ELECTRONIC CLEARING HOUSE INC
Form 10-Q
February 11, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

R Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended December 31, 2007

OR

£ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-15245

ELECTRONIC CLEARING HOUSE, INC.
(Exact name of registrant as specified in its charter)

Nevada	93-0946274
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

730 Paseo Camarillo
Camarillo, California 93010
(Address of principal executive offices)

Telephone Number (805) 419-8700, Fax Number (805) 419-8682
www.echo-inc.com
(Registrant's telephone number, including area code; fax number; web site address)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes R No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer £ Accelerated filer R Non-accelerated filer £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes £ No R

As of February 1, 2008, there were 7,046,379 shares of the Registrant's Common Stock outstanding.

ELECTRONIC CLEARING HOUSE, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ELECTRONIC CLEARING HOUSE, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS

		December 31, 2007		September 30, 2007
Current assets:				
Cash and cash equivalents	$	9,158,000	$	10,752,000
Restricted cash		1,145,000		1,168,000
Settlement deposits and funds held in trust		4,822,000		4,588,000
Settlement receivables, less allowance of $59,000 and $58,000		747,000		1,163,000
Accounts receivable, less allowance of $347,000 and $321,000		3,589,000		3,322,000
Prepaid expenses and other assets		990,000		522,000
Deferred tax asset		425,000		425,000
Total current assets		20,876,000		21,940,000
Noncurrent assets:				
Property and equipment, net		2,317,000		2,444,000
Software, net		10,737,000		10,535,000
Other assets, net		560,000		215,000
Total assets	$	34,490,000	$	35,134,000
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Short-term borrowings and current portion of long-term debt	$	463,000	$	493,000
Accounts payable		816,000		657,000
Accrued expenses		1,734,000		1,989,000
Accrued professional fees		662,000		902,000
Settlement payable and trust payable		5,569,000		5,751,000
Accrued compensation expenses		1,838,000		2,028,000
Total current liabilities		11,082,000		11,820,000
Noncurrent liabilities:				
Long-term debt, net of current portion		742,000		834,000
Deferred tax liability		191,000		-0-
Total liabilities		12,015,000		12,654,000
Commitments and contingencies				
Stockholders' equity:				

Preferred stock, $.01 par value, 5,000,000 shares authorized, none outstanding at December 31, 2007 and September 30, 2007		-0-		-0-
Common stock, $.01 par value, 36,000,000 shares authorized;7,078,648 and 7,056,848 shares issued; 7,040,379 and 7,018,579 shares outstanding, respectively		71,000		70,000
Additional paid-in capital		30,465,000		29,923,000
Accumulated deficit		(7,595,000)		(7,047,000)
Less treasury stock at cost, 38,269 and 38,269 common shares		(466,000)		(466,000)
Total stockholders' equity		22,475,000		22,480,000
Total liabilities and stockholders' equity	$	34,490,000	$	35,134,000

See accompanying notes to consolidated financial statements

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ELECTRONIC CLEARING HOUSE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006
REVENUES	$ 19,387,000	$ 19,379,000
COSTS AND EXPENSES:		
Processing and transaction expense	13,972,000	12,927,000
Other operating costs	1,965,000	1,613,000
Research and development expense	496,000	485,000
Selling, general and administrative expenses	3,548,000	3,508,000
Merger related costs	368,000	286,000
	20,349,000	18,819,000
(Loss) income from operations	(962,000)	560,000
Interest income	114,000	130,000
Interest expense	(26,000)	(17,000)
(Loss) income before benefit (provision) for income taxes	(874,000)	673,000
Benefit (provision) for income taxes	326,000	(334,000)
Net (loss) income	$ (548,000)	$ 339,000
Basic net (loss) earnings per share	$ (0.08)	$ 0.05
Diluted net (loss) earnings per share	$ (0.08)	$ 0.05
Weighted average shares outstanding		
Basic	6,908,953	6,702,680
Diluted	6,908,953	7,203,680

See accompanying notes to consolidated financial statements.

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ELECTRONIC CLEARING HOUSE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended December 31,	
	2007	2006
Cash flows from operating activities:		
Net (loss) income	$ (548,000)	$ 339,000
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	277,000	231,000
Amortization of software and other intangibles	967,000	679,000
Loss on disposal of fixed assets	12,000	18,000
Provisions for losses on accounts and notes receivable	27,000	68,000
Deferred income taxes	191,000	228,000
Stock-based compensation	517,000	350,000
Excess tax benefit from stock-based compensation	-0-	(18,000)
Changes in assets and liabilities:		
Restricted cash	23,000	(35,000)
Settlement deposits and funds held in trust	(234,000)	11,830,000
Accounts receivable	(293,000)	(257,000)
Settlement receivable	415,000	224,000
Settlement payable and trust payable	(182,000)	(12,067,000)
Accrued compensation expenses	(270,000)	(225,000)
Accounts payable	159,000	135,000
Accrued professional fees	(240,000)	(130,000)
Accrued expenses	(255,000)	(122,000)
Prepaid expenses and other assets	(468,000)	6,000
Net cash provided by operating activities	98,000	1,254,000
Cash flows from investing activities:		
Other assets	(354,000)	-0-
Purchase of equipment	(158,000)	(126,000)
Purchased and capitalized software	(1,164,000)	(931,000)
Net cash used in investing activities	(1,676,000)	(1,057,000)
Cash flows from financing activities:		
Repayment of notes payable	(122,000)	(72,000)
Proceeds from exercise of stock options	106,000	148,000
Excess tax benefit from stock-based compensation	-0-	18,000
Net cash (used in) provided by financing activities	(16,000)	94,000
Net (decrease) increase in cash	(1,594,000)	291,000
Cash and cash equivalents at beginning of period	10,752,000	11,604,000
Cash and cash equivalents at end of period	$ 9,158,000	$ 11,895,000

See accompanying notes to consolidated financial statements.

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ELECTRONIC CLEARING HOUSE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Basis of Presentation:

The accompanying consolidated financial statements as of and for the three-month period ended December 31, 2007, are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and the results of operations for the interim periods. The consolidated financial statements herein should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2007. The results of operations for the three months ended December 31, 2007 are not necessarily indicative of the likely results for the entire fiscal year ending September 30, 2008.

As previously disclosed in the 2007 Form 10-K, during 2007, the Company refocused its sales and service strategy to provide merchants, banks, technology partners and collection agencies with electronic payment services that combine credit card, debit card and electronic check and collection services. The Company believes this “All-In-One” offering represents a significant competitive differentiator. In addition, the Company’s services enable merchants to maximize revenue by offering a wide variety of payment options, minimize costs by dealing with one source and improve their bad debt collection rates through use of the Company’s integrated collection and risk management services. As such, the Company has combined its Bankcard and Transaction Processing with its Check Related Products segments into one “payment processing” segment for 2008. The Company believes one segment is more representative of how the Company is structured and will be operated for 2008 and beyond.

Reclassifications:

Certain amounts in the September 30, 2007 and December 31, 2006 consolidated financial statements have been reclassified to conform to the current year presentation. The Company broke out Accrued Professional Fees from Accrued Expenses, and the Balance Sheets and the Statement of Cash Flows have been adjusted accordingly. The Company also broke out merger related costs on the Statement of Operations, which were previously included in Selling, General and Administrative expenses. Lastly, the Company reclassified certain salary amounts in the Statement of Operations for December 31, 2006 related to its change to one reporting segment described above..

New Accounting Pronouncements:

In 2006, the FASB issued SFAS No. 157, “Fair Value Measurement” (SFAS No. 157). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. The standard expands required disclosures about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. SFAS No. 157 does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management of the Company does not expect the impact to be material to its financial condition or results of operations.

In 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109” (FIN 48). This interpretation clarifies the accounting for uncertain taxes recognized in a company’s financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes.” The interpretation

requires us to analyze the amount at which each tax position meets a "more likely than not" standard for sustainability upon examination by taxing authorities. Only tax benefit amounts meeting or exceeding this standard will be reflected in tax provision expense and deferred tax asset balances. The interpretation also requires that any differences between the amounts of tax benefits reported on tax returns and tax benefits reported in the financial statements be recorded in a liability for unrecognized tax benefits. The liability for unrecognized tax benefits is reported separately from deferred tax assets and liabilities and classified as current or noncurrent based upon the expected period of payment. Additional disclosure in the footnotes to the audited financial statements will be required concerning the income tax liability for unrecognized tax benefits, any interest and penalties related to taxes that are included in the financial statements, and open statutes of limitations for examination by major tax jurisdictions. FIN 48 is effective for annual periods beginning after December 15, 2006. We adopted FIN 48 on October 1, 2007. See Note 7 for more information about the impact of adoption of this guidance on our financial position, results of operations and cash flows.

In 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value, with unrealized gains and losses related to these financial instruments reported in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. Management of the Company does not expect the impact to be material to its financial condition or results of operations.

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NOTE 1: (Continued)

In 2006, the Emerging Issues Task Force (EITF) reached a consensus on EITF 06-3, “How Taxes Collected From Customers and Remitted to Government Authorities Should Be Presented in the Income Statement (That is, Gross Versus Net Presentation)”. EITF 06-3 discussed the correct accounting treatment of taxes charged to a customer but collected and remitted by a reporting entity. The Company currently reports its revenue net of any sales tax collected on its Consolidated Statement of Operations.

NOTE 2 – Stock-Based Compensation:

Effective October 1, 2005, the Company began recording compensation expense associated with stock options in accordance with SFAS No.123(R), Share-Based Payment. Prior to October 1, 2005, the Company accounted for stock-based compensation related to stock options under the recognition and measurement principles of Accounting Principles Board Opinion No. 25; therefore, the Company measured compensation expense for its stock option plan using the intrinsic value method, that is, as the excess, if any, of the fair market value of the Company’s stock at the grant date over the amount required to be paid to acquire the stock, and provided the disclosures required by SFAS Nos. 123 and 148. The Company has adopted the modified prospective transition method provided under SFAS No. 123(R), and as a result, has not retroactively adjusted results from prior periods. Under this transition method, compensation expense associated with stock options recognized in fiscal years 2006, 2007 and 2008 include expenses related to the remaining unvested portion of all stock option awards granted prior to October 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123. The Company has not granted any stock options since the adoption of SFAS No. 123(R).

The Company entered into an Agreement and Plan of Merger (the Merger Agreement) with Intuit Inc. on December 19, 2007. The Merger Agreement prohibits the Company from issuing any equity awards from the date of the Merger Agreement through the closing date of the transaction unless consented to by Intuit (see Note 8).

Stock Options:

At December 31, 2007, the Company had one stock option plan, the Amended and Restated 2003 Stock Incentive Plan. Under the Amended and Restated 2003 Stock Incentive Plan, the Board of Directors may grant options to purchase up to 1,150,000 shares of the Company’s common stock to officers, key employees and non-employee directors of the Company. At December 31, 2007, only 65,824 shares remained available for future grant under the plan. Options cancelled due to forfeiture or expiration return to the pool available for grant. The plan is administered by the Board of Directors or its designees and provides that options granted under the plan will be exercisable at such times and under such conditions as may be determined by the Board of Directors at the time of grant of such options; however, options may not be granted for terms in excess of ten years. Compensation expense related to stock options granted is recognized ratably over the service vesting period for the entire option award. The total number of stock option awards expected to vest is adjusted by estimated forfeiture rates. The terms of the plan provide for the granting of options at an exercise price not less than 100% of the fair market value of the stock at the date of grant, as determined by the closing market value stock price on the grant date. The exercise prices of all options outstanding at December 31, 2007 represent 100% of the fair market value of the stock at the date of grant.

A summary of the status of the Amended and Restated 2003 Stock Incentive Plan as of December 31, 2007 and of changes in options outstanding under the plan during the three months ended December 31, 2007 is as follows:

	Number of Shares	Weighted-Average Exercise Price per	Weighted-Average Remaining Contractual	Aggregate Intrinsic Value

		Share	Term(in years)	
Options outstanding at September 30, 2007	767,925	$ 5.94		
Options granted	-0-			
Options exercised	(25,300)	$ 4.19		
Options forfeited or expired	(-0-)			
Options outstanding at December 31, 2007	742,625	$ 6.00	4.8	$ 7,880,000
Options vested and exercisable at December 31, 2007	598,825	$ 5.73	4.3	$ 6,516,000

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NOTE 2: (Continued)

Non-vested share activity under our Amended and Restated 2003 Stock Incentive Plan for the three-month period ended December 31, 2007 is summarized as follows:

	Non-vested Number Of Shares	Weighted Average Grant-Date Fair Value
Non-vested balance at September 30, 2007	250,400	$ 4.68
Vested	(106,600)	$ 4.34
Non-vested balance at December 31, 2007	143,800	$ 4.93

As of December 31, 2007, there was $665,000 of unamortized compensation cost related to non-vested stock option awards, which is expected to be recognized over a remaining weighted-average vesting period of 1.5 years. Compensation cost recognized in the quarters ended December 31, 2007 and 2006 was $140,000 and $147,000, respectively.

Cash received from stock option exercises for the three months ended December 31, 2007 and 2006 was $106,000 and $148,000, respectively. The income tax benefits from stock option exercises totaled $18,000 for the three months ended December 31, 2006. There was no income tax benefit from stock option exercises for the three months ended December 31, 2007.

Restricted Stock:

Restricted Stock is granted under the Amended and Restated 2003 Stock Incentive Plan. Compensation expense related to restricted stock issued is recognized ratably over the service vesting period. Restricted stock grants are normally vested over a five-year period.

In accordance with SFAS No. 123(R), the fair value of restricted stock awards is estimated based on the closing market value stock price on the date of share issuance. The total number of restricted stock awards expected to vest is adjusted by estimated forfeiture rates. As of December 31, 2007, there was $1,163,000 of unamortized compensation cost related to non-vested restricted stock awards, which is expected to be recognized over a remaining weighted-average vesting period of 3.2 years. Compensation expense in the quarter ended December 31, 2007 was $59,000.

A summary of the status of the Company’s restricted stock awards as of December 31, 2007, and of changes in restricted stock outstanding under the plan during the three months ended December 31, 2007 is as follows:

	Number Of Shares	Weighted-Average Grant Date Fair Value Per Share
Restricted stock awards nonvested at September 30, 2007	119,698	$ 11.92

Shares issued	4,500	$	11.65
Shares forfeited	(8,000)	$	11.25
Restricted stock awards outstanding at December 31, 2007	116,198	$	11.95

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NOTE 2: (Continued)

In May 2006, the Company entered into an agreement with certain of its employees and executives to potentially grant 80,000 shares of restricted stock and 10,000 shares payable in cash. The restricted stock will only be granted and cash only be paid if the Company achieves predetermined cumulative Earnings Before Income Taxes and Depreciation and Amortization (“EBITDA”) for the fiscal years ending 2006, 2007 and 2008 or upon a change in control. Cumulative EBITDA results must be reached or a reduced number of shares will be granted, if any. As required by SFAS 123(R), 80,000 shares of this award have been treated as an equity award, with the fair value measured at the grant date and 10,000 shares have been treated as a liability award, with the fair value measured at the grant date and remeasured at the end of each reporting period (marked to market). In June 2007, the cumulative EBITDA targets were reduced and this was treated as a modification of an award under SFAS No. 123(R). Since this agreement inception, 25,000 shares of restricted stock and 4,000 shares payable in cash have been forfeited. In conjunction with this award, the Company recognized $101,000 and $99,000 of compensation expense for the quarters ended December 31, 2007 and 2006, respectively.

In June 2007, the Company entered into an agreement with certain of its employees and executives to potentially grant 100,000 shares of restricted stock and 21,000 shares payable in cash. The restricted stock will only be granted and cash only be paid if the Company achieves predetermined cumulative Earnings Before Income Taxes and Depreciation and Amortization (“EBITDA”) for the fiscal years ending 2007, 2008 and 2009 or upon a change in control. Cumulative EBITDA results must be reached or a reduced number of shares will be granted, if any. As required by SFAS 123(R), 100,000 shares of this award have been treated as an equity award, with the fair value measured at the grant date and 21,000 shares have been treated as a liability award, with the fair value measured at the grant date and remeasured at the end of each reporting period (marked to market). Since the agreement inception, 6,000 shares of restricted stock and 2,000 shares payable in cash were forfeited. As the Company believes the cumulative EBITDA targets will be achieved, the Company recognized $163,000 of compensation expense for the three months ended December 31, 2007.

NOTE 3 – Earnings Per Share:

The Company calculates earnings per share as required by Statement of Financial Accounting Standard No. 128, "Earnings per Share."

	Three Months Ended December 31,	
	2007	2006
Numerator:		
Net (loss) income	$ (548,000)	$ 339,000
Denominator:		
Weighted average shares outstanding for basic (loss) earnings per share	6,908,953	6,702,680
Effect of dilutive stock options	-0-	501,000
Adjusted weighted average shares outstanding for diluted (loss)earnings per share	6,908,953	7,203,680
Basic net (loss) earnings per share	$ (0.08)	$ 0.05

Diluted net (loss) earnings per share	$	(0.08)	$	0.05

Due to the net loss for the three-month period ended December 31, 2007, the diluted share calculation result was antidilutive. Thus, the basic weighted average shares were used and shares of common stock equivalents of approximately 859,000 shares were excluded from the calculation. For the three months ended December 31, 2006, approximately 39,500 option shares attributable to the exercise of outstanding options and restricted stock grants were excluded from the calculation of diluted EPS because the effect was antidilutive.

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NOTE 4 – Supplemental Cash Flow Information:

	Three Months Ended December 31,	
	2007	2006
Cash paid for:		
Interest	$ 26,000	$ 17,000
Income Taxes	$ 8,000	89,000

Significant non-cash transactions for the three months ended December 31, 2007 were as follows:

- Restricted stock valued at $52,000 was issued to a director of the company.

Significant non-cash transaction for the three months ended December 31, 2006 was as follows:

- None

NOTE 5 – Commitments, Contingent Liabilities, and Guarantees:

The Company currently relies on cooperative relationships with, and sponsorship by, two banks in order to process its Visa, MasterCard and other bankcard transactions. The agreement between the banks and the Company require the Company to assume and compensate the bank for bearing the risk of "chargeback" losses. Under the rules of Visa and MasterCard, when a merchant processor acquires card transactions, it has certain contingent liabilities for the transactions processed. This contingent liability arises in the event of a billing dispute between the merchant and a cardholder that is ultimately resolved in the cardholder's favor. In such a case, the disputed transaction is charged back to the merchant and the disputed amount is credited or otherwise refunded to the cardholder. If the Company is unable to collect this amount from the merchant's account, and if the merchant refuses or is unable to reimburse the Company for the chargeback due to merchant fraud, insolvency or other reasons, the Company will bear the loss for the amount of the refund paid to the cardholders. The Company utilizes a number of systems and procedures to manage merchant risk. In addition, the Company requires cash deposits by certain merchants, which are held by the Company's sponsoring bank to minimize the risk that chargebacks are not collectible from merchants. A cardholder, through its issuing bank, generally has until the later of up to four months after the date a transaction is processed or the delivery of the product or service to present a chargeback to the Company's sponsoring bank as the merchant processor. Therefore, management believes that the maximum potential exposure for the chargebacks would not exceed the total amount of transactions processed through Visa and MasterCard for the last four months and other unresolved chargebacks in the process of resolution. For the last four months through December 31, 2007, this potential exposure totaled approximately $663 million. At December 31, 2007, the Company, through its sponsoring banks, had approximately $112,000 of unresolved chargebacks that were in the process of resolution. At December 31, 2007, the Company, through its sponsoring banks, had access to $21.7 million in merchant deposits to cover any potential chargeback losses.

For the three-month periods ended December 31, 2007 and 2006, the Company processed approximately $508 million and $467 million, respectively, of Visa and MasterCard transactions, which resulted in $2.3 million in gross chargeback activities for the three months ended December 31, 2007 and $2.4 million for the three months ended December 31, 2006. Substantially all of these chargebacks were recovered from the merchants.

The Company's contingent obligation with respect to chargebacks constitutes a guarantee as defined in Financial Accounting Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantee, Including Indirect Guarantees of Others" ("FIN 45"). FIN 45 requires that guarantees issued or modified subsequent to December

31, 2002 be initially recorded as liabilities in the Statement of Financial Position at fair value. Since the Company's agreement with its sponsoring bank, which establishes the guarantee obligation, was entered into prior to December 31, 2002 and has not been modified since that date, the measurement provisions of FIN 45 are not applicable to this guarantee arrangement. The Company also entered into an arrangement with another sponsoring bank during the fourth quarter of the 2007 fiscal year; however, the only transactions processed through this new bank were for transactions with miminal potential of chargebacks. Therefore, no additional liabilities are considered to be applicable under FIN 45 for the three months ended December 31, 2007.

In accordance with SFAS No. 5, "Accounting for Contingencies," the Company records a reserve for chargeback loss allowance based on its processing volume and historical trends and data. As of December 31, 2007 and 2006, the allowance for chargeback losses, which is classified as a component of the allowance for uncollectible accounts receivable, was $217,000 and $329,000, respectively. The expense associated with the valuation allowance is included in processing and transaction expense in the accompanying consolidated statements of income. For the three-month periods ended December 31, 2007 and 2006, the Company added $5,000 to income and expensed $26,000, respectively.

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NOTE 5: (Continued)

In its check guarantee business, the Company charges the merchant a percentage of the face amount of the check and guarantees payment of the check to the merchant in the event the check is not honored by the checkwriter's bank. Merchants typically present customer checks for processing on a regular basis and, therefore, dishonored checks are generally identified within a few days of the date the checks are guaranteed by the Company. Accordingly, management believes that its best estimate of the Company's maximum potential exposure for dishonored checks at any given balance sheet date would not exceed the total amount of checks guaranteed in the last 10 days prior to the balance sheet date. As of December 31, 2007, the Company estimates that its maximum potential dishonored check exposure was approximately $2,470,000.

For the quarters ended December 31, 2007 and 2006, the Company guaranteed approximately $22,930,000 and $21,255,000 of merchant checks, respectively, which resulted in $156,000 and $148,000 of dishonored checks presented to the Company for payments, respectively. The Company has the right to collect the full amount of the check from the checkwriter. The Company establishes a reserve for this activity based on historical and projected loss experience. For the quarter ended December 31, 2007 and 2006, the check guarantee loss was $90,000 and $92,000, respectively. The check guarantee loss is included in processing and transaction expense in the accompanying consolidated statements of income.

NOTE 6 – Litigation:

The Company is involved in various legal cases arising in the ordinary course of business. Based upon current information, management, after consultation with legal counsel, believes the ultimate disposition thereof will have no material affect, individually or in the aggregate, on the Company's business, financial condition or results of operations. It is possible that in the future, the Company could become a party to such proceedings.

NOTE 7 – Effective Tax Rate:

The effective tax rate for the three months ended December 31, 2007 was a benefit of 37.3% as compared to a provision of 49.6% for the corresponding prior year period. The decrease in the tax rate was primarily due to the Company having a loss before income taxes for the quarter ended December 31, 2007, as compared to income before taxes for the corresponding prior year period.

Adoption of FASB Interpretation No. 48

On October 1, 2007, we adopted the provisions of FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109." FIN 48 prescribes a threshold for the financial statement recognition and measurement of a tax position taken in an income tax return. FIN 48 requires that we determine whether the benefits of tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained upon audit, we recognize the largest amount of the benefit that is more likely than not of being sustained in the financial statements. For tax positions that are not more likely than not of being sustained upon audit, we do not recognize any portion of the benefit in the financial statements.

As a result of the adoption of FIN 48, the Company recognized a decrease in deferred tax assets of approximately $525,000 for unrecognized tax benefits relating to tax credit carryforwards, which was accounted for as a reduction to the October 1, 2007 accounting for contingencies. There was no cumulative effect on retained earnings as a result of the adoption of FIN 48.

None of the unrecognized tax benefits relate to tax positions for which the ultimate realization is highly certain, but for which there is uncertainty about the timing of the realization. If we were to recognize these tax benefits, our income tax expense would reflect a favorable net impact of approximately $525,000.

There were no material changes to these amounts during the three months ended December 31, 2007. We do not believe that it is reasonably possible that there will be a significant increase or decrease in unrecognized tax benefits over the next 12 months.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, or state and local income tax examinations by tax authorities for years before 2002. Neither the Internal Revenue Service (IRS) nor the various state tax authorities have commenced an examination of the Company's income tax returns for 2002 through 2006.

We recognize interest and penalties related to unrecognized tax benefits within the provision for income taxes. As of the date of adoption of FIN 48, there was no accrual for the payment of interest and penalties. Also, there were no interest and penalties recognized during the three months ended December 31, 2007.

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NOTE 8 – Merger Transaction:

On December 19, 2007, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) to be acquired by Intuit Inc. (Intuit) in a merger transaction in which ECHO will become a wholly owned subsidiary of Intuit (the merger). Pursuant to the terms of the Merger Agreement and subject to the conditions thereof, Intuit will acquire all of the outstanding shares of the Company's common stock and all outstanding equity awards (which will vest in connection with the transaction) for a cash amount of $17.00 per share (less the applicable exercise price in the case of ECHO options), for a total purchase price of approximately $131 million on a fully diluted basis. The transaction is subject to the Company's shareholders approving the transaction and other customary closing conditions. If the shareholder approval is satisfactorily obtained and the other conditions to closing are satisfied or waived, the merger is expected to be completed promptly following the special stockholder meeting on February 29, 2008.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

The discussion of the financial condition and results of operations of the Company should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere herein. This discussion contains forward-looking statements, including statements regarding the Company's strategy, financial performance and revenue sources, which involve risks and uncertainties. The Company's actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth elsewhere herein, and in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

OVERVIEW

Electronic Clearing House, Inc. (ECHO) is an electronic payment processor that provides for the payment processing needs of retail, online and recurring payment merchants through its direct sales team as well as channel partners that include technology companies, banks, collection agencies and other trusted resellers. The company derives the majority of its revenue from bankcard and transaction processing services (“bankcard services”), whereby we provide solutions to merchants and banks to allow them to accept and process credit and debit card payments from consumers and check-related products (“check services”), whereby we provide various services to merchants and banks to allow them to accept and process check payments from consumers. The principal services we offer with respect to our bankcard services, debit and credit card processing (where we provide authorization, clearing and settlement for all major credit and debit card brands), and with respect to our check services, check guarantee (where, if we approve a check transaction and a check is subsequently dishonored by the check writer's bank, the merchant is reimbursed by us), check verification (where, prior to approving a check, we search our negative and positive check writer database to determine whether the check writer has a positive record or delinquent check-related debts), electronic check conversion (the conversion of a paper check at the point of sale to a direct bank debit which is processed for settlement through the Federal Reserve System’s Automated Clearing House (“ACH”) network), eCheck (the processing of a payment generally originating from an internet or recurring payment merchant wherein the direct debit from a consumer’s checking account occurs via the ACH network), check re-presentment (where we attempt to clear a check on multiple occasions via the ACH network prior to returning the check to the merchant so as to increase the number of cleared check transactions), and check collection (where we provide national scale collection services for returned checks). We operate our services under the following brands:

- ECHO, our retail and wholesale brand for credit card and check processing services to merchants, banks, technology partners and other trusted reseller channels;
- MerchantAmerica, Inc. our online presence for merchant reporting and web services;
- National Check Network (“NCN”), our proprietary database of negative and positive check writer accounts (i.e., accounts that show delinquent history in the form of non-sufficient funds and other negative transactions), for check verification, check conversion capture services, and for membership to collection agencies; and
- XPRESSCHEX, Inc. for check collection services.

As previously disclosed in the 2007 Form 10-K, during 2007, the Company refocused its sales and service strategy to provide merchants, banks, technology partners and collection agencies with electronic payment services that combine

credit card, debit card and electronic check and collection services. The Company believes this "All-In-One" offering represents a significant competitive differentiator. In addition, the Company's services enable merchants to maximize revenue by offering a wide variety of payment options, minimize costs by dealing with one source and improve their bad debt collection rates through use of the Company's integrated collection and risk management services. As such, the Company has combined its Bankcard and Transaction Processing with its Check Related Products segments into one "payment processing" segment for 2008. The Company believes one segment is more representative of how the Company is structured and will be operated for 2008 and beyond.

We discuss our services in greater detail below. Overall, our ability to program and oversee the management of a merchant's point-of-sale (POS) system, provide credit card and debit card processing, provide multiple services for the processing of checks, provide both electronic and traditional collection services, and integrate all of these services into an Internet-based reporting capability allows us to provide for the majority of the payment processing needs of our customers.

We were incorporated in Nevada in December 1981. Our executive offices are located at 730 Paseo Camarillo, Camarillo, California 93010, and our telephone number is (805) 419-8700. Our common stock is traded on the NASDAQ Capital Market under the ticker symbol "ECHO." Information on our website, www.echo-inc.com, does not constitute part of this quarterly report.

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On December 19, 2007, we entered into an Agreement and Plan of Merger (the Merger Agreement) to be acquired by Intuit Inc. (Intuit) in a merger transaction in which we will become a wholly owned subsidiary of Intuit . Pursuant to the terms of the Merger Agreement and subject to the conditions thereof, Intuit will acquire all of the outstanding shares of our common stock and all outstanding equity awards (which will vest in connection with the transaction) for a cash amount of $17.00 per share, for a total purchase price of approximately $131 million on a fully diluted basis. The transaction is subject to our shareholders approving the transaction and other customary closing conditions. If our shareholder approval is satisfactorily obtained and the other conditions to closing are satisfied or waived, the merger is expected to be completed promptly following the special stockholders' meeting on February 29, 2008.

Adoption of FASB Interpretation No. 48

On October 1, 2007, we adopted the provisions of FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109." FIN 48 prescribes a threshold for the financial statement recognition and measurement of a tax position taken in an income tax return. FIN 48 requires that we determine whether the benefits of tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained upon audit, we recognize the largest amount of the benefit that is more likely than not of being sustained in the financial statements. For tax positions that are not more likely than not of being sustained upon audit, we do not recognize any portion of the benefit in the financial statements.

Significant judgment is required to evaluate uncertain tax positions. We evaluate our uncertain tax positions on a quarterly basis. Our evaluations are based upon a number of factors, including changes in facts or circumstances and changes in tax law, among others. Changes in the recognition or measurement of uncertain tax positions could result in material increases or decreases in our income tax expense in the period in which we make the change.

STRATEGY

Overview

In 2007, ECHO has refocused on its sales and service strategy which is to provide merchants, banks, technology partners and collection agencies with electronic payment services that combine credit card, debit card and electronic check and collection services with quality customer support. We believe this "All-In-One" offering represents a significant competitive differentiator for ECHO. ECHO's services enable merchants to maximize revenue by offering a wide variety of payment options, minimize costs by dealing with one source and improve their bad debt collection rates through use of ECHO's integrated collection and risk management services.

As a niche processor, our strategy is to continue building upon the success of our core markets and focus our sales effort towards adjacent markets that offer high growth potential; that can drive processing volume and that have recurring or scheduled payments. We view the non-face-to-face environment as one of our largest growth opportunities. This segment includes both internet sites and recurring billing merchants. All of these merchants benefit from our ability to handle both a retail or online credit card or eCheck transaction quickly and securely.

SALES AND MARKETING

Our sales and marketing strategy is to pursue direct sales opportunities where there is a significant amount of card and check acceptance; to build processing relationships with certain providers of POS software/hardware that serve select merchant markets; to maximize cross-selling opportunities within our existing base of retail merchants and financial institutions; to sell integrated suites of check, credit and debit card processing services through small banks; and to pursue associations aggressively.

ECHO offers its payment services through three sales channels.

- Direct Sales– Direct sales personnel are dedicated to focused industries and/or services. We employ approximately 20 people who serve in either field or office positions that are dedicated to sales.
- Channel Partnerships– We have a well established base of channel partnerships. These include Banks, our network of nearly 250 NCN Collection Agencies, Independent Sales Agents and Associations. These relationships offer lower margins to us due to their participation in the overall revenue generated from the payment processing fees.
- Technology Partnerships– ECHO has launched a new channel focused on securing relationships with companies who provide technology solutions to our target merchant segments. This will be a new focus for the company in 2008.

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Direct Sales
We currently employ approximately 20 direct sales executives. The field sales force is dispersed geographically throughout the United States and is tasked with securing processing relationships with merchants in our designated niche markets. We also maintain a telesales force within the corporate headquarters. This staff provides first line sales for business generated through our various marketing initiatives, including web, mail and print. Additionally, the telesales team acts as a closing channel for new business referred by our Channel and Technology partnerships.

Promote Merchant Payment Processing for Community Banks
ECHO pursues small regional and community banks for credit card and check payment programs that are characterized by having an asset base in the $500 million range or less, and/or equity capital in the $10 to $50 million range. ECHO has developed a service that allows smaller banks to offer credit card and check processing services on a private-label basis using our back-end infrastructure with little or no technical involvement by the bank. Much of the reporting to the merchant utilizes the Internet as a delivery channel, an environment in which we have significant experience and knowledge. Due to the high fixed costs, most small banks are either unable or unwilling to compete with national banks in providing credit card and real time check processing services and Internet-based reporting tools to their merchants. We have designed the program to be adopted by a bank at little or no cost while it allows the bank to generate revenue and earnings in competition to those earned by much larger banks that have had to make major investments in the technology.

ECHO estimates that there are approximately 8,000 community banks in the United States. Based on third-party research, we estimate that approximately 57% of these banks offer payment solutions for their merchants. We believe these banks will be very responsive to the ECHO value proposition when a comparison of features and costs is reviewed.

Along similar lines, we believe there are quality independent sales organizations, many of which are focused on select markets, where we can establish a viable and mutually profitable relationship wherein they sell our processing services.

Associations
There are over 8,000 associations and guilds in the United States and many of the 4.1 million merchants belong to one of these organizations. We believe our combination of services and our controlled cost structure will allow us to attract many of these organizations to actively refer their members to us for meeting their payment processing needs.

Technology Partners Providing POS Systems
We believe there are significant opportunities in working closely with those firms that specialize in certain industries and provide a point-of-sale (POS) capability to merchants of some nature. By integrating our processing with these parties, we believe we can leverage our sales activity and have longer term relationships with merchants than are historically the case for most processors. We also believe our full processing capability allows us to provide the POS system partner with some economic benefit from the processing volume of the users of its system.

COMPETITION

Bankcard processing and check processing services are highly competitive industries and are characterized by consolidation, rapid technological change, rapid rates of product obsolescence and introductions of competitive products often at lower prices and/or with greater functionality than those currently on the market. Credit card and debit card processors have similar direct costs and therefore their products are becoming somewhat of a commodity product where a natural advantage accrues to the highest volume processors. To offset this fact, we have focused on marketing to niche markets where we can maintain the margins we deem necessary to operate profitably but no assurance can be given that this strategy will be successful in the future.

Of the top 50 credit card acquirers in the nation, the majority are independent sales organizations or banks that may manage the front-end authorization service but they outsource the back-end clearing and settlement services from a full service processor. There are probably 10 or fewer firms capable of full credit card processing and these would include First Data Corporation, Total Systems, NPC (Bank of America), Global Payments, Heartland Payments, Alliance Data Systems and RBS Lynk. We believe we hold the distinction of being the smallest public company who serves as a full service processor in credit cards and check services. All of our competitors have greater financial and marketing resources than us. As a result, they may be better able to respond more quickly to new or emerging technologies and changes in customer requirements. Competitors also may enjoy per transaction cost advantages due to their high processing volumes that may make it difficult for ECHO to compete.

There are a number of competitors in the check services industry, the largest of which are TeleCheck (the leading provider of conversion and guarantee services and a subsidiary of First Data Corporation), SCAN (the largest verification provider in the nation), Certegy (purchased by Fidelity) and Global Payments. While all four have major national accounts, we have been successful in winning the processing relationships for national accounts when competing for such business against these parties. ECHO believes that it can effectively compete due to its ownership of the NCN database, its integrated set of check and collection services and the technological advantage of having been certified as both a Third-Party Processor and Acquirer Processor with the Visa POS Check Program.

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We believe that being the smallest processor also has some advantages. There are many merchants who are sizable to us that the larger processors do not consider to be major merchants. We are finding that these merchants appreciate receiving preferential treatment from their processor. Also, our willingness to send top management into the field to meet regularly with our major merchants at their locations is a perceived distinction and we are using it as a merchant retention tool. While we understand that slightly lower costs can be generated by processing high volumes, we do not think the economic advantages that high volume affords are enough to eliminate ECHO as an acceptable and competitive processor in most cases. Despite these potential advantages, we believe that our success will depend largely on our ability to continuously exceed expectations in terms of performance, service, and price, on our ability to develop new products and services, and on how well and how quickly we enhance our current products and introduce them into the market.

RESULTS OF OPERATIONS

Three Months Ended December 31, 2007 and 2006

Financial highlights for the first quarter of fiscal 2008 as compared to the same period last year were as follows:

- Total revenue remained constant at $19.4 million
- Gross margins from processing and transaction revenue was 27.9% for the current quarter as compared to 33.3% for the prior year
- Operating income decreased 271.8% from $560,000 to an operating loss of $962,000
- Diluted loss per share was $0.08 as compared to earnings of $0.05 per fully diluted share
- Bankcard and transaction processing revenue increased 8.7% to $16.2 million
- Bankcard processing volume increased 8.7% from $467.3 million to $508.1 million
- Check-related revenue decreased 28.8% to $3.2 million
- ACH transactions processed decreased 26.1% to 6.4 million transactions

Revenue. Total revenue remained constant at $19,387,000 for the three months ended December 31, 2007, compared to $19,379,000 for the same period last year. This can be primarily attributed to the 8.7% growth in the bankcard processing revenue offset by the 28.8% decrease in the check services revenue as compared to the same period last year. The decrease in check revenue primarily reflects the wind-down of the Company's Internet wallet business and the discontinuation of services to several merchant categories that management determined were carrying unacceptable levels of business or financial risk.

The bankcard and transaction processing revenue increase was mainly attributable to an 8.7% increase in bankcard processing volume as compared to the prior year period. This increase was the result of our organic growth and the growth from our various sales channels such as direct sales, channel partnerships and technology partnerships.

The check-related processing revenue decrease was attributable to a 26.1% decrease in ACH processing volume. The decrease in ACH revenue was mainly due to the Internet wallet wind-down described above and discontinuation of services to several merchant categories that management determined was carrying unacceptable levels of business and financial risk.

We have one merchant who generated approximately 14.1% of bankcard processing revenue and 11.8% of total revenue during the current quarter.

Cost of Sales. Bankcard processing expenses are directly related to the changes in processing revenue. A major component of the Company’s bankcard processing expense, the interchange fees paid to the card issuing banks, is normally fixed as a percentage of each bankcard transaction dollar processed. Processing-related expenses, consisting primarily of data center processing costs, interchange fees, third-party processing fees, and communication expense, increased from $12,927,000 in the first fiscal quarter of 2007 to $13,972,000 in the current quarter, an 8.1% increase. The increase was primarily attributable to the 8.7% increase in bankcard processing revenue for the current quarter.

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Gross margin was 27.9% for the current quarter as compared to 33.3% for the same period last year. This was mainly attributed to the 28.8% decrease in check related revenue which typically yields a higher margin.

Expense. Other operating costs such as personnel costs, telephone and depreciation expenses increased, from $1,613,000 in the first quarter of 2007 to $1,965,000 for the current fiscal quarter, a 21.8% increase. This was mainly attributable to the increase in personnel costs to support the product development group.

Research and development expenses remained relatively constant from $485,000 for the quarter ended December 31, 2006 to $496,000 in the current year quarter. Continued investment in research and development and IT initiatives is critical to our ability to maintain our competitive position and strengthen our infrastructure to support growth. We anticipate making continued investments in our IT initiatives and expect research and development expenses to remain at current levels for the remainder of the 2008 fiscal year.

Selling, general and administrative expenses increased from $3,508,000 in the first fiscal quarter of 2007 to $3,548,000 for the current fiscal quarter, an increase of 1.1%. This increase was primarily attributable to 1) a $112,000 increase in stock compensation expense; 2) an increase of $78,000 in employee recruitment expense; and 3) a $75,000 increase in board meetings and directors' compensation. These were offset by a $242,000 decrease in salaries and bonuses. As a percentage of total revenue, selling, general and administrative expense was 18.1% for the prior year quarter as compared to 18.3% in the current quarter.

On December 19, 2007, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") to be acquired by Intuit Inc. ("Intuit") in a merger transaction in which ECHO will become a wholly owned subsidiary of Intuit. Pursuant to the terms of the Merger Agreement and subject to the conditions thereof, Intuit will acquire all of the outstanding shares of the Company's common stock and all outstanding equity awards (which will vest in connection with the transaction) for a cash amount of $17.00 per share (less the applicable exercise price in the case of ECHO options), for a total purchase price of approximately $131 million on a fully diluted basis. The transaction is subject to the Company's shareholders approving the transaction for which a special stockholders' meeting is scheduled for February 29, 2008 and the satisfactory completion of certain closing conditions. The Company previously had a merger agreement with Intuit that was entered into December 14, 2006 and mutually terminated by both parties on March 26, 2007. We incurred approximately $368,000 and $286,000 for the three months ended December 31, 2007 and 2006, respectively, related to these merger agreements.

Operating Income. Operating loss for the quarter ended December 31, 2007 was $962,000, as compared to operating income of $560,000 in the same period last year, a 271.8% decrease. The decrease in operating income was primarily due to the reasons described above.

Interest Expense and Income. Net interest income was $88,000 for the three months ended December 31, 2007 as compared to $113,000 interest income for the prior year quarter. The decrease was due to the decreased cash and cash equivalents balances and an increase in debt balances.

Effective Tax Rate. The effective tax rate for the quarter ended December 31, 2007 was a benefit of 37.3% as compared to a provision of 49.6% for the prior year quarter. The decrease in the tax rate was primarily due to the Company having a loss before income taxes for the quarter ended December 31, 2007 as compared to income before taxes for the corresponding prior year period.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2007 we had available cash and cash equivalents of $9,158,000, restricted cash of $1,145,000 in reserve with our primary processing bank and working capital of $9,794,000.

Accounts receivable, net of allowance for doubtful accounts, increased from $3,322,000 at September 30, 2007 to $3,589,000 at December 31, 2007. Allowance for doubtful accounts reserved mainly for chargeback losses increased to $347,000 at December 31, 2007 from $321,000 at September 30, 2007.

Net cash provided by operating activities for the three months ended December 31, 2007 was $98,000, as compared to net cash provided by operating activities of $1,254,000 for the three months ended December 31, 2006. This was mainly due to the decrease in operating income from $560,000 in the prior year quarter to an operating loss of $962,000.

Cash amounts classified as settlement receivable/payable are amounts due to/from merchants and result from timing differences in our settlement process with those merchants. These timing differences account for the difference between the time that funds are received in our bank accounts and the time that settlement payments are made to merchants. Therefore, at any given time, settlement receivable/payable may vary and ultimately depends on the volume of transactions processed and the timing of the cut-off date. Settlement deposits are cash deposited in our bank accounts from the merchant settlement transactions.

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In the three months ended December 31, 2007, we used $158,000 mainly for the purchase of computer equipment and $1,164,000 for the acquisition and capitalization of software costs, as compared to $126,000 for the purchase of equipment and $931,000 for the acquisition and capitalization of software costs for the same three-month period last year. During the three months ended December 31, 2007, we paid off $122,000 of notes payable obligations. During the three months ended December 31, 2007, we had proceeds of $106,000 from stock option exercises.

At December 31, 2007 we had the following cash commitments:

	Payment Due By Period				
Contractual Obligations	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Long-term debt including interest	$ 1,326,000	$ 513,000	$ 655,000	$ 158,000	$ -0-
Capital lease obligations	25,000	25,000	-0-	-0-	-0-
Operating leases	1,477,000	548,000	483,000	446,000	-0-
Minimum vendor commitments	175,000	175,000	-0-	-0-	-0-
Total contractual cash obligations	$ 3,003,000	$ 1,261,000	$ 1,138,000	$ 604,000	$ -0-

Our primary source of liquidity is expected to be cash flow generated from operations and cash and cash equivalents currently on hand. As of December, 2007, the $3 million line of credit with Bank of the West is unused. Management believes that our cash flow from operations together with cash on hand and our line of credit will be sufficient to meet our working capital and other commitments.

OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2007, we did not have any off-balance sheet arrangements.

RISK FACTORS

Our business, and accordingly, your investment in our common stock, is subject to a number of risks. These risks could affect our operating results and liquidity. You should consider the following risk factors, among others, before investing in our common stock:

Risks Related To Our Business

We rely on cooperative relationships with, and sponsorship by, banks, the absence of which may affect our operations.

We currently rely on cooperative relationships with, and sponsorship by, banks in order to process our Visa, MasterCard and other bankcard transactions. We also rely on several banks for access to the Automated Clearing House ("ACH") for submission of both credit card and check settlements. Our banking relationships are currently with smaller banks (with assets of less than $500,000,000). Even though smaller banks tend to be more susceptible to mergers or acquisitions and are therefore less stable, these banks find the programs we offer more attractive and we believe we cannot obtain similar relationships with larger banks at this time. A bank could at any time curtail or place restrictions on our processing volume because of its internal business policies or due to other adverse circumstances. If a volume restriction is placed on us, it could materially adversely affect our business operations by restricting our ability to process credit card transactions and receive the related revenue. Our relationships with our customers and merchants would also be adversely affected by our inability to process these transactions.

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We currently have two primary bankcard processing and sponsorship relationships, one with First Regional Bank in Los Angeles, California, and another one with National Bank of California in Los Angeles, California, entered into on April 12, 2007. Our agreement with First Regional Bank continues through July 2010 and our agreement with National Bank of California continues through April 2012. We also maintain several banking relationships for ACH processing. While we believe our current bank relationships are sound, we cannot assure that these banks will not restrict our increasing processing volume or that we will always be able to maintain these relationships or establish new banking relationships. Even if new banking relationships are available, they may not be on terms acceptable to us. With respect to First Regional Bank, while we believe their ability to terminate our relationship is cost-prohibitive, they may determine that the cost of terminating their agreement is less than the cost of continuing to perform in accordance with its terms, and may therefore determine to terminate their agreement prior to its expiration. Ultimately, our failure to maintain these banking relationships and sponsorships may have a material adverse effect on our business and results of operations.

Merchant fraud with respect to bankcard and ACH transactions could cause us to incur significant losses.

We significantly rely on the processing revenue derived from bankcard and ACH transactions. If any merchants were to submit or process unauthorized or fraudulent bankcard or ACH transactions, depending on the dollar amount, ECHO could incur significant losses which could have a material adverse effect on our business and results of operations. ECHO assumes and compensates the sponsoring banks for bearing the risk of these types of transactions.

We have implemented systems and software for the electronic surveillance and monitoring of fraudulent bankcard and ACH use. As of December 31, 2007, we maintained a dedicated chargeback reserve of $915,000 at our primary bank specifically earmarked for such activity. Additionally, through our sponsoring banks, as of December 31, 2007, we had access to approximately $21.7 million in merchant deposits to cover any potential chargeback losses. Despite a long history of managing such risk, we cannot guarantee that these systems will prevent fraudulent transactions from being submitted and processed or that the funds set aside to address such activity will be adequate to cover all potential situations that might occur. We do not have insurance to protect us from these losses. There is no assurance that our chargeback reserve will be adequate to offset against any unauthorized or fraudulent processing losses that we may incur. Depending on the size of such losses, our results of operations could be immediately and materially adversely affected.

Excessive chargeback losses could significantly affect our results of operations and liquidity.

Our agreements with our sponsoring banks require us to assume and compensate the banks for bearing the risk of “chargeback” losses. Under the rules of Visa and MasterCard, when a merchant processor acquires card transactions, it has certain contingent liabilities for the transactions processed. This contingent liability arises in the event of a billing dispute between the merchant and a cardholder that is ultimately resolved in the cardholder’s favor. In such a case, the disputed transaction is charged back to the merchant and the disputed amount is credited or otherwise refunded to the cardholder. If we are unable to collect this amount from the merchant’s account, or if the merchant refuses or is unable to reimburse us for the chargeback due to merchant fraud, insolvency or other reasons, we will bear the loss for the amount of the refund paid to the cardholders.

A cardholder, through its issuing bank, generally has until the later of up to four months after the date a transaction is processed or the delivery of the product or service to present a chargeback to our sponsoring banks as the merchant processor. Therefore, management believes that the maximum potential exposure for the chargebacks would not exceed the total amount of transactions processed through Visa and MasterCard for the last four months and other unresolved chargebacks in the process of resolution. For the last four months through December 31, 2007, this potential exposure totaled approximately $663 million. At December 31, 2007, we, through our sponsoring banks, had approximately $112,000 of unresolved chargebacks that were in the process of resolution. At December 31, 2007,

we, through our sponsoring banks, had access to $21.7 million belonging to our merchants. This money has been deposited at the sponsoring bank by the merchants to cover any potential chargeback losses.

For the three-month periods ended December 31, 2007 and 2006, we processed approximately $508 million and $467 million, respectively, of Visa and MasterCard transactions, which resulted in $2.3 million in gross chargeback activities for the three months ended December 31, 2007 and $2.4 million for the three months ended December 31, 2006. Substantially all of these chargebacks were recovered from the merchants.

Nevertheless, if we are unable to recover these chargeback amounts from merchants, having to pay the aggregate of any such amounts would significantly affect our results of operations and liquidity.

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Excessive check return activity could significantly affect our results of operations and liquidity

All check settlement funds are moved utilizing the Automated Clearing House (ACH) system of the Federal Reserve. Submission of an ACH request to withdraw funds may be refused by the receiving bank for a number of reasons, the two most common being the account did not have an adequate balance to honor the request or the account was closed. In each of these situations, we first look to the merchant account for the return of any funds deposited. In some situations, specific merchant reserves are set up in advance in order to honor all returns. In the event neither the merchant bank account nor a specific reserve is adequate to cover a return, we allow either of the processing banks to look to our reserve accounts to cover the return activity. In such cases, we then actively look to recover our advanced funds from the merchant, either from a subsequent day's processing activity or from one-time deposits requested of the merchant. In the event such recovery is not possible, we could suffer a loss on return ACH activity which could affect our results of operations and liquidity.

Failure to participate in the Visa POS Check Service Program would cause us to significantly shift our operating and marketing strategy.

We have significantly increased our infrastructure, personnel and marketing strategy to focus on the potential growth of our check services through the Visa POS Check Service Program. We currently provide critical back-end infrastructure for the service, including our NCN database for verification and our access to the Federal Reserve System's Automated Clearing House for funds settlement and for checks written on bank accounts with banks not participating in the program.

Because we believe the market will continue to gain acceptance of the Visa POS Check Service Program, we have expended significant resources to market our check conversion services and verification services to our merchant base, to solidify our strategic relationships with the various financial institutions that have chosen us as their Acquirer Processor and Third-Party processor under the program, and to sell our other check products such as electronic check re-presentments and check guarantee to the Visa member banks. We have also increased our personnel to handle the increased volume of transactions arising directly from our participation in the program.

Our failure to adequately market our services through this relationship could materially affect our marketing strategy going forward. Additionally, if we fail to adequately grow our infrastructure to address increases in the volume of transactions, cease providing services as a Third-Party processor or Acquirer Processor or are otherwise removed or terminated from the Visa Program, this would require us to dramatically shift our current operating strategy.

Our inability to implement, and/or the inability of third-party software vendors to continue to support and provide maintenance services with respect to, the third-party vendors' products, could significantly affect our results of operations and financial condition.

We utilize various third-party software applications and depend on the providers of such software applications to provide support and maintenance services to us. In the event that a third-party software vendor fails to continue to support and maintain its software application, or fails to do so in a timely manner, this could significantly affect our results of operations and financial condition.

Our inability to ultimately implement, or a determination to cease the implementation of various of our software technology initiatives will significantly adversely affect our results of operations and financial condition.

We have spent significant time and monetary resources implementing several software technologies, which resulted in significant cost being capitalized by us as non-current software assets. The implementation of these technologies will provide us with substantial operational advantages that would allow us to attract and retain larger merchants, as well

as the small and mid-market merchants that have been our target market. Management believes that the implementation of these software technologies, and the technologies themselves, continues to be in the best interests of, and the most viable alternative for, the Company. However, the inability to ultimately implement, or a determination to cease the implementation of these software technologies would cause these assets to become impaired, and the corresponding impairment would significantly adversely affect our results of operations and financial condition.

A significant amount of our bankcard processing revenue is dependent on approximately 100 merchant accounts, several of which are very large merchants. The loss of a substantial portion of these accounts would adversely affect our results of operations.

We depend on approximately 100 key merchant accounts for our organic growth and profitability. One merchant accounted for approximately 14.1% of our bankcard processing revenue during the quarter ended December 31, 2007. The loss of this account or the loss of merchants from this select group could adversely affect our results of operations.

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The business activities of our merchants, third party independent sales organizations and/or third party processors could affect our business, financial condition and results of operations.

We provide direct and back-end bankcard and check processing and collection services (including check verification, conversion and guarantee services) to merchants across many industries. We provide these services directly and through third party independent sales organizations and third party processors. To the extent any of these merchants, independent sales organizations or third party processors conduct activities which are deemed illegal, whether as a result of the interpretation or re-interpretation of existing law by federal, state or other authorities, or as a result of newly introduced legislation, and/or to the extent these merchants, independent sales organizations or third party processors otherwise become involved in activities that incur civil liability from third parties, (including from federal, state or other authorities), those legal authorities and/or those third parties could attempt to pursue claims against us, including, without limitation, for aiding the activities of those merchants. Those legal authorities and/or those third parties could also pursue claims against us based on their interpretation or re-interpretation of existing law, based on their interpretation or re-interpretation of newly introduced legislation, and/or based on alternative causes of action that we can not predict. While we believe that the services we provide are not illegal, and while we believe that our services do not directly or indirectly aid in the activities of our merchants, independent sales organizations or third party processors, and while we have no intent to assist any such activities, of our merchants, independent sales organizations or third party processors (other than to provide general processing and collection services, or check verification, conversion and guarantee services in the case of check services, consistent with past practice), any claims by legal authorities or third parties would require us to expend financial and management resources to address and defend such claims. Additionally, the aggregate resolution of any such claims could require us to disgorge revenues or profits, pay damages or make other payments. The occurrence of any of the foregoing would have an adverse impact on our business, financial condition and results of operations.

As we have previously disclosed, several of our former merchants provided consumers access to “Internet wallets,” which subsequently permitted consumers to use funds in those “Internet wallets” to, among other transactions, participate in gaming activities over the Internet. In October 2006, the Unlawful Internet Gaming Enforcement Act was passed and signed into law. As a result of the passed legislation, several of our Internet wallet merchants, all of which used our check services, had a significant drop in processing activities during the quarter ended December 31, 2006 as we wound down the services we provided to them. During February 2007, we decided to cease processing and collection services for all Internet wallet customers. Our “Internet wallet” merchants comprised approximately 11.0% of our check revenue for the year ended September 30, 2007, of which no amounts were recorded after March 2007. On March 27, 2007, we entered into a Non-Prosecution Agreement pursuant to which the Office of the United States Attorney for the Southern District of New York agreed not to pursue actions against us and our subsidiaries for activities related to our provision of payment processing services to Internet wallets that provided services to online gaming websites during the period from January 2001 through and including the date of the signing of the Non-Prosecution Agreement. Pursuant to the terms of the Non-Prosecution Agreement, we agreed to pay estimated profits to the United States in the amount of a $2,300,000 civil disgorgement settlement upon the execution of the Non-Prosecution Agreement, which represented our management’s estimate of our profits from processing and collection services provided to Internet wallets since 2001. We agreed to maintain a permanent restriction upon providing automated clearing house services to any business entity providing Internet gambling services to customers in the United States, so long as the processing services and gambling services are illegal under the laws of the United States. Additionally, we agreed to, among other matters, cooperate fully and actively with the U.S. Attorney’s Office, the Federal Bureau of Investigation, and with any other agency of the government designated by the U.S. Attorney’s Office, and to not commit any violations of law. Our cooperation obligations will continue until the later of one year from the date of the signing of the Non-Prosecution Agreement or the date upon which all prosecutions arising out of the conduct described in the Non-Prosecution Agreement are final.

Actions by federal, state or other authorities, or private third parties, could attempt to seize or otherwise attempt to take action against the reserve and settlement accounts we hold pursuant to our agreements with our merchants (to protect against returns and other losses we may incur), the loss of which could adversely affect our financial condition and results of operation.

We hold reserve and settlement accounts on behalf of our bankcard and check merchants to protect us against returns and other losses we may incur as a result of the merchant's activities. To the extent any of these merchants conduct activities which are deemed illegal, whether as a result of the interpretation or re-interpretation of existing law by federal, state or other authorities, or as a result of newly introduced legislation, and/or to the extent these merchants otherwise become involved in activities that incur civil liability from third parties (including from federal, state or other authorities), those federal, state or other authorities, and/or those private third parties, could attempt to seize or otherwise attempt to take action against the reserve and settlement accounts we hold pursuant to our agreements with those merchants. The loss or decrease of any of these reserve or settlement accounts could cause us to become directly responsible for returns and other losses, which could adversely affect our financial condition and results of operation.

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New or amended legislation and/or regulations could significantly affect our business operations and the business operations of our merchants.

We provide direct and back-end bankcard and check processing and collection services (including check verification, conversion and guarantee services) to merchants across many industries. We provide these services directly and through third party independent sales organizations and third party processors. To the extent any of these industries, or our services within these industries, become subject to new legislation or regulations, or existing law or regulations are amended in a manner that affects our provision of services within these industries, this could significantly affect our business operations and the business operations of those merchants.

The business in which we compete is highly competitive and there is no assurance that our current products and services will stay competitive or that we will be able to introduce new products and services to compete successfully.

We are in the business of processing payment transactions and designing and implementing integrated systems for our customers so that they can better use our services. This business is highly competitive and is characterized by rapid technological change, rapid rates of product obsolescence, and rapid rates of new product introduction. Our market share is relatively small as compared to most of our competitors and most of these competitors have substantially more financial and marketing resources to run their businesses. While we believe our small size provides us the ability to move quickly in some areas, our competitors' greater resources enable them to investigate and embrace new and emerging technologies, to quickly respond to changes in customers' needs, and to devote more resources to product and services development and marketing. We may face increased competition in the future and there is no assurance that current or new competition will allow us to keep our customers. If we lose customers, our business operations may be materially adversely affected, which could cause us to cease our business or curtail our business to a point where we are no longer able to generate sufficient revenue to fund operations. There is no assurance that our current products and services will stay competitive with those of our competitors or that we will be able to introduce new products and services to compete successfully in the future.

If we are unable to process significantly increased volume activity, this could affect our operations and we could lose our competitive position.

We have built transaction processing systems for check verification, check conversion, ACH processing, and bankcard processing activities. While current estimates regarding increased volume are within the capabilities of each system, it is possible that a significant increase in volume in one of the markets would exceed a specific system's capabilities. To minimize this risk, we have redesigned and upgraded our check related processing systems and previously purchased a high end system to process bankcard activity. No assurance can be given that it would be able to handle a significant increase in volume or that the operational enhancements and improvements will be completed in time to avoid such a situation. In the event we are unable to process increases in volume, this could significantly adversely affect our banking relationships, our merchant customers and our overall competitive position, and could potentially result in violations of service level agreements which would require us to pay penalty fees to the other parties to those agreements. Losses of such relationships, or the requirement to pay penalties, may severely impact our results of operations and financial condition.

We incur financial risk from our check guarantee service.

The check guarantee business is essentially a risk management business. Any limitation of a risk management system could result in financial obligations being incurred by ECHO relative to our check guarantee activity. While ECHO has provided check guarantee services for several years, there can be no assurance that our current risk management systems are adequate to assure against any financial loss relating to check guarantee. ECHO is enhancing its current risk management systems and it is being conservative with reference to the type of merchants to which it offers

guarantee services in order to minimize this risk but no assurance can be given that such measures will be adequate. During the quarter ended December 31, 2007, we incurred $90,000 in losses from uncollected guaranteed checks.

Security breaches could impact our continued operations, our results of operations and liquidity.

We process confidential financial information and maintain several levels of security to protect this data. Security includes hand and card-based identification systems at our data center locations that restrict access to the specific facilities, various employee monitoring and access restriction policies, and various firewall and network management methodologies that restrict unauthorized access through the Internet. With the exception of one incident in December 2006, these systems have worked effectively in the past. The Company continues to strengthen its security processes and systems but there can be no assurance that they will continue to operate without a security breach in the future. Depending upon the nature of the breach, the consequences of security breaches could be significant and dramatic to ECHO's continued operations, results of operations and liquidity.

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The industry in which we operate involves rapidly changing technology and our failure to improve our products and services or to offer new products and services could cause us to lose customers.

Our business industry involves rapidly changing technology. Recently, we have observed rapid changes in technology as evidenced by the Internet and Internet-related services and applications, new and better software, and faster computers and modems. As technology changes, ECHO's customers desire and expect better products and services. Our success depends on our ability to improve our existing products and services and to develop and market new products and services. The costs and expenses associated with such an effort could be significant to us. There is no assurance that we will be able to find the funds necessary to keep up with new technology or that if such funds are available that we can successfully improve our existing products and services or successfully develop new products and services. Our failure to provide improved products and services to our customers or any delay in providing such products and services could cause us to lose customers to our competitors. Loss of customers could have a material adverse effect on ECHO.

Our inability to protect or defend our trade secrets and other intellectual property could hurt our business.

We have expended a considerable amount of time and money to develop information systems for our merchants. We regard these information systems as trade secrets that are extremely important to our payment processing operations. We rely on trade secret protection and confidentiality and/or license agreements with employees, customers, partners and others to protect this intellectual property and have not otherwise taken steps to obtain additional intellectual property protection or other protection on these information systems. We cannot be certain that we have taken adequate steps to protect our intellectual property. In addition, our third-party confidentiality agreements can be breached and, if they are, there may not be an adequate remedy available to us. If our trade secrets become known, we may lose our competitive position, including the loss of our merchant and bank customers. Such a loss could severely impact our results of operations and financial condition.

Additionally, while we believe that the technology underlying our information systems does not infringe upon the rights of any third parties, there is no assurance that third parties will not bring infringement claims against us. We also have the right to use the technology of others through various license agreements. If a third party claimed our activities and/or these licenses were infringing their technology, while we may have some protection from our third-party licensors, we could face additional infringement claims or otherwise be obligated to stop utilizing intellectual property critical to our technology infrastructure. If we are not able to implement other technology to substitute the intellectual property underlying a claim, our business operations could be severely effected. Additionally, infringement claims would require us to incur significant defense costs and expenses and, to the extent we are unsuccessful in defending these claims, could cause us to pay monetary damages to the person or entity making the claim. Continuously having to defend such claims or otherwise making monetary damages payments could materially adversely affect our results of operations.

If we do not continue to invest in research and development, and/or otherwise improve our technology platforms, we could lose our competitive position.

Because technology in the payment processing industry evolves rapidly, we need to continue to invest in research and development in both the bankcard processing business segment and the check-related products segment in order to remain competitive. This includes investments in our technology platforms to permit them to process higher transaction volumes, to transition some of these technologies to more commonly used platforms, to permit us to process foreign currency transactions, and to expand our point-of-sale connection capability for our bankcard processing services. Research and development expenses increased from $485,000 in the first quarter of fiscal 2007 to $496,000 in the current year quarter 2007. Most of our development project costs were capitalized once we entered into coding and testing phases. We continue to evaluate projects, which we believe will assist us in our efforts to stay

competitive. Although we believe that our investment in these projects will ultimately increase earnings, there is no assurance as to when or if these new products will show profitability or if we will ever be able to recover the costs invested in these projects. Additionally, if we fail to commit adequate resources to grow our technology on pace with market growth, we could quickly lose our competitive position, including the loss of our merchant and bank customers.

Failure to obtain additional funds can impact our operations and future growth.

We use funds generated from operations, as well as funds obtained through credit facilities and equity financing, to finance our operations. As a result of the cash flow generated from operations, we believe we have sufficient cash to support our business activities, including research, development and marketing costs. However, future growth may depend on our ability to continue to raise additional funds, either through operations, bank borrowings, or equity or debt financings. There is no assurance that we will be able to continue to raise the funds necessary to finance growth or continue to generate the funds necessary to finance operations, and even if such funds are available, that the terms will be acceptable to us. The inability to generate the necessary funds from operations or from third parties in the future may require us to scale back our research, development and growth opportunities, which could harm our overall operations.

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While we maintain insurance protection against claims related to our services, there is no assurance that such protection will be adequate to cover potential claims and our inability to otherwise pay such claims could harm our business.

We maintain errors and omissions insurance for the services we provide. While we believe the limit on our errors and omissions insurance policy is adequate and consistent with industry practice, if claims are brought by our customers or other third parties, we could be required to pay the required claim or make significant expenditures to defend against such claims in amounts that exceed our current insurance coverage. There is no assurance that we will have the money to pay potential plaintiffs for such claims if they arise beyond the amounts insured by us. Making these payments could have a material adverse effect on our business.

Involvement in litigation could harm our business.

We are involved in various lawsuits arising in the ordinary course of business. Although we believe that the claims asserted in such lawsuits are without merit, the cost to us for the fees and expenses to defend such lawsuits could have a material adverse effect on our financial condition, results of operations or cash flow. In addition, there can be no assurance that we will not at some time in the future experience significant liability in connection with such claims. For the three months ended December 31, 2007, we spent approximately $204,000 in total legal fees, including $118,000 in merger related legal expenses.

Our inability to recover from natural disasters could harm our business.

We currently maintain two data centers: one in Camarillo, California, and one in Albuquerque, New Mexico (co-location facility). Should a natural disaster occur in any of the locations, it is possible that we would not be able to fully recover full functionality at one of our data centers. To minimize this risk, we completed a full back-up site in Albuquerque in October of 2006. Despite such contingent capabilities, it is possible a natural disaster could limit or completely disable a specific service offered by ECHO until such time that the specific location could resume its functionality. Our inability to provide such service could have a material adverse effect on our business and results of operations.

Increases in the costs and requirements of technical compliance could harm our business.

The services which we offer require significant technical compliance. This includes compliance to both Visa and MasterCard regulations and association rules, NACHA guidelines and regulations with regard to the Federal Reserve System's Automated Clearing House and check related issues, and various banking requirements and regulations. We have personnel dedicated to monitoring our compliance to the specific industries we serve and when possible, we are moving the technical compliance responsibility to other parties. As the compliance issues become more defined in each industry, the costs and requirements associated with that compliance may present a risk to ECHO. These costs could be in the form of additional hardware, software or technical expertise that we must acquire and/or maintain. Additionally, burdensome or unclear requirements could increase the cost of compliance. While ECHO currently has these costs under control, we have no control over those entities that set the compliance requirements so no assurance can be given that we will always be able to underwrite the costs of compliance in each industry wherein we compete.

Risks Associated With Our Common Stock

If we need to sell or issue additional shares of common stock or assume additional debt to finance future growth, our stockholders' ownership could be diluted or our earnings could be adversely impacted.

Our business strategy may include expansion through internal growth, by acquiring complementary businesses or by establishing strategic relationships with targeted customers and suppliers. In order to do so, or to fund our other activities, we may issue additional equity securities that could dilute our stockholders' stock ownership. We may also assume additional debt and incur impairment losses related to goodwill and other tangible assets if we acquire another company and this could negatively impact our results of operations. As of the date of this report, management has no plan to raise additional capital through the sale of securities and believes that our cash flow from operations together with cash on hand will be sufficient to meet our working capital and other commitments.

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We have adopted a number of anti-takeover measures that may depress the price of our common stock.

Our rights agreement, our ability to issue additional shares of preferred stock and some provisions of our articles of incorporation and bylaws could make it more difficult for a third party to make an unsolicited takeover attempt of us. These anti-takeover measures may depress the price of our common stock by making it more difficult for third parties to acquire us by offering to purchase shares of our stock at a premium to its market price.

Our stock price has been volatile.

Our common stock is quoted on the NASDAQ Capital Market, and there can be substantial volatility in the market price of our common stock. Over the course of the quarter ended December 31, 2007, the market price of our common stock has been as high as $16.66, and as low as $7.40. Additionally, over the course of the year ended September 30, 2007, the market price of our common stock was as high as $18.73 and as low as $8.40. The market price of our common stock has been, and is likely to continue to be, subject to significant fluctuations due to a variety of factors, including quarterly variations in operating results, operating results which vary from the expectations of securities analysts and investors, changes in financial estimates, changes in market valuations of competitors, announcements by us or our competitors of a material nature, loss of one or more customers, additions or departures of key personnel, future sales of common stock and stock market price and volume fluctuations. In addition, general political and economic conditions such as a recession, or interest rate or currency rate fluctuations may adversely affect the market price of our common stock.

We have not paid and do not currently plan to pay dividends, and you must look to price appreciation alone for any return on your investment.

Some investors favor companies that pay dividends, particularly in general downturns in the stock market. We have not declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings for funding growth, and we do not currently anticipate paying cash dividends on our common stock in the foreseeable future. Because we may not pay dividends, your return on this investment likely depends on your selling our stock at a profit.

Risks Related To Merger

Our proposed transaction with Intuit may adversely affect our results of operations whether or not the merger is completed, and the merger may not be completed on a timely basis or at all.

In response to our pending merger transaction with Intuit, our customers may defer purchasing decisions or elect to switch to other suppliers due to uncertainty about the direction of our product and service offerings following the merger and our willingness to support, service, develop and upgrade existing products. In order to address customer uncertainty, we may incur additional obligations. Uncertainty surrounding the proposed transaction also may have an adverse effect on employee morale and retention, and result in the diversion of management attention and resources. In addition, the market value of our common stock will continue to vary prior to completion of the merger transaction due to changes in the business, operations, or prospects of ECHO, market assessments of the merger, market and economic considerations, or other factors. However, there will be no adjustment to the consideration to be received by our stockholders in connection with the merger, and in particular there will be no increase in the consideration payable by Intuit even if our value increases or we report better than expected financial results. We do not have a right to terminate the merger agreement based upon increases in the value of our common stock. In addition, because the consideration is payable in cash, our stockholders will not have any opportunity to benefit from an increase in the value of Intuit’s common stock after the merger closes.

The merger is subject to a number of conditions, many of which are beyond our control. If the merger is not completed, the price of our common stock may decline to the extent that the current market price of our common stock reflects a market assumption that the merger will be completed. In addition, our business may be harmed to the extent that customers, suppliers or others believe that we cannot effectively compete in the marketplace without the merger or there is customer and employee uncertainty surrounding the future direction of our product and service offerings and strategy on a stand-alone basis. The closing of the merger and the integration of our business into Intuit's business will make substantial demands on our management, which may limit the time available to management to attend to other operational, financial and strategic issues of our company, which could adversely affect our business. We also will be required to pay significant costs incurred in connection with the merger, including legal, accounting and financial advisory fees, whether or not the merger is completed. Moreover, under specified circumstances, we may be required to pay Intuit a termination fee of $3,925,000 in connection with the termination of the merger agreement under certain circumstances.

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Some of our material agreements have provisions which require us to obtain consents or waivers from other parties to such agreements in connection with a merger or change of control. Our failure to obtain such consents could adversely impact our ability to consummate the merger.

Some of our material agreements require us to obtain consents or waivers from other parties in connection with mergers or changes in control. While we are currently in the process of obtaining consents and waivers from all required third parties, there can be no assurance that we will obtain such consents or waivers from all required third parties. Our failure to obtain necessary third party consents and waivers could violate the terms of the relevant contracts, cause a failure of the relevant conditions in the merger agreement, and could result in our failure to consummate the merger.

If the merger does not occur, we will not benefit from the expenses we have incurred in connection with the merger.

The merger may not be completed. If the merger is not completed, we will have incurred substantial expenses for which no ultimate benefit will have been received.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to interest rate risk is very limited. A hypothetical 1% interest rate change would have no impact on our results of operations.

Item 4. Controls and Procedures

As of December 31, 2007, the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based upon that evaluation , our Chief Executive Officer and our Chief Financial Officer concluded that as of December 31, 2007, our disclosure controls and procedures were effective.

During the quarter ended December 31, 2007, there was no change in our internal control over financial reporting that materially affects, or that is reasonably likely to materially affect, our internal control over financial reporting, except the hiring of an internal auditor.

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PART II. OTHER INFORMATION

Item 1a. Risk Factors

For a listing of our Risk Factors, see Part I, Item 2.

Item 6. Exhibits

See exhibit index.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ELECTRONIC CLEARING HOUSE, INC.
(Registrant)

Date: February 11, 2008	By: /s/ Alice Cheung
	Alice Cheung, Treasurer and Chief Financial Officer

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EXHIBIT INDEX

Exhibit Number	Exhibit Description
2.1	Agreement and Plan of Merger dated December 19, 2007 by and among Intuit, Inc., Elan Acquisition Corporation and Electronic clearing House, Inc.[1]
10.1	Form of Voting Agreement between Intuit, Inc. and the Officers and Directors of Electronic Clearing House, Inc.[1]
31.1	Certificate of Charles J. Harris, Chief Executive Officer of Electronic Clearing House, Inc. pursuant to Rule 13a-4(a) under the Securities and Exchange Act of 1934, as amended.
31.2	Certificate of Alice L. Cheung, Chief Financial Officer of Electronic Clearing House, Inc. pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as amended.
32.1	Certificate of Charles J. Harris, Chief Executive Officer of Electronic Clearing House, Inc. pursuant to Rule 13a-14(b) under the Securities and Exchange Act of 1934, as amended.
32.2	Certificate of Alice L. Cheung, Chief Financial Officer of Electronic Clearing House, Inc. pursuant to Rule 13a-14(b) under the Securities and Exchange Act of 1934, as amended.

[1] Filed as an exhibit to Electronic Clearing House, Inc.'s Form 8-K filed with the Securities and Exchange Commission on December 20, 2007.