Preliminary Results

For the year ended 31 March 2010

21 June 2010

Eckoh plc
Registered in England No. 3435822
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Eckoh plc
(“Eckoh” or “the Group”)

Preliminary Results

Eckoh plc, the UK’s leading developer of speech recognition solutions for customer contact centres, announces its results for the year ended 31 March 2010.

	Year ended 31 March 2010 £’000	Year ended 31 March 2009 £’000
Turnover	**7,923**	6,674
Gross profit	**5,697**	4,279
Operating loss	**(534)**	(1,755)
Loss for the period	**(118)**	(878)
Adjusted* EBITDA	**849**	(295)
Adjusted* profit/(loss) before taxation	**657**	(387)

[All figures reported are for continuing operations of the Speech Solutions division following the merger of the Client IVR division (shown as discontinued operations) with Telecom Express Ltd.]

Financial Highlights:

- 19% growth in revenue from continuing operations from £6.7m to £7.9m
- Increase in continuing gross margin to 72% (FY09: 64%) resulting in a 33% growth in continuing gross profit to £5.7m (FY09: £4.3m)
- FY10 adjusted* profit before taxation of £0.7m (FY09: loss of £0.4m)
- Adjusted* EBITDA amounted to a profit of £0.8m (FY09: loss of £0.3m)
- Operating loss from continuing operations reduced to £0.5m (FY09: loss of £1.8m)
- Strong debt free financial position with a cash and short term investment balance of £3.9m (FY09: £5.2m)

Operational Highlights and Recent Contract Wins:

- Restructuring of Board composition during the year resulting in basic Board cost reducing by 28%
- 3 year contract renewal with William Hill for the provision of customer service options
- New contracts for the provision of automated card payments services to Northumbrian Water and Dŵr Cymru Welsh Water
- 3 year contract renewals with two existing water utility clients for the provision of card payment solutions

- Major investment in technology refresh strengthening market leading position

- Good progress towards becoming PCI ("Payment Card Industry") Compliant

- Closure of office in Montpellier to produce cost saving and operational efficiencies. The closure will be completed on 30 June 2010, but all estimated costs in relation to the closure have been provided for in 2009/10

Post period developments:

- Merger of Client Interactive Voice Response ("IVR") division with Telecom Express Limited, with Eckoh taking a 27.5% share of the combined business

- 3 year contract with a government executive agency to provide service for logging the movement of livestock

*on continuing operations excluding non-recurring administrative expenses, amortisation of intangible assets and share option charges

Nik Philpot, Chief Executive Officer, commented today:

"*Despite the backdrop of continuing economic uncertainty, Eckoh has been able to build on the good progress we made last year and deliver an excellent set of results. It is clear from the strong growth achieved that there is a tremendous opportunity to drive significant profits and value for shareholders in the speech sector going forward. The agreement to merge the Client IVR business is the final step in making Eckoh a pure Speech Solutions company, and we can now focus all our energies on continuing this growth and maximising our market leading position.*"

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Introduction

The Directors are pleased to report a year of significant financial improvement on the continuing operations and the completion of the final steps required to position Eckoh as a pure Speech Solutions business. During the year, strategic decisions were taken to sell the Client Interactive Voice Response ("IVR") division, close the technical office in France and reorganise the Board. This has left a rapidly growing Speech Solutions business with an appropriate cost base and an opportunity for significant shareholder value to be generated.

Financial Review

Revenue and Margin

The 2010 financial year built on the momentum of the prior year, with revenue from continuing operations increasing by 19% to £7.9m (FY09: £6.7m). The margin achieved on these revenues has grown to 72% (FY09: 64%), with gross profit increasing by 33% from £4.3m to £5.7m.

No single client represents more than 16% of the margin generated. Consequently, there is no great dependency on any individual client for the financial sustainability of the business.

The cost base of the Group is largely represented by the employees, who are predominantly in the areas of service development, delivery and support. This headcount is deployed on a mix of delivering new client business, maintaining and improving existing clients' services, developing Eckoh products and special projects such as the PCI accreditation process. When new business is won, this does not typically require an increase in headcount and associated overhead costs unless it is likely to consume very specialist resources for extended periods. As a result, growth in revenue usually contributes directly to the profitability of the business.

Administrative Expenses

	2010 £000's	2009 £000's
Administrative expenses before non-recurring items	**5,578**	5,223
French office closure costs	**286**	-
Employee restructuring	**306**	16
EGM costs	**61**	-
Legal settlement	**-**	627
Aborted transaction costs	**-**	168
Total administrative expenses	**6,231**	6,034

As detailed in the table above, administrative expenses arising from the 33% increase in margin increased by only 3% from £6.0m to £6.2m. Adjusting the administrative expenses for nonrecurring items of expenditure, administrative expenses still grew by only 7% from £5.2m to £5.6m.

Aside from the EGM costs, the non-recurring items of expenditure arising in 2009/10 will produce significant operational and financial benefits in future financial years. The employee restructuring expense largely consists of the severance costs arising from a restructuring of the Board, which has reduced the basic cost of the Board by 28%.

Eckoh has had a technical support office in Montpellier, France, for over 10 years and has benefitted from the expertise of some excellent employees. Over this period, the number of French staff has gradually declined whilst the adverse exchange fluctuation of the Pound against the Euro has significantly increased the cost of the operation, leading to the difficult decision being made to close the office. Whilst the severance costs of French employees are high, it was felt that the long term financial benefit of closing the office, along with the operational efficiency arising from having all Eckoh employees in one location, was worthwhile. The Group is committed to this closure, which will be completed by 30 June 2010. The estimated costs in relation to this closure have been provided for at the year end.

Profitability measures

Adjusted profit	2010 £'000	2009 £'000
Loss before tax from continuing operations	**(197)**	(1,373)
Amortisation of intangible assets	157	121
Share option charges	44	54
Non recurring items of expenditure	653	811
Adjusted profit / (loss) before taxation	**657**	**(387)**
Net interest receivable	(99)	(382)
Depreciation	529	474
Arrangement fees on loans	(238)	-
Adjusted EBITDA	**849**	**(295)**

The table above illustrates the progress in the profitability made by the Group with an adjusted loss of £0.4m for FY09 converted into a profit of £0.7m for this year. Adjusted EBITDA has improved from a loss on continuing operations of £0.3m to a profit of £0.8m. Excluding the adjustments, the loss before tax from continuing operations reduced from £1.4m to £0.2m. The Speech Solutions business has reached a level of maturity where it can be self-sustaining, and is well-positioned to take advantage of the market opportunity and further improve profitability in the coming years.

Statement of financial position

During the year, there has been a significant investment in the infrastructure supporting the Speech Solutions business, from which it will benefit for several years. This has resulted in £1.0m of equipment acquisitions. This led to a reduction in cash balances from £5.2m to £3.9m in the year. No further capital expenditure of this magnitude is planned in the medium term. In addition to the £3.9m cash balance, a loan of £2.9m is due to be repaid by Redstone plc in two instalments in October 2011 and October 2012, which will further increase the strength of the Group's balance sheet. The renegotiation of the terms of this loan resulted in arrangement fee income of £0.2m to be recognised in the year with a further £0.3m being spread over the remaining term of the loan. No significant impact on the statement of financial position is anticipated to arise from the discontinued Client IVR division.

Operational Review

Speech Solutions

Eckoh is a leading developer of speech recognition solutions for customer contact centres and is the largest provider of such hosted services in the UK.

Eckoh's sophisticated technology enables routine enquiries, transactions or payments to be processed without the need for the consumer to speak with a contact centre agent. This significantly reduces the client's operational costs, whilst freeing up the agents to deal with more complex and high-value enquiries.

For large organisations seeking to maximise the efficiency of their contact centre operations, Eckoh is the specialist of choice and the services it provides are used by a wide range of mass market establishments to serve millions of their customers each year.

The length of contracts with clients are generally for periods of at least 3 years, and typically with guaranteed minimum levels of revenue either from fixed recurring fees or from specified volumes of call traffic or transactions, which gives excellent visibility on future revenues.

Eckoh's technical infrastructure has the scalability to handle up to 8,000 inbound phone calls simultaneously, which means calls can always be answered on a 24 hour-a-day basis no matter how unpredictable the circumstances and at a fraction of the cost of a live agent. During the year Eckoh made a major investment in a new VoiceXML call handling platform from Holly Connects and the established industry leader in speech recognition software, Nuance Recognizer 9.

The first complex speech-enabled application to be launched on this new platform was a journey planning service for Transport for London, which went live in December 2009 (0843 222 1234). The worst winter weather for many years saw call levels to the new service increase dramatically in January from their normal levels, whilst comparable fluctuations occurred on National Rail Enquiries' TrainTracker service. Similarly, during the travel chaos following the eruption of the Eyjafjallajökull volcano in Iceland, the real-time flight information services that Eckoh provides for Heathrow and Gatwick airports experienced massive increases in demand during April. In all cases, the on-demand hosted solutions that Eckoh provide were able to deal effectively with the sudden dramatic call increases, clearly demonstrating the benefits offered by Eckoh's hosted services.

As highlighted at the interim results (announced 9 December 2009), Eckoh is undertaking a two-year process to become compliant with the Payment Card Industry Data Security Standards ("PCI DSS"). £162,000 (FY09: £79,000) of expenses have been capitalised on the PCI DSS project in the 2009/10 financial year. This is a comprehensive set of requirements that all companies holding, processing or transferring customer payment card details are required to adopt. Eckoh is seeking to be accredited at the highest level and recent changes in the regulations extended the timescale of the project, but the process is now nearing completion with the conclusion expected by September 2010. The Group's client base in this area continues to grow, along with the volume of card payments being processed which is now at an annual run rate of £150 million, validating the effort Eckoh has expended in this area. As an example, Eckoh has recently announced contract wins with Northumbrian Water Limited and Dŵr Cymru Welsh Water, together with contract renewals for two other existing utility clients.

Other significant contract renewals with large clients include William Hill, which renewed its agreement for the provision of results, live commentary and call centre services for 3 years.

New Products

EckohPAY, which offers customers the ability to make real-time, secure and compliant phone and web card payments, is the first of the productised offerings that Eckoh has developed - and is designed specifically for the expected demand from PCI. The ability to sell such a product to a client and have the service live within a matter of weeks significantly broadens the market that Eckoh can target. Other products to be launched this year include EckohID, which helps companies identify callers and capture name and address information; EckohLOCATE, which enables calls to be routed efficiently and direct customers to store or dealer locations; and EckohSECURE, which allows companies to authenticate their customers with just their voices. Earlier in the year, Eckoh announced a 2-year contract to provide services to Comic Relief, and EckohPAY was successfully used on their behalf to collect over 38,000 donations totalling over £1.1m during the Sport Relief weekend in March 2010.

Key Post-period Developments

Discontinued Operations
On 28 May 2010, Eckoh announced that the Group's Client IVR division ("the Division") had merged with Telecom Express Limited ("TE") in return for 27.5% of the issued share capital of the enlarged business. The Division had experienced a continuing difficult period with revenues falling by 29% to £8.8m for the year (FY09: £12.4m) and margin declining by 35% to £1.2m (FY09: £1.9m). As a result, the profit contribution fell to £0.05m compared with £0.7m for the previous year. The issues faced by the Client IVR division have been shared by all premium rate service providers as print circulations fall. The need to focus management efforts on the growing Speech Solutions business as well as to remove the compliance risk around the provision of premium rate services resulted in an exercise being undertaken to seek a means to remove the operation from the continuing Eckoh group. An agreement was reached with the owners of TE that a combination of the respective businesses would generate significant operational efficiencies and give the combined operation a prospect of increased future profitability. The results for the Client IVR division are shown within the discontinued operation disclosures on the income statement. The disclosures around the disposal will be presented in the interim results statement for the 6 months ending 30 September 2010.

Contract Win
Eckoh achieved a significant client win after the end of the period with the signing of a 3-year contract with a government executive agency. This is for the provision of a speech recognition solution, due to go live in June 2010, to allow authenticated users to register the identity and movement of livestock. This contract builds on Eckoh's long-standing relationship with the UK government and its departments, including the Ministry of Justice and Transport for London, with the latter entering into a 5-year contract with Eckoh and its partner BT in July 2009.

Outlook

As a result of the strong progress made in growing the Speech division and the final restructuring of the Group, the Board remains highly confident of Eckoh's prospects. The strategic decisions, such as PCI compliance and the investment in new technical infrastructure, are already demonstrating their value and will ensure that the services provided by Eckoh remain ahead of those offered by its competitors. Whilst the sales focus will continue to target the high-value long-term contracts, the new range of Eckoh products, including the highly successful EckohPAY, will enable smaller size contracts to be won and deployed quickly.

The future value of the Group will be derived from the growth attained from the Speech Solutions division, which is now the core focus of the Board following the merger of the Client IVR division with TE.

Consolidated statement of comprehensive income

for the year ended 31 March 2010

	2010 audited £'000	2009 audited £'000
Continuing operations		
Revenue	**7,923**	6,674
Cost of sales	**(2,226)**	(2,395)
Gross profit	**5,697**	4,279
Administrative expenses before non-recurring items	**(5,578)**	(5,223)
French office closure costs	**(286)**	-
Employee restructuring	**(306)**	(16)
EGM costs	**(61)**	-
Legal settlement	**-**	(627)
Aborted transaction costs	**-**	(168)
Total Administrative expenses	**(6,231)**	(6,034)
Loss from operating activities	**(534)**	(1,755)
Finance income	**340**	382
Finance expense	**(3)**	-
Loss before taxation	**(197)**	(1,373)
Taxation	**-**	-
Loss for the year from continuing operations	**(197)**	(1,373)
Discontinued operations		
Post tax profit for the year from discontinued operations	**79**	495
Loss for the year attributable to the equity holders of the parent company	**(118)**	(878)
Other comprehensive income		
Exchange differences on translating foreign operations	**(8)**	(20)
Total comprehensive expense for the year attributable to the equity holders of the parent company	**(126)**	(898)
Loss per share (pence)		
Basic and diluted	**(0.06)**	(0.44)
Loss per share from continuing (pence)		
Basic and diluted	**(0.10)**	(0.36)

Consolidated statement of financial position
as at 31 March 2010

	2010	2009
	£'000	£'000
Assets		
Non-current assets		
Intangible assets	599	376
Property, plant and equipment	1,160	714
Loans and other receivables	2,925	1,700
	4,684	2,790
Current assets		
Inventories	5	4
Trade and other receivables	2,490	4,476
Short-term investments	1,821	2,821
Cash and cash equivalents	2,067	2,421
Assets held for sale	945	-
	7,328	9,722
Total assets	12,012	12,512
Liabilities		
Current liabilities		
Trade and other payables	(1,651)	(3,812)
Obligations under finance leases	(1)	(3)
Liabilities directly associated with assets held for sale	(1,504)	-
	(3,156)	(3,815)
Non-current liabilities		
Provisions	(320)	(79)
	(320)	(79)
Net assets	8,536	8,618
Shareholders' equity		
Share capital	499	499
Capital redemption reserve	198	198
Share premium	695	695
Currency reserve	(55)	(47)
Retained earnings	7,199	7,273
Total shareholders' equity	8,536	8,618

Consolidated statement of changes in equity
as at 31 March 2010

	Share Capital £'000	Capital redemption reserve £'000	Share premium £'000	Retained earnings £'000	Currency reserve £'000	Total shareholders equity £'000
Balance at 1 April 2008	499	198	695	8,097	(27)	9,462
Total comprehensive expense for period	-	-	-	(878)	(20)	(898)
Share based payment charge	-	-	-	54	-	54
Balance at 31 March 2009	499	198	695	7,273	(47)	8,618
Balance at 1 April 2009	499	198	695	7,273	(47)	8,618
Total comprehensive expense for period	-	-	-	(118)	(8)	(126)
Share based payment charge	-	-	-	44	-	44
Balance at 31 March 2010	499	198	695	7,199	(55)	8,536

Consolidated statement of cashflows
for the year ended 31 March 2010

	Note	**2010 £'000**	2009 £'000
Cash flows from operating activities			
Cash utilised in operations	3	**(979)**	(2,836)
Interest paid		**(3)**	-
Taxation		**-**	(45)
Net cash utilised in operating activities		**(982)**	(2,881)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,003)**	(443)
Purchases of intangible fixed assets		**(380)**	(383)
Decrease / (Increase) in short-term investments		**1,000**	(1,291)
Loans repaid by third parties		**-**	500
Interest received		**396**	382
Net proceeds on disposal of business operations		**617**	1,234
Net cash generated in investing activities		**630**	(1)
Cash flows from financing activities			
Continuing operations			
Capital element of finance lease rental payments		**(2)**	(4)
Net cash generated utilised in financing investing activities		**(2)**	(4)
Decrease in cash and cash equivalents		**(354)**	(2,886)
Cash and cash equivalents at the start of the period		**2,421**	5,307
Cash and cash equivalents at the end of the period		**2,067**	2,421

Eckoh plc Consolidated Financial Statements for the year ended 31 March 2010

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 2010. 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 years ended 31 March 2010 and 31 March 2009 have been reported on by the Independent Auditors. The Independent Auditors' Report on the Annual Report and Financial Statements for 2009 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 237(2) or 237(3) of the Companies Act 1985. The Independent Auditors' Report on the Annual Report and Financial Statements for 2010 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006. Statutory accounts for the year ended 31 March 2009 have been delivered to the Registrar of Companies but those for the year ended 31 March 2010 have not yet been delivered.

2. Categories of financial assets and financial liabilities

	Loans and receivables	
	31 March 2010	31 March 2009
Current financial assets	**£'000**	£'000
Trade receivables	**1,217**	1,020
Other receivables	**45**	27
Loans and receivables	**2**	1,620
Short-term investments	**1,821**	2,821
Cash and cash equivalents	**2,067**	2,421
Total current financial assets	**5,152**	7,909
Non-current financial assets		
Loans and receivables	**2,925**	1,700
Total non-current financial assets	**2,925**	1,700
Total financial assets	**8,077**	9,609
Financial liabilities		
Trade payables	**(501)**	(1,980)
Other payables	**(302)**	(27)
Obligations under finance lease	**(1)**	(3)
Total financial liabilities	**(804)**	(2,010)

3. Cash flow from operating activities

	2010 **£'000**	2009 £'000
Cash flows from operating activities		
Loss after taxation	**(118)**	(878)
Loss on disposal of business operations	**30**	129
Interest income	**(398)**	(433)
Interest paid	**3**	-
Taxation recognised in income statement	**-**	45
Depreciation of property, plant and equipment	**529**	474
Amortisation of intangible assets	**157**	121
Share based payments	**44**	54
Exchange differences	**(8)**	(20)
Operating profit / (loss) before changes in working capital and provisions	**239**	(508)
(Increase) / decrease in inventories	**(1)**	9
(Increase) / decrease in trade and other receivables	**(801)**	1,687
Decrease in trade and other payables	**(657)**	(4,086)
Increase in provisions	**241**	62
Net cash utilised in operating activities	**(979)**	(2,836)