

Company Registration No. 04441386 (England and Wales)

**LEVEL 5 NETWORKS LIMITED**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**



# LEVEL 5 NETWORKS LIMITED

## COMPANY INFORMATION

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Directors	C W A Cotton A Hopper J Golden H Hauser D Karr
Secretary	D E Roberts
Company Number	04441386
Registered Office	25 Greville Road Cambridge Cambs CB1 3QJ
Auditors	PricewaterhouseCoopers LLP Abacus House Castle Park Cambridge CB3 0AN
Accountants	Haslers Chartered Accountants and Registered Auditors Johnston House 8 Johnstone Road Woodford Green Essex IG8 0XA
Bankers	Barclays Bank plc 28 Chesterton Road Cambridge CB4 3AZ

# **LEVEL 5 NETWORKS LIMITED**

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# **LEVEL 5 NETWORKS LIMITED**

## **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2004**

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The Directors present their report and the audited financial statements of the company for the year ended 31 December 2004.

### **Principal activities and review of business**

The principal activity of the company is the research and development of ethernet based network technology.

The company is the wholly owned subsidiary of Level 5 Networks, Inc. Level 5 Networks, Inc. is a developer of semi-conductors and software providing application acceleration through high-performance Ethernet network adapters. Level 5 Networks Inc. develops products which include multi-gigabit Ethernet Network Interface Cards which improve server and network efficiency for data centres.

The company receives commissions from Level 5 Networks Inc., equal to its operating costs plus a percentage of net revenues generated by Level 5 Networks Inc. through the research and development and administrative support provided by the company.

The company continues to be dependent on the support of its ultimate parent company, Level 5 Networks Inc., to be able to continue in operation for the foreseeable future. Level 5 Networks Inc has committed to provide such financial support as is necessary for the company to meet its obligations on an ongoing basis, and at least for the next 12 months, and accordingly the directors believe that it is appropriate to prepare the financial statements on a going concern basis.

The results for the year to 31 December 2004 are set out in the profit and loss account on page 6.

### **Research and development**

The company incurred research and development costs of £816,373 during the year (8 month period ended 31 December 2003: £180,204), all of which has been written off to the profit and loss account during the year.

## **LEVEL 5 NETWORKS LIMITED**

### **DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004**

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#### **Dividends**

The directors do not recommend payment of a dividend (8 month period ended 31 December 2003: £nil).

#### **Directors and their interests**

The directors of the company at 31 December 2004, all of whom have been directors for the whole of the year ended on that date, are as follows:

C W A Cotton  
A Hopper  
D Karr  
J Golden  
H Hauser

The directors had no interests in the shares of the company or any other body corporate in the group that are required to be disclosed under Schedule 7 of the Companies Act 1985.

## LEVEL 5 NETWORKS LIMITED

### DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

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#### Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

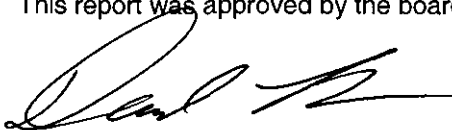
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the next Annual General Meeting.

x Date

This report was approved by the board on 26/10/05 and signed on its behalf.



Director

## **LEVEL 5 NETWORKS LIMITED**

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### **Independent auditors' report to the members of Level 5 Networks Limited**

We have audited the financial statements which comprise the profit and loss account, the balance sheet, and the related notes.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

### **Basis of audit opinion**

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## LEVEL 5 NETWORKS LIMITED

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Independent auditors' report to the members of Level 5 Networks Limited (continued)

### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers LLP*

**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
Cambridge

*27 October 2005*



## LEVEL 5 NETWORKS LIMITED

### PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004

		Year ended 31 December 2004	Period ended 31 December 2003
	Notes	£	£
Turnover		1,248,460	9,363
Cost of sales		-	(5,328)
<b>Gross profit</b>		<b>1,248,460</b>	<b>4,035</b>
Net operating expenses	2	(1,138,631)	(183,915)
Other operating income		-	192
<b>Operating profit/(loss)</b>	<b>5</b>	<b>109,829</b>	<b>(179,688)</b>
Other interest receivable and similar income		3,668	319
<b>Profit/(Loss) on ordinary activities before taxation</b>		<b>113,497</b>	<b>(179,369)</b>
Taxation	6	8	27,098
<b>Profit/(Loss) on ordinary activities after taxation</b>	<b>11,12</b>	<b>113,505</b>	<b>(152,271)</b>

The above results relate to continuing operations of the company.

The company had no gains or losses other than those included in the results above. Therefore no separate statement of total recognised gains and loss has been presented.

There is no material difference between the profit on ordinary activities before taxation and the profit for the year stated above and their historical cost equivalents.

The notes on pages 8 to 16 form part of these financial statements.

# LEVEL 5 NETWORKS LIMITED

## BALANCE SHEET AS AT 31 DECEMBER 2004

		31 December 2004		31 December 2003	
	Notes	£	£	£	£
<b>Fixed Assets</b>					
Tangible assets	7	92,509		12,636	
		-----		-----	
		92,509		12,636	
<b>Current Assets</b>					
Debtors	8	90,601		47,526	
Cash at bank and in hand		146,615		27,830	
		-----		-----	
		237,216		75,356	
<b>Creditors: amounts falling due within one year</b>	9	(254,585)		(126,357)	
		-----		-----	
<b>Net current liabilities</b>			(17,369)		(51,001)
			-----		-----
<b>Net liabilities</b>			75,140		(38,365)
			-----		-----
<b>Capital and reserves</b>					
Called up share capital	10	10,500		10,500	
Share premium account	11	147,370		147,370	
Profit and loss account	11	(82,730)		(196,235)	
		-----		-----	
<b>Equity shareholders' deficit</b>	12	75,140		(38,365)	
		-----		-----	

The financial statements on pages 6 to 16 were approved by the Board of Directors on <sup>x Date</sup> 26 October 2005 and signed on its behalf by:



D Karr  
Director and CEO



C Cotton  
Director and Chairman

# LEVEL 5 NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

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### **1 Accounting policies**

#### **1.1 Basis of preparation of financial statements**

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. The principal accounting policies, which are set out below, have been applied consistently throughout the year.

#### **1.2 Going concern**

Level 5 Networks Limited is a private company, which became a wholly owned subsidiary of Level 5 Networks Inc on 26 November 2003.

The company receives commissions from Level 5 Networks Inc., equal to its operating costs plus a percentage of net revenues generated by Level 5 Networks Inc. through the research and development and administrative support provided by the company.

The company continues to be dependent on the support of its ultimate parent company, Level 5 Networks Inc., to be able to continue in operation for the foreseeable future. Level 5 Networks Inc has committed to provide such financial support as is necessary for the company to meet its obligations on an ongoing basis, and at least for the next 12 months, and accordingly the directors believe that it is appropriate to prepare the financial statements on a going concern basis.

#### **1.3 Turnover**

Turnover, represents amounts recharged to Level 5 Networks Inc. in respect of operating costs and commissions earned on net revenues generated by Level 5 Networks Inc. through the efforts of the company.

#### **1.4 Tangible fixed assets and depreciation**

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principle annual rates used for this purpose are:

Computer and laboratory equipment	33.33%
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## **LEVEL 5 NETWORKS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004**

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#### **1.5 Foreign currencies**

Assets and liabilities denominated in foreign currencies are expressed in sterling at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with in the profit and loss account.

#### **1.6 Government grants**

Grants are credited to deferred revenue. Grants towards capital expenditure are released to the profit and loss account over the expected useful life of the assets. Grants towards revenue expenditure are released to the profit and loss account as the related expenditure is incurred.

#### **1.7 Finance and operating leases**

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright.

#### **1.8 Deferred taxation**

Provision is made for deferred taxation, in accordance with FRS 19 "Deferred tax", on all material timing differences. Deferred tax assets are recognised to the extent that they are regarded as recoverable. Deferred tax assets and liabilities are not discounted.

#### **1.9 Cash flow statement**

The company has taken advantage of the exemption in Financial Reporting Standard No. 1 from the requirement to produce a cash flow statement on the grounds that it is a small company.

#### **1.10 Pension scheme arrangements**

The company operates a defined contribution pension scheme. Cost is charged to the profit and loss account as it arises. Contributions are based on the pensionable salaries of the scheme members. Contribution to the Level 5 Networks Ltd Group Personal Pension Plan is made on a monthly basis, contributions of £22,575 were made during the year to 31 December 2004 (8 month period ended 31 December 2003: nil). No contributions were outstanding at the year end (31 December 2003: £nil)..

# LEVEL 5 NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

### 1.11 Research and development

Research and development costs are written off in the period in which they are incurred.

2	Net operating expenses	Year ended 31 December 2004 £	Period ended 31 December 2003 £
	Research and development expenses	816,373	180,204
	Sales and marketing expenses	166,964	3,711
	Administrative expenses	155,294	-
		-----	-----
		1,138,631	183,915
		-----	-----

3	Directors' emoluments	Year ended 31 December 2004 £	Period ended 31 December 2003 £
	Aggregate emoluments	36,000	53,757
		-----	-----

### 4 Employees

The average monthly number of persons (including executive directors) employed by the company during the year was:

	Year ended 31 December 2004	Period ended 31 December 2003
<b>By activity</b>		
Research & Development	10	5
Sales & Marketing	1	1
Administration	6	3
	-----	-----
	17	9
	-----	-----

## LEVEL 5 NETWORKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

<b>4</b>	<b>Employees (continued)</b>		
	<b>Staff costs (for the above persons)</b>	<b>Year ended 31 December 2004 £</b>	<b>Period ended 31 December 2003 £</b>
	Wages and salaries	618,248	95,333
	Social security costs	68,685	10,330
	Other pension costs	22,575	-
		-----	-----
		709,508	105,663
		-----	-----
<b>5</b>	<b>Operating profit/(loss)</b>	<b>Year ended 31 December 2004 £</b>	<b>Period ended 31 December 2003 £</b>
	Operating profit/(loss) is stated after charging:		
	Is stated after charging:		
	Impairment of intangible assets	-	13,433
	Depreciation of tangible fixed assets	18,674	782
	Accelerated depreciation of tangible fixed assets	3,887	-
	Auditors' remuneration		
	- Audit services	11,500	-
	Operating lease charges:		
	Land and building	24,714	-
	and after crediting:		
	Government grants	-	192
		-----	-----

## LEVEL 5 NETWORKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

6	Taxation	Year ended 31 December 2004 £	Period ended 31 December 2003 £
	UK research and development credit at 19% (December 2003: 16%)	-	(27,098)
	Adjustment in respect of previous periods	(8)	-
	Current tax (credit)	(8)	(27,098)

No corporation tax liability arises on the results for the period due to the accumulated losses carried forward from previous period. A tax credit has arisen as a result of tax losses being surrendered in respect of research and development expenditure.

At 31 December 2004 there were tax losses available to carry forward of £218,597 (2003: £111,341) subject to agreement by HM Revenue & Customs.

Factors affecting the tax credit for the year	Year ended 31 December 2004 £	Period ended 31 December 2003 £
Profit/(Loss) on ordinary activities before taxation	113,497	(179,369)
Tax on profit/(loss) on ordinary activities multiplied by the research and development tax credit rate of 19% (December 2003: 16%)	21,564	(28,699)
Tax effect of reconciling items:		
Expenses not deductible for tax purposes	(26,766)	(11,071)
Carried forward losses	20,379	14,432
Differences between capital allowances and depreciation	(15,177)	(1,760)
Adjustments to tax charge in respect of Previous period	(8)	-
Current tax (credit)	(8)	(27,098)

# **LEVEL 5 NETWORKS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)** **FOR THE YEAR ENDED 31 DECEMBER 2004**

### **6 Taxation (continued)**

#### **Deferred taxation**

The potential deferred tax asset in respect of cumulative losses has not been recognised in these financial statements as there is no immediate prospect of these being utilised. The losses are available to be carried forward indefinitely under current law.

Unprovided deferred tax (assets) are comprised as follows:

	2004 £	2003 £
Accelerated capital allowances	27,753	3,791
Losses	(65,579)	(33,402)
	-----	-----
	(37,826)	(29,611)
	-----	-----

### **7 Tangible fixed assets**

#### **Computer and laboratory equipment £**

#### **Cost**

At 1 January 2004	13,710
Additions	102,434
	-----
At 31 December 2004	116,144
	-----

#### **Depreciation**

At 1 January 2004	1,074
Charge for the year	18,674
Accelerated depreciation	3,887
	-----
At 31 December 2004	23,635
	-----

#### **Net book value**

At 31 December 2004	92,509
	-----
At 31 December 2003	12,636
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## LEVEL 5 NETWORKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

<b>8</b>	<b>Debtors</b>	<b>2004</b>	<b>2003</b>
		£	£
	Prepayments	20,474	15,751
	Corporation tax recoverable	27,106	27,098
	Other Debtors	43,021	4,677
		-----	-----
		90,601	47,526
		-----	-----
<b>9</b>	<b>Creditors: amounts falling due within one year</b>	<b>2004</b>	<b>2003</b>
		£	£
	Trade Creditors	55,227	12,681
	Other taxation and social security	28,953	9,911
	Amounts owed to parent undertaking	113,210	73,120
	Bank overdraft	4	-
	Accruals	57,191	30,645
		-----	-----
		254,585	126,357
		-----	-----

Amounts owed to the parent undertaking are unsecured, interest-free and have no fixed repayment date.

<b>10</b>	<b>Share Capital</b>	<b>2004</b>	<b>2003</b>
		£	£
	<b>Authorised</b>		
	20,000,000 (2003: 20,000,000) Ordinary shares of 0.125p each	25,000	25,000
		-----	-----
	<b>Allotted, called up and fully paid</b>		
	8,400,264 (2003: 8,400,264) Ordinary shares of 0.125p each	10,500	10,500
		-----	-----

## LEVEL 5 NETWORKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

11	Statement of movement on reserves	Share premium account £	Profit and loss account £
	At 1 January 2004	147,370	(196,235)
	Profit for the year	-	113,505
		-----	-----
	At 31 December 2004	147,370	82,730
		-----	-----

12	Reconciliation of movement in shareholders' deficit	2004 £	2003 £
	Opening shareholders' (deficit)/funds	(38,365)	76,406
	New share capital subscribed	-	37,500
	Profit/(Loss) for the financial year	113,505	(152,271)
		-----	-----
	Closing shareholders' funds/(deficit)	75,140	(38,365)
		-----	-----

### 13 Financial commitments

At 31 December 2004, the company had annual commitments under non-cancellable operating leases as follows:

	2004	2003
Land and buildings		
Expiring within 1 year	39,542	-
Expiring within 2-5 years	41,535	-
	-----	-----
	81,077	-
	-----	-----

## **LEVEL 5 NETWORKS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004**

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#### **14 Related party disclosures**

During the period the company entered into a number of transactions with Level 5 Networks Inc., the immediate and ultimate parent company:

During the period, the company obtained funds from Level 5 Networks Inc. for working capital purposes £113,636 (2003: £73,120).

The amount outstanding at the balance sheet date was £113,210 (2003: £73,120). This balance is unsecured, interest free and has no fixed repayment date.

The company's turnover is derived from sales to its parent company. The company's turnover for the year amounted to £1,248,460. (2003: nil)

There are no companies other than Level 5 Networks Inc. and Level 5 Networks Limited within the group.

#### **15 Ultimate parent undertaking**

The directors regard Level 5 Networks, Inc, a company incorporated in the USA to be the ultimate parent company as Level 5 Networks, Inc, has a 100% interest in the issued share capital of Level 5 Networks Limited at 31 December 2003.