Interim Results

For the six months ended 30 September 2009

Eckoh plc
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Eckoh plc

Unaudited interim results for the six months ended 30 September 2009

Eckoh plc ("Eckoh" or "the Group"), the UK's largest provider of hosted speech recognition services, announces its results for the six months to 30 September 2009

	6 months ended 30 Sept 2009 £'000	6 months ended 30 Sept 2008 £'000	Year ended 31 March 2009 £'000
Turnover	**8,598**	9,980	19,109
Gross profit	**3,323**	3,349	6,169
Operating loss	**(203)**	(99)	(1,100)
Profit/(loss) for the period	**46**	91	(878)
EBITDA	**183**	184	(505)
Adjusted profit/(loss) before taxation[1]	**175**	181	214

Financial Highlights:

- Adjusted[1] profit before tax of £0.18m, compared with £0.21m for the full year 2008/9 and £0.18m for the same period last year
- Continued progress within the Speech Solutions division with revenue growth of 15% to £3.8m (H1 2008/9: £3.3m) and margin growth of 20% to £2.7m (H1 2008/9: £2.2m)
- Increased focus on Speech Solutions division resulted in overall group margin remaining at £3.3m despite reduction in revenue from £10.0m to £8.6m
- Tight cost control maintained with £0.1m of cost savings expected to be achieved in the current financial year and approximately £0.3m expected in the next full financial year
- Reached agreement with Redstone plc over restructuring of loan, including an arrangement fee of £0.5m being spread over the remaining 3 years of the loan term

Operational Highlights:

- New 5 year contract with a minimum value of £1.5m won with a major Government Transport & Infrastructure organisation
- Renewal for a three-year period of exclusive contract with Vue Cinemas
- Launch of the Swine Flu Information line
- Major investment in technology refresh and progressing towards PCI compliance

[1] Profit before taxation, intangible asset amortisation and exceptional items

Nik Philpot, Chief Executive Officer, commented today:

"We are pleased with the progress the Group has made during the period with very good growth in our Speech Solutions division despite the tough economic climate. These challenging conditions have caused large corporate entities to delay taking major operational decisions in the way that they deliver customer service. This has led to a temporary slowdown in contracts being concluded, but these remain in the pipeline and we expect the good progress in Speech Solutions to continue.

The IVR business performed slightly worse than expected due to reduced call volumes from the print and publishing clients owing to the sale or closure of titles and falling circulations. Despite this, as a result of the successful roll out of speech contracts won last year and during the period, the Group expects the profitability for the full year to still be substantially ahead of last year."

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Introduction
The first half of the 2009/10 financial year has seen a consolidation of the progress made in 2008/9 with an adjusted[1] profit of £0.18m (H1 2008/9: £0.18m) despite a reduction in Group revenue from £10.0m to £8.6m. This has been achieved through the continuing focus on the high margin Speech Solutions division thereby increasing the blended margin of the revenues seen in the business from 34% to 39%.

Speech Solutions
Operational review
Progress within the Speech Solutions division continues to be strong with revenue increasing by 15% from £3.3m to £3.8m and margin increasing by 20% from £2.2m to £2.7m. The profit contributed by the division rose by 25% from £0.9m to £1.1m.

The focus for the division has been on winning high-value, long-term contracts with blue chip organisations that will generate significant annuity revenues. The growth seen in the six months to 30 September 2009 is a result of the contracts won over the past year, such as the three-year deal with a global financial services company announced in September 2008 and the five-year contract with a major Government Transport & Infrastructure organisation announced in July 2009, won in partnership with BT. This period has also seen the launch of the Swine Flu Information line (0800 1513513), in support of the Department of Health's information campaign. In addition, during the period the Group successfully renewed its exclusive contract for a three-year period to provide a speech-enabled cinema information and ticket booking service and live contact centre to Vue, the UK's largest operator of modern multiplex cinemas. Under the terms of the contract, Eckoh will deploy a completely new automated telephone service, based on the Group's new state-of-the-art VoiceXML platform.

The annuity revenues generated by these new clients are part of long-term contracts, typically 3 to 5 years in duration, which are underpinned by minimum guaranteed payments to Eckoh. The Group will have further opportunities to up-sell additional capabilities within these organisations after they have benefitted from the very swift return on investment due to the efficiency gains achieved through the deployment of the Group's services.

Technology refresh
As a managed service provider, it is vital to always provide clients with a best-of-breed technical solution. Following careful consideration of trends in the market and future client needs, a decision was taken by the Group to deploy a new state-of-the-art VoiceXML call handling platform that would enable Eckoh to expand its capabilities and offer more complex services in a highly reliable, secure and scalable way. During the period, 2,000 ports of this new platform were successfully installed and these are now in a position to take production-ready services. In addition, the Group has also extended its speech recognition software by purchasing Nuance Recognizer 9, which will be utilised across the new platform. The Nuance Recognizer is clearly established as the industry leader and it will enable Eckoh to increase further the quality of its speech-based solutions, and deliver significant performance improvements for end users. The service on behalf of the Government Transport & Infrastructure organisation will be the first to be showcased on the new platform and is expected to become live to the general public imminently.

Finally, the Group has purchased the Nuance Verifier. This will allow Eckoh to offer to the market an identification and verification (ID&V) technology that delivers a voice authentication process using biometrics, which provides a reassuring and effective method for both authenticating as well as protecting a customer's identity.

As stated previously, during the period the Group invested over £1m on updating the Speech Solutions services infrastructure. This will ensure that the Group retains its market-leading position as Eckoh moves into the next decade, and that long-term client retention remains at its current high level.

Outlook for the Speech Solutions division
The Board remain highly confident of the prospects for the Speech division and have taken some strategic investment decisions to ensure that the services provided by Eckoh remain

ahead of those offered by its competitors. The sales focus has been on targeting the high-value long-term contracts and this will continue. However, as these contracts take some time to conclude and deploy, the Group is also seeking ways of adding other revenue streams as a result of the change in the business environment.

One such opportunity the Group has been pursuing is to become compliant with the Payment Card Industry Data Security Standards (PCI DSS). This is a comprehensive set of requirements that all companies holding, processing or transferring customer payment card details are required to adopt. It is anticipated that this programme will be concluded before the end of the financial year. The Group believes that many organisations will struggle to achieve PCI DSS compliance in a timely or economic manner, and they will have no choice but to turn to companies like Eckoh to collect payments securely.

In addition to the sales opportunity provided by PCI DSS, Eckoh also identifies a more general demand for a productised offering that can be implemented quickly and therefore marketed at a lower overall cost. To this end, the Group has commenced an initiative to produce a range of packaged applications that will sit alongside its traditional bespoke solutions offering. In anticipation of particular interest in card payment processing as a result of PCI DSS, this will be one of the first packages to be delivered. It is expected that the first of these packages will be available before the end of the financial year given that much of the core development for these products has already been completed. This should provide the Group with an opportunity to broaden its target market and to grow the customer base more quickly.

It is clear that the future value of the Group will largely be derived from the growth attained within the Speech Solutions division.

Client IVR
Market conditions continue to prove difficult in the IVR division with revenue decreasing by 28% from £6.7m to £4.8m, margin decreasing by 42% from £1.1m to £0.6m and profit contributed by the division decreasing from £0.4m to £0.1m.

The decline in financial performance has arisen as a result of losing ITV as a client in December 2008, and from reduced call volumes from the print and publishing clients due to the sale or closure of titles and falling circulations.

After the period end, there have been some more promising developments with a new business initiative delivering progress. The first benefit of this was Eckoh being appointed by the BBC to provide a variety of services for the “Children in Need” appeal held recently.

Outlook for the IVR division
The trend in the IVR market has been downward for a couple of years – with call volumes to premium rate services declining and circulations of the printed media promoting these services falling. Whilst the number of competitors in the market is few, there remains intense price competition to win business and benefit from the economies of scale that arise from larger market shares.

Administrative Expenses
Administrative expenses increased marginally by 2% from £3.4m to £3.5m. Further cost savings were achieved with a significant reduction in property, insurance and administration costs. However, this was offset by increased depreciation and amortisation costs arising from investment in the Speech Solutions infrastructure. The increase in costs is largely due to the one-off costs arising from the General Meeting requisitioned during the period.

The Group continues to monitor its expenses and maintains a tight cost control. As a result of a recent cost reduction programme, the Group expects to make cost savings this year of £0.1m and £0.3m in the next financial year.

Balance Sheet

During the period, due to financial difficulties being faced by Redstone plc, Redstone asked for the Group's assistance to allow them to restructure the debt in their business. The Group agreed to defer the payments on the remaining balance of £2.7m of the loan owed to the Group by Redstone's subsidiary, Symphony Telecom Holdings Limited. Under the terms of the agreement, £1.0m is to be repaid on 1 October 2011 and the final payment of £1.7m is due on 1 October 2012. In return, the Group was granted security on the loan, interest payments on a monthly basis, and an arrangement fee of £530k of which £305k has been paid and the remaining £225k will be paid with the final repayment of the loan on 1 October 2012. Recognition of £350k of the arrangement fee will be spread over the remaining period of the loan, with the remaining £180k having been recognised in full during the first half of the year as it related to a short initial deferment of the loan at the beginning of negotiations. Redstone has now completed the restructuring of debt with further backing introduced by their bankers and shareholders.

The cash balance in the Group fell from £5.2m to £3.3m due to the £1.1m of capital expenditure invested in the infrastructure of the Speech Solutions division. In addition, the cash balance is traditionally lower in September than March as it is a shorter month. The major monthly payment that the Group receives from the telephony networks is due 31 days following the previous month-end, resulting in it being received before the end of 31-day months but not 30-day months such as September. The payment due for August of £0.9m was received on 1 October 2009.

The Balance Sheet remains strong with £8.7m of shareholder's equity (31/3/09: £8.6m) and no debt.

Outlook

Progress in the Speech Solutions division is strong and set to continue. The large projects continue to be progressed with vigour and additional opportunities afforded by the regulatory changes are being pursued. Whilst the organic growth in the Speech Solutions division is expected to be maintained, the Board is open minded to scaling the business more quickly or adding specialist technologies that broaden Eckoh's offering, particularly in the mobile area.

Although IVR revenues have declined more than expected, the growth in the Speech Solutions division from the successful roll out of contracts won last year and during the period has offset this and will result in the profitability for the full year to still be substantially ahead of the previous year.

Statement of comprehensive income

for the period ended 30 September 2009

	Six months ended 30 September 2009 £'000 (unaudited)	Six months ended 30 September 2008 £'000 (unaudited)	Year ended 31 March 2009 £'000 (audited)
Continuing operations			
Revenue	**8,598**	9,980	19,109
Cost of sales	**(5,275)**	(6,631)	(12,940)
Gross profit	**3,323**	3,349	6,169
Administrative expenses	**(3,526)**	(3,448)	(7,269)
Loss from operating activities	**(203)**	(99)	(1,100)
Interest receivable	**270**	220	382
Profit/(loss) before taxation	**67**	121	(718)
Taxation	**-**	-	-
Profit/(loss) for the period from continuing operations	**67**	121	(718)
Discontinued operations			
Post tax loss for the period from discontinued operations	**(21)**	(30)	(160)
Profit/(loss) for the period	**46**	91	(878)
Other comprehensive income			
Exchange differences on translating foreign operating	**(3)**	(12)	(20)
Total comprehensive income / (expense) for the period	**43**	79	(898)
Earnings/(loss) per share expressed in pence per share			
Basic and diluted	**0.02**	0.05	(0.44)
Earnings/(loss) per share from continuing operations expressed in pence per share			
Basic and diluted	**0.02**	0.06	(0.36)

Consolidated statement of financial position

as at 30 September 2009

	30 September 2009	30 September 2008	31 March 2009
	£'000	£'000	£'000
	(unaudited)	(unaudited)	(audited)
Assets			
Non-current assets			
Intangible assets	**452**	160	376
Property, plant and equipment	**1,349**	644	714
Other receivables	**2,700**	1,865	1,700
	4,501	2,669	2,790
Current assets			
Inventories	**12**	31	4
Trade and other receivables	**3,965**	6,553	4,476
Short-term investments	**1,817**	3,530	2,821
Cash and cash equivalents	**1,454**	1,533	2,421
	7,248	11,647	9,722
Total assets	**11,749**	14,316	12,512
Liabilities			
Current liabilities			
Trade and other payables	**(3,021)**	(4,621)	(3,812)
Obligations under finance lease	**(2)**	(4)	(3)
	(3,023)	(4,625)	(3,815)
Non-current liabilities			
Provisions	**(41)**	(120)	(79)
	(41)	(120)	(79)
Net assets	**8,685**	9,571	8,618
Shareholders' equity			
Share capital	**499**	499	499
Capital redemption reserve	**198**	198	198
Share premium	**695**	695	695
Currency reserve	**(50)**	(39)	(47)
Retained earnings	**7,343**	8,218	7,273
Total shareholders' equity	**8,685**	9,571	8,618

Consolidated interim statement of changes in equity

as at 30 September 2009
(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 2008	499	198	695	8,097	(27)	9,462
Total comprehensive income / (expense) for the period	-	-	-	91	(12)	79
Share based payment charge	-	-	-	30	-	30
Balance as at 30 September 2008	499	198	695	8,218	(39)	9,571
Balance as at 1 October 2008	499	198	695	8,218	(39)	9,571
Total comprehensive income / (expense) for the period	-	-	-	(969)	(8)	(977)
Share based payment charge	-	-	-	24	-	24
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 income / (expense) for the period	-	-	-	45	(3)	42
Share based payment charge	-	-	-	25	-	25
Balance at 30 September 2009	**499**	**198**	**695**	**7,343**	**(50)**	**8,685**

Consolidated statement of cashflows

for the period ended 30 September 2009

	Six months ended 30 September 2009 £'000 (unaudited)	Six months ended 30 September 2008 £'000 (unaudited)	Year ended 31 March 2009 £'000 (audited)
Cash flows from operating activities			
Continuing operations			
Profit/(loss) after taxation	**67**	121	(718)
Interest income	**(270)**	(220)	(382)
Depreciation of property, plant and equipment	**278**	239	474
Amortisation of intangible assets	**108**	44	121
Share based payments	**25**	30	54
Exchange differences	**(3)**	(12)	(20)
Operating profit/(loss) before changes in working capital and provisions	**205**	202	(471)
(Increase)/decrease in inventories	**(8)**	(18)	9
(Increase)/decrease in trade and other receivables	**(820)**	188	1,687
Decrease in trade and other payables	**(791)**	(3,276)	(4,086)
Increase/(decrease) in provisions	**(38)**	103	62
Cash utilised in operations	**(1,452)**	(2,801)	(2,799)
Interest paid	**-**	-	-
Net cash utilised in continuing operating activities	**(1,452)**	(2,801)	(2,799)
Discontinued operations			
Loss after taxation	**(21)**	(30)	(160)
Loss on disposal	**-**	-	129
Interest income	**(9)**	(15)	(51)
Taxation recognised in income statement	**-**	45	45
Cash generated from operations	**(30)**	-	(37)
Taxation	**-**	(45)	(45)
Net cash utilised in discontinued operating activities	**(30)**	(45)	(82)

Cash flows from investing activities			
Continuing operations			
Purchase of property, plant and equipment	**(913)**	(140)	(443)
Purchase of intangible fixed assets	**(184)**	(90)	(383)
(Increase)/decrease in short term investments	**1,004**	(2,000)	(1,291)
Loans repaid by third parties	**-**	500	500
Interest received	**270**	220	382
Net cash (utilised in)/generated from continuing investing activities	**177**	(1,510)	(1,235)
Discontinued operations			
Net proceeds on disposal of business operations	**339**	585	1,234
Net cash generated from discontinued investing activities	**339**	585	1,234
Cash flows from financing activities			
Continuing operations			
Capital element of finance lease rental payments	**(1)**	(3)	(4)
Net cash utilised in continuing investing activities	**(1)**	(3)	(4)
Decrease in cash and cash equivalents	**(967)**	(3,774)	(2,886)
Cash and cash equivalents at the start of the period	**2,421**	5,307	5,307
Cash and cash equivalents at the end of the period	**1,454**	1,533	2,421

Eckoh plc Consolidated Interim Financial Statements for the period ended 30 September 2009

1. General information

The financial information set out in this interim report for the six months ended 30 September 2009 and the comparative figures for the six months ended 30 September 2008 are unaudited. This financial information does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006.

2. Basis of preparation

These consolidated interim financial statements ('the interim financial statements') of Eckoh plc are for the six months ended 30 September 2009. 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 2009). The interim financial statements do not comprise statutory accounts as defined in section 435 of the Companies Act 2006 and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 March 2009. 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 under the historical cost convention.

The interim statements have been prepared in accordance with the accounting policies set out in the Group's 31 March 2009 statutory accounts, which are based on the recognition and measurement principles of IFRS in issues as adopted by the European Union. Except as noted below, the accounting policies and methods of computation adopted in the preparation of the unaudited interim financial statements are consistent with the policies applied by the Group in its consolidated financial statements for the year ended 31st March 2009. In the current year the Group has adopted the following:
Amendments to IAS 23 "Borrowing Costs"
Amendments to IFRS 2 "Share-based Payment: Vesting Conditions and Cancellations",
Amendments to IAS 1 "Presentation of Financial Statements: A Revised Presentation"
Amendments to IAS 32 and IAS 1 "Puttable Financial Instruments and Obligations Arising on Liquidation"
Amendments to IFRS 1 and IAS 27 "Cost of an Investment in a subsidiary, jointly-controlled entity or associate",
IFRIC 15 "Agreements for the Construction of Real Estate",
IFRIC 16 "Hedges of a net investment in a foreign operation" and "Improvements to IFRS".
None of these have had a material impact on the results or financial position of the Group.

The following interpretations were issued by the IFRIC and IASB before 5th July 2009, but are not effective for the 2010 year end:
IAS 27 (amended) "Consolidated and Separate Financial Statements"
IAS 39 (amended) "Financial Instruments: Recognition and Measurement - Eligible Hedged Items"
IFRS 3 (revised) "Business Combinations"
IFRIC 17 "Distribution of non-cash Assets to Owners".

The results for the six months ending 30 September 2009 were approved by the Board on 3 December 2009 and are available on the Company's website (www.eckoh.com) from 9 December 2009.

3. 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 2009	**Speech Solutions £'000**	**Client IVR £'000**	**Central costs £'000**	**Total continuing operations £'000**	**Discontinued operations £'000**	**Total £'000**
Revenue	3,751	4,847	-	**8,598**	-	**8,598**
Gross profit	2,679	644	-	**3,323**	-	**3,323**
Administrative expenses	(1,544)	(569)	(1,413)	**(3,526)**	-	**(3,526)**
Net interest receivable	-	-	270	**270**	9	**279**
Profit/(loss) before taxation	1,135	75	(1,143)	**67**	9	**76**
Taxation	-	-	-	**-**	-	
Post tax loss from disposal of operations	-	-	-	-	(30)	(129)
Profit/(loss) after taxation	**1,135**	**75**	**(1,143)**	**67**	**(21)**	**46**

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

Year ended 31 March 2009	Speech Solutions £'000	Client IVR £'000	Central costs £'000	Total continuing operations £'000	Discontinued operations £'000	Total £'000
Revenue	6,674	12,435	-	19,109	-	19,109
Gross profit	4,279	1,890	-	6,169	-	6,169
Administrative expenses	(2,616)	(1,235)	(3,418)	(7,269)	(37)	(7,306)
Net interest receivable	-	-	382	382	51	433
Profit/(loss) before taxation	1,663	655	(3,036)	(718)	14	(704)
Taxation	-	-	-	-	(45)	(45)
Post tax loss from disposal of operations	-	-	-	-	(129)	(129)
Profit/(loss) after taxation	1,663	655	(3,036)	(718)	(160)	(878)

4. Categories of financial assets and financial liabilities

	Loans and receivables		
	30 Sept 2009	30 Sept 2008	31 March 2009
Current financial assets	**£'000**	£'000	£'000
Trade receivables	**1,744**	2,083	1,020
Other receivables	**28**	53	27
Loans and receivables	**188**	2,103	1,620
Short-term investments	**1,817**	3,530	2,821
Cash and cash equivalents	**1,454**	1,533	2,421
Total current financial assets	**5,231**	9,302	7,909
Non-current financial assets			
Loans and receivables	**2,700**	1,865	1,700
Total non-current financial assets	**2,700**	1,865	1,700
Total financial assets	**7,931**	11,167	9,609
Financial liabilities			
Trade payables	**(1,754)**	(1,670)	(1,980)
Other payables	**(6)**	(35)	(27)
Obligations under finance lease	**(2)**	(4)	(3)
Total financial liabilities	**(1,762)**	(1,709)	(2,010)

5. Adjusted profit/(loss) before tax

	30 Sept 2009 £'000	30 Sept 2008 £'000	31 March 2009 £'000
Profit/(loss) before tax from continuing operations	67	121	(718)
Add back:			
Amortisation	108	44	121
Exceptional Items	-	-	795
Restructuring costs	-	16	16
Adjusted profit before tax	175	181	214