

Company Registration No. 4298247

Smoothwall Limited

Annual Report and Financial Statements

31 December 2017



Smoothwall Limited

Annual Report And Financial Statements 2017

Contents	Page
Officers and professional advisers	1
Strategic report	2
Directors' report	5
Independent Auditors' report	8
Consolidated profit and loss account	11
Consolidated statement of comprehensive income	11
Consolidated balance sheet	12
Company balance sheet	13
Consolidated statement of changes in equity	14
Company statement of changes in equity	14
Consolidated statement of cash flows	15
Notes to the financial statements	16

Smoothwall Limited

Officers And Professional Advisers

Directors

J G Logan
R Hurd-Wood
L J Stone
G M Ell
D G Hanley
M S Randhawa

Registered office

Avalon House
1 Savannah Way
Leeds Valley Park
Leeds
LS10 1AB

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square
29 Wellington Street
Leeds
LS1 4DL

Smoothwall Limited

Strategic Report

The directors present the audited consolidated financial statements of Smoothwall Limited and its subsidiaries ("the Group") for the year ended 31 December 2017.

Principal activities

The principal activity of the Group and Company is the development and sale of software for internet security.

Review of the business and key performance indicators

Smoothwall's strategy remains to build a strong resilient business, with increasing revenues and good cash generation. This requires us to provide the products, services and support that customers' need to meet their business requirements or legislative needs, thus driving customer satisfaction.

Customer retention is a measure of customer satisfaction, increasing once again from 94% in 2016 to 95%.

During 2017 total group revenue, on a cash basis, reduced to £13.0m (2016: £14.1m), with closing cash balances increasing by 65%. On an accruals basis total group revenue reduced to £12.2m (2016: £12.3m). The company continues to be self-financing, with no bank borrowing, lenders or external shareholders.

As in previous years, the Directors consider that the statutory financial statements do not accurately reflect the trading position of the company due to the different treatment of revenues and costs under UK accounting standards compared to a cash basis. All costs, including those of software development and sales commissions, are recognised in the profit and loss account as they are incurred. In contrast, sales of software licences and support contracts, which constitute approximately 80% of the value of a typical contract, are credited to a deferred revenue balance sheet account. These revenues are then released to the profit and loss account in equal monthly instalments over the life of the contract. With approximately 90% of contracts being for three or more years and the continuing growth in overall sales, the deferred revenue account continues to grow, as more revenue is deferred per year than is released from sales made in previous years. In 2017 the deferred revenue account grew by £0.5 million to £15.9 million (see notes 16 and 17).

The directors manage the company on a cash accounting basis and thus we provide the following abbreviated non-statutory results compiled without application of our GAAP compliant revenue recognition policies:

Consolidated P&L Non-GAAP (excluding deferred revenue) (Unaudited)

	GROUP 31-Dec-17 £	GROUP 31-Dec-16 £	LIMITED 31-Dec-17 £	LIMITED 31-Dec-16 £
Turnover excluding deferred	12,982,967	14,060,780	10,154,272	11,320,766
Cost of Sales	(2,374,538)	(2,826,799)	(1,283,632)	(1,569,728)
Gross Profit	10,608,430	11,233,981	8,870,640	9,751,038
Admin Expenses excluding share options	(10,772,646)	(9,883,144)	(8,676,516)	(8,137,166)
Management Accounts - Operating (Loss)/Profit	(164,216)	1,350,837	194,124	1,613,872
<i>Reconciliation to Statutory P&L</i>				
Deferred Revenue	(816,719)	(1,796,782)	(742,785)	(1,853,884)
Exceptional Item	(175,201)	0	(175,201)	0
Share Option Charge	(416,231)	(323,571)	(416,231)	(323,571)
Statutory Accounts Operating Loss	(1,572,367)	(769,516)	(1,140,093)	(563,583)
EBITDA (using management accounts basis)	211,047	1,530,735	354,567	1,795,602
EBITDA %	0.02%	1.1%	3%	16%
Sales Growth % (12 mth) – excluding exceptional	8%	13%	10%	13%
Closing Cash Balances	2,525,963	1,528,620	1,719,160	1,160,375

Smoothwall Limited

Strategic Report

Commentary

Work on safeguarding capabilities continued in 2017, building on the strategy initially begun in 2016. Where 2016's efforts focussed on developing safeguarding capabilities in the core Filtering product, in 2017 it was decided to create a second product specifically focussed on Monitoring. Monitoring allows the designated safeguarding leaders in educational institutions to be alerted to at-risk students exhibiting signs of mental health issues, bullying, radicalisation, grooming, self-harm or even suicide. This service comprises software and services, as the moderation of monitoring alerts incorporates a human element, so that the customer sees only those alerts that are most critical for them to action. This new service was called Visigo, and was launched in late 2017.

The major corporate event in 2017 was the Management Buy Out (MBO), backed by Tenzing Private Equity, which completed in October 2017. After this, Michael Marks moved from COO to the interim CEO position, and a search was started for a new permanent CEO.

Following the MBO, the decision was taken to shut down our development office in Fareham, UK. The principle reason was to bring the whole company under one roof, to foster closer working relationships between customer-facing and development teams, and increase our ability to deliver on-time, in-full, customer-focussed product releases. This impacted a number of engineering and customer support roles, and whilst several key personnel decided to relocate to Leeds, there were a number of redundancies announced. In keeping with our values to treat people with respect, and to ensure planned and structured knowledge transfer, more than 8 months' advance notice was given, with the Fareham office closure not due to take place until July 31st 2018. In addition to the productivity benefits, there are also synergies planned in staff and property costs, as we will right-size the number of personnel in Customer Support and in the Technology team. We expect there to be exceptional costs associated with these actions.

Looking ahead

In 2018 we will be strengthening our leadership team in order to establish the foundations for anticipated growth. With the appointment of an experienced Board following the MBO, we see the potential to attract strong talent in a areas including Marketing, Technology, Finance and Sales. The benefits of this have already been seen in the appointment of an experienced CTO at the end of 2017, who is leading a transformation of our technology and engineering teams. We expect this to lead to improvements in our ability to deploy new solutions to customers with increasing release cadence and quality. Our new CTO is also leading the work to transition our engineering base from Fareham to Leeds.

We see revenue growth in 2018 coming mainly from our UK operations, where the combination of a channel-first strategy and tenured salesforce will drive new business opportunity. We also have key renewals in 2018 with established customers that are very happy and have high confidence in renewing those contracts. The US represents a growth opportunity, as we have invested in product enhancements to enable greater data throughput, enabling us to increase our win-rate in larger customer deployment scenarios than in 2017. We will also continue to develop our Visigo and other monitoring solutions to grow our market share in this area. We believe that the monitoring space, whilst nascent, will grow in response to the unfortunate increase in online bullying, self-harm, mental health issues and even suicides. We believe media and political attention on these issues will grow through 2018 and beyond, increasing the pressure on schools to take decisive action, and we will be pressing for tightening in legislation in this regard.

We will be investing in new CRM tools to improve sales productivity, management reporting and controls. Providing outstanding customer service has always been a priority for Smoothwall, but in 2018 we will make significant investments in upgrading our systems in this area too. We expect to achieve improvements in a number of areas including: our online support capability, including to scale effectively; an online chat capability to facilitate multi-channel support; improved granularity in reporting for trend analysis and continuous process enhancements; cost efficiencies & productivity improvements in Customer Support.

Smoothwall Limited

Strategic Report

Approved by the Board of Directors
and signed on behalf of the Board



G M Eil
Director
17 January 2019

Smoothwall Limited

Directors' Report

The directors present their annual report and audited consolidated financial statements of the Group and Company for the year ended 31 December 2017.

Principal Risks and uncertainties

The Group and Company face a number of risks associated with day-to-day operations, technology and the execution of its strategy. The principal risks are identified below with appropriate mitigation.

Technology risks

Long-term revenue growth requires us to deal with a wider range of customer segments. Whilst these segments share many basic requirements such as ease of use and reliability, there are also some substantive differences. As examples, our US education deployments average three or more times the number of users than is typical in the UK, whereas business users are more focussed on productivity, security and firewall capabilities than the high quality filtering regarded as essential to UK education. Smoothwall must continue to enhance its product set to properly address the requirements of these new market segments.

Smoothwall has been early or first to market with technology responding to changes in the market, such as being one of the first to support the use of encrypted web traffic. With more new web and internet technologies on the horizon, our R&D team must deliver the innovation that will ensure that present and new customers continue to regard Smoothwall as the best choice for their security and web filtering needs.

Financial Risks

The Group's operations expose it to a variety of financial risks, including foreign exchange rate risk, credit risk and liquidity risk. The Group has controls in place that seek to minimise any potential adverse effects of such risks on the Group's financial performance. These controls are as follows:

Currency Risk/Foreign Exchange risk

Part of our currency risk is minimised by having a direct operation in our major market in the USA, therefore matching liabilities and assets in the local currency.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the Company's local currency. Cash balances in the bank are monitored in line with future liabilities and exchange movements.

Credit risk

As a large proportion of the customer base is public sector the risk of customers failing to pay their debts is low, as evidenced by our relatively low provision for bad debtors and limited experience of bad debts. UK commercial customers are subject to a credit check before acceptance of order.

Liquidity risk

Being largely a software and services business it is not capital intensive. We continue to address liquidity risks through a careful focus on the control of overheads, cash management, debtor and creditor control. The Group has maintained positive bank balances for many years and has no external borrowings.

Strategy execution risks

With differing needs across the various market segments that we serve, coupled with dynamic market conditions, the primary risk to strategy execution is for focus to be drawn from core markets in an effort to try and deliver improvements for everyone. What is clear, however, is that as we continue to improve the ease of installation, usability and supportability of our products, this provides an excellent foundation for any market.

Smoothwall Limited

Directors' Report

Human Resources Risks

The skills, knowledge and experience of our people are the underpinning of our success. As a growing business it is unavoidable for this knowledge to be concentrated in a number of key individuals both on the technical and commercial sides of the organisation.

Mitigation of these risks falls into two key areas. Firstly, by offering professional development to all members of the team, both to develop the management capabilities of more senior people and to share knowledge with junior members of the team. Secondly, by maintaining our monitoring of market salary and benefits packages, informing us of what we need to do in order to keep pace with movements as labour markets become more competitive during a time of economic growth and skills shortage.

Directors

The directors who held office during the year, and up to the date of the signing of the financial statements unless otherwise stated, are given below:

G A Lungley (resigned 4 October 2017)
N J Sharp (resigned 20 July 2018)
J G Logan
M Marks (resigned 31 July 2018)
R Hurd-Wood (appointed 4 October 2017)
L J Stone (appointed 4 October 2017)
G M Ell (appointed 31 July 2018)
D G Hanley (appointed 24 July 2018)
M S Randhawa (appointed 2 August 2018)

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006. The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

The company is loss making and has net liabilities, but has a positive cash position and is forecast to continue in this position for the foreseeable future. The Company has no external debt.

After making enquires and reviewing forecasts, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Provision of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

Smoothwall Limited

Directors' Report

- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP will be proposed for reappointment in accordance with section 487 of the Companies Act 2006.

Approved by the Board of Directors
and signed on behalf of the Board

A handwritten signature in black ink, appearing to read 'Georg Ell', with a horizontal line underneath the name.

Georg Ell
Director
17 January 2019

Smoothwall Limited

Independent auditors' report to the members of Smoothwall Limited

Report on the audit of the financial statements

Opinion

In our opinion, Smoothwall Limited's group financial statements and company financial statements (the "financial statements"):

- • give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2017 and of the group's loss and cash flows for the year then ended;
- • have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- • have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 December 2017; the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the group and parent company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Smoothwall Limited

Independent auditors' report to the members of Smoothwall Limited (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of the Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Smoothwall Limited

Independent auditors' report to the members of Smoothwall Limited (continued)

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Stephanie Yeates

Stephanie Yeates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

22 January 2019

Smoothwall Limited

Consolidated profit and loss account Year ended 31 December 2017

	Note	2017	2016
		£	£
Turnover	5	12,201,122	12,263,998
Cost of sales		(2,427,538)	(2,826,799)
Gross profit		9,773,584	9,437,199
Administrative expenses		(11,170,750)	(10,206,715)
Operating loss before exceptional items		(1,397,166)	(769,516)
Exceptional items	6	(175,201)	-
Operating loss	7	(1,572,367)	(769,516)
Interest payable and similar charges		(21,128)	(20,033)
Loss before taxation		(1,593,495)	(789,549)
Tax on loss	10	(88,883)	317,268
Loss for the financial year		(1,682,378)	(472,281)

All activities derive from continuing operations.

Consolidated statement of comprehensive income Year ended 31 December 2017

	2017	2016
	£	£
Loss for the financial year	(1,682,378)	(472,281)
Exchange difference on translation	(14,467)	(801,616)
Total other comprehensive expense relating to the year	(1,696,845)	(1,273,897)

Smoothwall Limited

Consolidated balance sheet As at 31 December 2017

		2017	2016
	Note	£	£
Fixed assets			
Intangible assets	11	2,797	3,234
Tangible assets	12	154,525	229,569
		<u>157,322</u>	<u>232,803</u>
Current assets			
Inventories	14	569,536	688,918
Debtors	15	4,855,960	6,332,026
Cash at bank and in hand		2,525,963	1,528,620
		<u>7,951,459</u>	<u>8,549,564</u>
Creditors: amounts due within one year	16	<u>(10,556,744)</u>	<u>(10,435,116)</u>
Net current liabilities		<u>(2,605,285)</u>	<u>(1,885,552)</u>
Total assets less current liabilities		<u>(2,447,963)</u>	<u>(1,652,749)</u>
Creditors: amounts due after more than one year	17	<u>(7,877,498)</u>	<u>(7,808,329)</u>
Net liabilities		<u><u>(10,325,461)</u></u>	<u><u>(9,461,078)</u></u>
Capital and reserves			
Called up share capital	18	99	85
Share premium account		977,225	20,000
Other reserves		24	24
Profit and loss account		<u>(11,302,809)</u>	<u>(9,481,187)</u>
Total shareholders' deficit		<u><u>(10,325,461)</u></u>	<u><u>(9,461,078)</u></u>

The financial statements on pages 11 to 29 were approved by the Board of Directors on 17 January 2019 and signed on its behalf by:



G M Ell
Director

Smoothwall Limited
Registered no. 04298247

Smoothwall Limited

Company balance sheet As at 31 December 2017

		2017	2016
	Note	£	£
Fixed assets			
Intangible assets	11	2,797	3,234
Tangible assets	12	146,804	214,208
Investments	13	203,887	203,887
		<u>353,488</u>	<u>421,329</u>
Current assets			
Inventories	14	234,815	281,017
Debtors	15	7,272,419	8,294,487
Cash at bank and in hand		1,719,160	1,160,375
		<u>9,226,394</u>	<u>9,735,879</u>
Creditors: amounts due within one year	16	<u>(9,678,997)</u>	<u>(8,739,356)</u>
Net current (liabilities) /assets		<u>(452,603)</u>	<u>996,523</u>
Total assets less current liabilities		<u>(99,115)</u>	<u>1,417,852</u>
Creditors: amounts due after more than one year	17	<u>(6,341,019)</u>	<u>(6,850,058)</u>
Net liabilities		<u>(6,440,134)</u>	<u>(5,432,206)</u>
Capital and reserves			
Called up share capital	18	99	85
Share premium account		977,225	20,000
Other reserves		24	24
Profit and loss account brought forward		(5,452,315)	(5,537,749)
Profit and loss account for the year		(1,965,167)	85,434
Total shareholders' deficit		<u>(6,440,134)</u>	<u>(5,432,206)</u>

The company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the parent company profit and loss account. The loss for the period was £1,424,159 (2016: £238,137).

The financial statements on pages 11 to 29 were approved by the Board of Directors on 17 January 2019 and signed on its behalf by:



G M Eil

Director

Smoothwall Limited
Registered no. 04298247

Smoothwall Limited

Consolidated statement of changes in equity for year ended 31 December 2017

	Called up share capital	Share premium account	Other reserves	Profit and loss account	Total Shareholders Deficit
	£	£	£	£	£
At 1 January 2016	85	20,000	24	(8,530,861)	(8,510,752)
Loss for the financial year	-	-	-	(472,281)	(472,281)
Exchange difference on translation	-	-	-	(801,616)	(801,616)
Credit relating to equity-settled share based payments	-	-	-	323,571	323,571
At 31 December 2016	85	20,000	24	(9,481,187)	(9,461,078)
Loss for the financial year	-	-	-	(1,266,147)	(1,266,147)
Exchange difference on translation	-	-	-	(14,467)	(14,467)
Credit relating to equity-settled share based payments	-	-	-	416,231	416,231
Settlement of share options (see note 19)	14	957,225	-	(957,239)	-
At 31 December 2017	99	977,225	24	(11,302,809)	(10,325,461)

Company statement of changes in equity for year ended 31 December 2017

	Called up share capital	Share premium account	Other reserves	Profit and loss account	Total Shareholders Deficit
	£	£	£	£	£
At 1 January 2016	85	20,000	24	(5,537,749)	(5,517,640)
Loss for the financial year	-	-	-	(238,137)	(238,137)
Credit relating to equity-settled share based payments	-	-	-	323,571	323,571
At 31 December 2016	85	20,000	24	(5,452,315)	(5,432,206)
Loss for the financial year	-	-	-	(1,424,159)	(1,424,159)
Credit relating to equity-settled share based payments	-	-	-	416,231	416,231
Settlement of share options (see note 19)	14	957,225	-	(957,239)	-
At 31 December 2017	99	977,225	24	(7,417,482)	(6,440,134)

Smoothwall Limited

Consolidated statement of cash flows for the year ended 31 December 2017

	Note	2017 £	2016 £
Net cash inflow from operating activities	21	639,626	217,930
Taxation	22	353,279	495,267
Net cash inflow generated from operating activities			
Cash outflow from investing activities			
Capital expenditure and financial investment	22	(71,473)	(63,962)
Net cash outflow from investing activities		(71,473)	(63,962)
Cash outflow from financing activities			
Returns on investments and servicing of finance	22	(21,128)	(20,033)
Net cash outflow from financing activities	22	(21,128)	(20,033)
Net increase in cash in the year	23	<u>900,304</u>	<u>629,202</u>
Cash and cash equivalents at the beginning of the year		1,528,620	838,658
Exchange gains on cash and cash equivalents		97,039	60,760
Cash and cash equivalents at the end of the year		<u>2,525,963</u>	<u>1,528,620</u>

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2017

1. General information

The principal activity of the Group and Company during the year was the development and sale of software for internet security and is expected to remain so for the foreseeable future. The company is a private company limited by shares and is incorporated and domiciled in the UK. The address of its registered office is Avalon House, 1 Savannah Way, Leeds Valley Park, Leeds, LS10 1AB.

2. Statement of Compliance

The financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of preparation

The financial statements are presented in sterling. They are prepared on a going concern basis and under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

3.2 Disclosure exemptions

The Company has notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the Company in these financial statements. The principal disclosure exemptions adopted by the Company in accordance with FRS 102 are as follows:

- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d); and
- the requirement of Section 33 Related Party Disclosures paragraph 33.7 and;

3.3 Basis of consolidation

The Group consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings. A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

3.4 Going concern

The company is loss making and has net liabilities, but has a positive cash position and is forecast to continue in this position for the foreseeable future. The Company has no external debt.

After making enquires and reviewing forecasts, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

3.5 Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of value added tax. Turnover is recognised on despatch of goods for hardware products. A maintenance element of revenue is deferred on software sales over the period of the maintenance agreement.

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2017

3 Summary of significant accounting policies (continued)

3.6 Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provisions for impairment. Depreciation is provided on tangible fixed assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

- Office and computer equipment: Straight line method over 3 years

3.7 Intangible fixed assets

Intangible fixed assets purchased separately from a business are capitalised at their cost. Trademarks purchased by the company are amortised to nil by equal annual instalments over their useful economic lives. Intangibles are currently being amortised over 20 years which is, in the directors' opinion, their useful economic life. Provision is made for any impairment.

3.8 Investments

Fixed asset investments are stated at historical cost less provision for any impairment in value.

3.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price, less further costs to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

3.10 Operating Leases

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Reverse premiums and similar incentives received to enter into operating lease agreements are released to the profit and loss account over the lease term.

3.11 Research and development

Research and development expenditure is written off in the year in which it is incurred.

3.12 Taxation

Current tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exceptions:

- Provision is made for deferred taxation that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2017

3 Summary of significant accounting policies (continued)

3.13 Foreign currency

In accordance with section 30 of FRS102 "foreign currency translation", the transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. Any differences are taken to the profit and loss account. Revaluations of loan amounts in foreign currencies are presented within interest payable and similar charges.

The financial statements have been prepared in sterling, which is the functional currency of the company.

3.14 Defined contribution pension scheme

The company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

3.15 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

3.16 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

3.17 Share based payments

The company runs an EMI Share Option Scheme for eligible employees to acquire shares of the company. The EMI shares can only be vested on a sale of the company, and employees are required to remain in employment with the Group until exercise otherwise the awards lapse. The fair value of share options is charged to the statement of comprehensive income based upon their fair value at the date of grant. The charge is recognised evenly over the vesting period of the options.

The fair values are calculated using an appropriate option pricing model, and the statement of comprehensive income charge is adjusted to reflect the expected number of options that will vest.

3.18 Exceptional items

The Group classifies certain one-off charges or credits that have a material impact on the Group's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the Group.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2017

a) *Useful economic lives of tangible and intangible assets*

The annual depreciation and amortisation charges for the tangible and intangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and, for tangible assets, the physical condition of the assets. See notes 11 and 12 for the carrying amount of the intangible and tangible assets and notes 3.6 and 3.7 for the useful economic lives for each class of assets.

b) *Deferred revenue*

The majority of sales are for a three year term. Deferred revenue is calculated by allocating the fair value of the products after discount and apportioning over the license term. Appliance and implementation sales are recognised when delivered.

In the opinion of the directors there are no other critical judgements taken in applying the company's accounting policies.

5. Turnover

	2017 £	2016 £
Analysis of turnover by geography:		
UK	8,938,716	9,501,203
USA	2,757,789	2,306,714
OTHER	504,617	456,081
	<u>12,201,122</u>	<u>12,263,998</u>
Analysis of turnover by category:		
Sale of Goods	2,409,786	2,817,755
Provision of Services	9,791,336	9,446,243
	<u>12,201,122</u>	<u>12,263,998</u>

6. Exceptional Item

	2017 £	2016 £
Operating exceptional expense	175,201	-
	<u>175,201</u>	<u>-</u>

Exceptional items arose during the year in association with redundancy costs following a restructure of operations as well as recruitment fees in relation to changes within the leadership team.

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2017

7. Operating loss

	2017 £	2016 £
Operating loss is stated after (crediting)/charging:		
Amortisation of intangible fixed assets	437	437
Depreciation of owned tangible fixed assets	151,437	202,351
Difference on foreign exchange	253,449	(634,441)
Inventory recognised as an expense in the period	1,741,169	1,914,625
Directors' remuneration	586,393	751,473
Services provided by the Company's auditor;		
Fees payable for the audit	41,400	30,800
Fees payable for other services	17,000	16,500
Operating lease – other	360,506	312,732
Share option charge	416,231	323,571
	<u> </u>	<u> </u>

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2017

8. Staff costs

The average monthly number of employees (including executive directors) was:

	2017 Number	2016 Number
Sales and administration	138	144

Their aggregate remuneration comprised:

	2017 £	2016 £
Wages and salaries	6,423,146	6,793,583
Social security costs	713,956	741,091
Other pension costs	152,229	155,917
Share option charge	416,231	323,571
	<u>7,705,562</u>	<u>8,014,162</u>

9. Directors' remuneration

The directors' aggregate emoluments in respect of qualifying services for the year were as follows;

	2017 £	2016 £
Aggregate emoluments	570,043	724,611
Pension contributions	16,350	26,862
	<u>586,393</u>	<u>751,473</u>
Highest paid director:		
Aggregate emoluments	182,997	194,734
Pension contributions	3,053	3,000
	<u>186,050</u>	<u>197,734</u>

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2017

10. Tax credit on loss on ordinary activities

a) Tax credit included in profit or loss

	2017	2016
	£	£
Current tax:		
UK Corporation Tax charge/(credit) on profit/(loss) for the year	30,104	(323,873)
Adjustment in respect of prior periods	(21,228)	605
Total current tax credit	8,876	(323,268)
Deferred Tax:		
Origination and reversal of timing differences	85,375	-
Impact of change in tax rates	(13,480)	6,000
Total deferred tax	71,895	6,000
Tax charge/(credit) on ordinary activities	80,771	(317,268)

b) Reconciliation of tax credit

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19.25% (2016: 20%). The actual tax charge (2016: credit) for the year is higher (2016: higher) than the standard rate for the reasons set out in the following reconciliation:

	2017	2016
	£	£
Loss on ordinary activities before tax	(1,345,791)	(789,549)
Tax on loss on ordinary activities at the standard rate	(259,019)	(157,910)
Effects of:		
Expenses not deductible for tax purposes	10,167	8,679
R&D tax credit	-	(332,048)
Losses used for R&D tax credit	-	457,997
Deferred tax not provided	406,748	10,585
Adjustment from previous periods	(21,228)	605
Tax rate changes	(13,480)	6,000
Share options	(42,416)	64,714
R&D relief	-	(429,259)
Roundings	(1)	-
Movement unrecognised	-	53,369
Tax (credit)/charge for the period	80,771	(317,268)

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2017

c) Factors that may affect future tax charges

In his budget speech in March 2015, the Chancellor announced that the main rate of corporation tax would change from 19% to 18% from 1 April 2020. These changes were substantively enacted on 26 October 2015.

11. Intangible assets

Group and Company	Trademarks £
Cost	
As at 1 January 2016 and 31 December 2017	8,738
Accumulated Amortisation	
As at 1 January 2016	5,504
Charge for year	437
As at 31 December 2017	5,941
Net book value	
As at 31 December 2016	3,234
As at 31 December 2017	2,797

12. Tangible assets

Group	Office and computer equipment £
Cost	
At 1 January 2016	1,258,920
Additions	71,473
Exchange differences	(9,037)
At 31 December 2017	1,321,356
Accumulated depreciation	
At 1 January 2016	1,029,351
Charge for the year	151,437
Exchange differences	(13,957)
At 31 December 2017	1,166,831
Net book value	
At 31 December 2016	229,569
At 31 December 2017	154,525

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2017

Company	Office and computer equipment £
Cost	
At 1 January 2016	1,094,060
Additions	71,473
At 31 December 2017	<u>1,165,533</u>
Accumulated depreciation	
At 1 January 2016	879,852
Charge for the year	138,877
At 31 December 2017	<u>1,018,729</u>
Net book value	
At 31 December 2016	<u>214,208</u>
At 31 December 2017	<u><u>146,804</u></u>

13. Investments

	Investment in subsidiary companies £
Cost and net book value	
At 1 January 2016	<u>203,887</u>
At 31 December 2017	<u><u>203,887</u></u>

The company owns the entire share capital of Smoothwall Inc, a company registered at 8008 Corporate Center Drive, Suite 410, Charlotte, North Carolina, 28226-4489, USA whose principal activity is the sale of software for internet security. Following a review of the carrying value of the investment, the directors are confident that the net book value of the investment is a reflection of the carrying value based on forecasts for 2018 onwards.

14. Inventories

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Finished goods and stock	<u>569,536</u>	<u>688,918</u>	<u>234,815</u>	<u>281,017</u>

There is no significant difference between the replacement cost of finished goods and their carrying value.

Inventories are stated after provision of 2017: £11,504 (2016:£Nil).

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2017

15. Debtors

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Trade debtors	4,297,086	5,348,353	4,035,519	4,982,148
Amounts owed by group undertakings	-	-	2,672,543	2,375,662
Amounts owed by parent company	12,148	-	12,148	-
Other debtors	13,931	36,752	28,907	37,740
Corporation tax	130,395	336,133	130,395	336,133
Deferred tax asset	30,104	102,000	30,104	102,000
Director loan accounts	16,341	16,341	16,341	16,341
Prepayments and accrued income	355,955	492,447	346,462	444,463
	<u>4,855,960</u>	<u>6,332,026</u>	<u>7,272,419</u>	<u>8,294,487</u>

Trade debtors of £785,979 (2016: £956,762) are due after more than one year. Amounts owed by group undertakings are unsecured, interest free and repayable on demand. Trade debtors are stated after provision for impairment of £21,313 (2016: £71,101).

16. Creditors: amounts due within one year

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Trade creditors	1,012,733	974,452	893,424	906,787
Amounts due to group undertakings	-	-	45,501	-
Taxation and social security	530,727	845,014	464,496	768,725
Other creditors	174,571	192,310	123,658	97,178
Accruals	772,943	861,425	764,820	791,978
Deferred income	8,065,770	7,561,915	7,387,098	6,174,688
	<u>10,556,744</u>	<u>10,435,116</u>	<u>9,678,997</u>	<u>8,739,356</u>

Amounts due to group undertakings are unsecured, interest free and repayable on demand.

17. Creditors: Amounts due after more than one year

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Deferred income	7,877,498	7,768,913	6,341,019	6,810,643
Other Creditors	-	39,416	-	39,415
	<u>7,877,498</u>	<u>7,808,329</u>	<u>6,341,019</u>	<u>6,850,058</u>

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2017

18. Called up share capital

	2017	2016
	£	£
Allotted, issued, called up and fully paid:		
9,900 (2016: 8,500) ordinary shares of £0.01 each	99	85

19. Share-based payments

Smoothwall runs a company EMI Share Option Scheme for eligible employees. The options are granted with an agreed exercise price from HMRC, and remain for 10 years. The EMI shares can only be vested on a sale of the company. Employees are required to remain in employment with the Group until exercise otherwise the awards lapse.

A reconciliation of the share option movements over the year to 31 December 2017 is shown below:

	No.	2017 Weighted Average exercise Price	No.	2016 Weighted Average exercise Price
Outstanding at 1 January	1,358	1.78	1,872	2.10
Granted	-	-	104	0.01
Exercised	1,358	1.78	-	-
Expired	-	-	(618)	2.45
Outstanding at 31 December	-	-	1,358	1.78
Exercisable at 31 December	-	-	-	-

The total charge for the period was £416,231 (2016: £323,571).

Following the MBO in October 2017, the outstanding share options as at 1 January 2017 were exercised fully.

20. Commitments under operating lease

At 31 December 2017 the company had annual commitments under non cancellable operating leases as set out below:

	2017 Land & buildings £	2016 Land & buildings £
Payment due:		
Within one year	266,460	216,975
Between one and five years	415,159	698,658
Greater than five years	-	-
	<u>681,619</u>	<u>915,633</u>

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2017

21. Reconciliation of operating loss to operating cash flows

	2017 £	2016 £
Operating loss	(1,572,367)	(769,516)
Depreciation and amortisation	151,874	202,788
Share based payment charge	416,231	323,571
Decrease in stocks	119,382	18,262
Decrease/(increase) in debtors	1,198,432	(1,552,118)
Increase in creditors	326,074	1,995,378
Net cash inflow from operating activities	<u>639,626</u>	<u>217,930</u>

22. Analysis of cash flows

	2017 £	2016 £
Returns on investments and servicing of finance		
Interest	<u>(21,128)</u>	<u>(20,033)</u>
Taxation		
UK corporation tax receipts	<u>353,279</u>	<u>495,267</u>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	<u>(62,436)</u>	<u>(63,962)</u>

23. Analysis and reconciliation of net funds

	1 January 2017 £	Cash flow £	Exchange movement £	31 December 2017 £
Cash at bank and in hand	<u>1,528,620</u>	<u>900,304</u>	<u>97,039</u>	<u>2,525,963</u>
			2017 £	2016 £
Increase in cash in the year			900,304	629,202
Exchange differences			97,039	60,760
Movement in cash in the year			<u>997,343</u>	<u>689,962</u>
Net cash at 1 January	1,528,620		1,528,620	838,658
Net funds at 31 December			<u>2,525,963</u>	<u>1,528,620</u>

Smoothwall Limited

Notes to the financial statements Year ended 31 December 2017

24. Related party transactions

In accordance with FRS102 "Related parties", transactions with wholly owned subsidiaries are not disclosed.

Loans to directors of £16,341 were due at the year end (2016: £16,341), this was also the highest balance during the year.

At the year end, amounts due from the immediate parent company, Bidco Oasis Limited were £12,148.

25. Pensions

The Company operates a defined contribution pension scheme. The pension cost charge represents contributions payable by the company and amounted to £152,229 (2016: £155,917).

Pension contributions of £84,242 relating to year ended 31 December 2017 were unpaid at the year end (paid in January 2018).

26. Ultimate controlling party

The ultimate controlling party is Tenzing LLP, through its ownership of the parent company Topco Oasis Limited. The immediate parent company is Bidco Oasis Limited which is 100% controlled by Topco Oasis Limited.