least five years. The value of this intangible asset at acquisition is £6.41m using the income approach.

II. **Call Recording Software**: Although no growth is forecast in revenue from the Call Recording Software, management believe that current levels of revenue will be maintained as a requirement for Contact Centres to record calls will remain for the foreseeable future. Management believe that the Call Recording Software has a minimum useful economic life of at least five years. The value of this intangible asset at acquisition is £0.17m using the income approach.

III. **OneProx**: OneProx is a new product which enables organisations to prevent credit cardholder data from entering their IT infrastructure. A patent has been filed for the product but no revenue had been generated from the product at the date of acquisition. The value of this intangible asset at acquisition is £0.03m using the income approach.

The acquired business contributed revenues of £1.3m and net profit of £0.7m to the Group for the period 10 June 2013 to 31 March 2014. If the acquisition of Veritape had occurred on 1 April 2013, management estimates that consolidated revenues would have been £1.5m, and consolidated profit for the year would have been £0.7m. In determining these amounts, management has assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on 1 April 2013.