

Registered number: 07165194

SQUARETRADE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

FRIDAY



A6G0GNZ6

A26

29/09/2017

#5

COMPANIES HOUSE

SQUARETRADE LIMITED

COMPANY INFORMATION

| | |
|-----------------------------|---|
| Directors | S D Abernethy (resigned 14 October 2016) A K Khaishgi K C Gillan |
| Registered number | 07165194 |
| Registered office | Unit 1.02 Enterprise House 1-2 Hatfields London SE1 9PG |
| Independent auditors | Donald Reid Limited Chartered Accountants Prince Albert House 20 King Street Maidenhead Berkshire SL6 1DT |

SQUARETRADE LIMITED

CONTENTS

| | Page |
|--|--------|
| Directors' Report | 1 - 2 |
| Independent Auditors' Report | 3 - 4 |
| Statement of Comprehensive Income | 5 |
| Balance Sheet | 6 |
| Statement of Changes in Equity | 7 |
| Notes to the Financial Statements | 8 - 23 |

SQUARETRADE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

Directors' responsibilities statement

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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.

Directors

The directors who served during the year were:

S D Abernethy (resigned 14 October 2016)
A K Khaishgi
K C Gillan

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The auditors, Donald Reid Limited, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

SQUARETRADE LIMITED

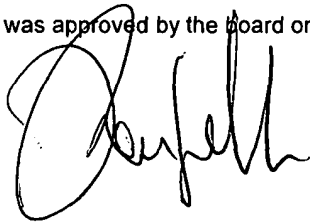
**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**

Small companies note

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

This report was approved by the board on 29 Sept 2017 and signed on its behalf.

K C Gillan
Director



SQUARETRADE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SQUARETRADE LIMITED

We have audited the financial statements of Squaretrade Limited for the year ended 31 December 2016, set out on pages 5 to 23. The relevant financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement on page 1, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

SQUARETRADE LIMITED

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SQUARETRADE LIMITED
(CONTINUED)**

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with those financial statements and this report has been prepared in accordance with applicable legal requirements.

In the light of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies' regime and take advantage of the small companies' exemption in preparing the Directors' Report and take advantage of the small companies' exemption from the requirement to prepare a Strategic Report.



Daniel Reid FCA (Senior Statutory Auditor)

for and on behalf of
Donald Reid Limited

Chartered Accountants

Prince Albert House
20 King Street
Maidenhead
Berkshire
SL6 1DT

Date: 29th September 2017

SQUARETRADE LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

| | Note | 2016 £ | <i>As restated</i> 2015 £ |
|--|------|--------------------|---------------------------------|
| Turnover | | 9,374,580 | 4,423,754 |
| Cost of sales | | (11,572,133) | (4,185,733) |
| Gross (loss)/profit | | (2,197,553) | 238,021 |
| Administrative expenses | | (6,707,561) | (5,844,077) |
| Operating loss | | (8,905,114) | (5,606,056) |
| Interest receivable and similar income | | 90 | 226 |
| Interest payable and expenses | | (411,951) | (102,354) |
| Loss before tax | | (9,316,975) | (5,708,184) |
| Loss for the year | | (9,316,975) | (5,708,184) |
| Other comprehensive income for the year | | | |
| Equity settled share based payments | | 41,341 | 3,875 |
| Other comprehensive income for the year | | 41,341 | 3,875 |
| Total comprehensive income for the year | | (9,275,634) | (5,704,309) |

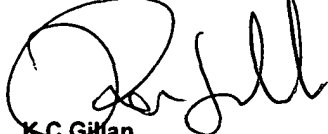
SQUARETRADE LIMITED
REGISTERED NUMBER: 07165194

BALANCE SHEET
AS AT 31 DECEMBER 2016

| | Note | 2016 £ | As restated 2015 £ |
|---|------|---------------------|--------------------------|
| Fixed assets | | | |
| Tangible assets | 8 | 5,596 | 17,217 |
| | | <u>5,596</u> | <u>17,217</u> |
| Current assets | | | |
| Stocks | 9 | 972,111 | 769,970 |
| Debtors: amounts falling due after more than one year | 10 | 1,462,910 | 3,027,343 |
| Debtors: amounts falling due within one year | 10 | 4,935,175 | 4,159,212 |
| Cash At Bank And In Hand | 11 | 3,853,108 | 1,503,828 |
| | | <u>11,223,304</u> | <u>9,460,353</u> |
| Creditors: amounts falling due within one year | 12 | (6,578,485) | (7,271,551) |
| Net current assets | | <u>4,644,819</u> | <u>2,188,802</u> |
| Total assets less current liabilities | | <u>4,650,415</u> | <u>2,206,019</u> |
| Creditors: amounts falling due after more than one year | 13 | (22,438,382) | (10,718,352) |
| Net liabilities | | <u>(17,787,967)</u> | <u>(8,512,333)</u> |
| Capital and reserves | | | |
| Called up share capital | | 851,000 | 851,000 |
| Profit and loss account | | (18,638,967) | (9,363,333) |
| | | <u>(17,787,967)</u> | <u>(8,512,333)</u> |

The Company's financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on



K.C. Gillan
Director

The notes on pages 8 to 23 form part of these financial statements.

SQUARETRADE LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

| | Called up share capital £ | Profit and loss account £ | Total equity £ |
|---|---------------------------------|---------------------------------|-------------------|
| At 1 January 2015 | 851,000 | (3,659,024) | (2,808,024) |
| Comprehensive income for the year | | | |
| Loss for the year | - | (5,708,184) | (5,708,184) |
| Share-based payments | - | 3,875 | 3,875 |
| Total comprehensive income for the year | - | (5,704,309) | (5,704,309) |
| Total transactions with owners | - | - | - |
| At 1 January 2016 (as previously stated) | 851,000 | (9,260,967) | (8,409,967) |
| Prior year adjustment | - | (102,366) | (102,366) |
| At 1 January 2016 (as restated) | 851,000 | (9,363,333) | (8,512,333) |
| Comprehensive income for the year | | | |
| Loss for the year | - | (9,316,975) | (9,316,975) |
| Share-based payments | - | 41,341 | 41,341 |
| Other comprehensive income for the year | - | 41,341 | 41,341 |
| Total comprehensive income for the year | - | (9,275,634) | (9,275,634) |
| Total transactions with owners | - | - | - |
| At 31 December 2016 | 851,000 | (18,638,967) | (17,787,967) |

SQUARETRADE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. General information

Squaretrade Limited is a limited liability company incorporated in England. The registered office is Unit 1.02 Enterprise House 1-2 Hatfields, London, SE1 9PG.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

Information on the impact of first-time adoption of FRS 102 is given in note 21.

The amounts in the financial statements have been rounded to the nearest pound.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Squaretrade Holding Company Inc as at 31 December 2016 and these financial statements may be obtained from 575 Market Street 10th Floor San Francisco California 94105.

2.3 Going concern

At the year end the company had net liabilities of £17,787,967 (2015: £8,512,333). As the company will continue to be supported by its parent company, Squaretrade Inc, the directors consider it appropriate to prepare the accounts on the going concern basis.

SQUARETRADE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

2.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

| | |
|-------------------------------|---------------------|
| Short-term leasehold property | - 50% straight line |
| Equipment | - 33% straight line |

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

2.6 Stock

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell.

Replacement stock is acquired at no cost. In accordance with FRS102, the value of replacement stock is therefore calculated using the costs to repair. Replacement stock is then valued at the lower of this value, cost to repair, or its net realisable value less costs to sell.

At each balance sheet date, stocks are assessed for impairment.

SQUARETRADE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.7 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.8 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.9 Financial instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

SQUARETRADE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

2. Accounting policies (continued)

2.10 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.11 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

2.12 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

SQUARETRADE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.13 Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the Statement of Comprehensive Income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Balance Sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to Statement of Comprehensive Income over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the Statement of Comprehensive Income is charged with fair value of goods and services received.

2.14 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

The Company has taken advantage of the optional exemption available on transition to FRS 102 which allows lease incentives on leases entered into before the date of transition to the standard 01 January 2015 to continue to be charged over the period to the first market rent review rather than the term of the lease.

2.15 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

2.16 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

SQUARETRADE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.17 Borrowing costs

All borrowing costs are recognised in the Statement of Comprehensive Income in the year in which they are incurred.

2.18 Taxation

Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

3. Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that the actual outcomes could differ from those estimates. The following judgements have had the most significant effect on amounts recognised in the financial statements:

VAT

Included within the VAT creditor is a recoverable amount of £750,000 which is expected to be recoverable from H M Revenue and Customs. Management has been advised that this amount will be recovered.

Stock

Replacement stock is acquired at no cost. In accordance with FRS102, the value of replacement stock is therefore calculated using the costs to repair. Replacement stock is then valued at the lower of this value, cost to repair, or its net realisable value less costs to sell. Stock is reviewed for impairment by management. The net realisable value of stock is a judgemental area.

Share based payment valuation

The charge related to equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date they are granted, using an appropriate valuation model which factors in the terms and conditions of the grant. Judgement is applied in determining the most appropriate valuation model and in determining the inputs to the model. Judgements are also applied in relation to estimations of the number of options which are expected to vest.

SQUARETRADE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

4. Auditors' remuneration

| | 2016 £ | 2015 £ |
|---|---------------|--------------|
| Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements | <u>10,000</u> | <u>8,800</u> |

5. Employees

The average monthly number of employees, including the directors, during the year was as follows:

| | 2016 No. | 2015 No. |
|-------|-------------|-------------|
| Staff | <u>17</u> | <u>17</u> |

| | 2016 £ | 2015 £ |
|-----------------------|------------------|------------------|
| Wages and salaries | 1,670,712 | 1,646,249 |
| Social security costs | 209,612 | 205,796 |
| | <u>1,880,324</u> | <u>1,852,045</u> |

6. Directors' remuneration

The highest paid director received remuneration of £267,753 (2015 - £266,920).

7. Taxation

| | 2016 £ | 2015 £ |
|-------------------|-----------|-----------|
| Total current tax | <u>-</u> | <u>-</u> |

SQUARETRADE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

7. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2015 - *lower than*) the standard rate of corporation tax in the UK of 20% (2015 - 20%). The differences are explained below:

| | 2016 £ | 2015 £ |
|--|--------------------|--------------------|
| Loss on ordinary activities before tax | <u>(9,316,975)</u> | <u>(5,708,184)</u> |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20%) | <u>(1,863,395)</u> | <u>(1,140,862)</u> |
| Effects of: | | |
| Expenses not deductible for tax purposes, other than goodwill amortisation and impairment | 3,467 | 1,620 |
| Depreciation in excess of capital allowances for the year | 2,324 | 2,014 |
| Utilisation of tax losses | - | (1,435) |
| Adjustments to tax charge in respect of prior periods | - | 20,473 |
| Non-taxable income less expenses not deductible for tax purposes, other than goodwill and impairment | 39,000 | - |
| Unrelieved tax losses carried forward | 1,818,604 | 1,118,190 |
| Total tax charge for the year | <u>-</u> | <u>-</u> |

Factors that may affect future tax charges

The company has estimated tax losses of £18,278,422 (2015: £9,185,400) available to be carried forward against future trading profits.

SQUARETRADE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

8. Tangible fixed assets

| | Short-term leasehold property £ | Equipment £ | Total £ |
|-------------------------------------|--|----------------|---------------|
| Cost or valuation | | | |
| At 1 January 2016 | 15,350 | 18,378 | 33,728 |
| At 31 December 2016 | <u>15,350</u> | <u>18,378</u> | <u>33,728</u> |
| Depreciation | | | |
| At 1 January 2016 | 8,954 | 7,557 | 16,511 |
| Charge for the year on owned assets | 6,396 | 5,225 | 11,621 |
| At 31 December 2016 | <u>15,350</u> | <u>12,782</u> | <u>28,132</u> |
| Net book value | | | |
| At 31 December 2016 | <u>-</u> | <u>5,596</u> | <u>5,596</u> |
| <i>At 31 December 2015</i> | <u>6,396</u> | <u>10,821</u> | <u>17,217</u> |

The net book value of land and buildings may be further analysed as follows:

| | 2016 £ | 2015 £ |
|-----------------|-----------|--------------|
| Short leasehold | - | 6,396 |
| | <u>-</u> | <u>6,396</u> |

SQUARETRADE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

9. Stocks

| | 2016 £ | 2015 £ |
|-------------------------------------|----------------|----------------|
| Finished goods and goods for resale | 972,111 | 769,970 |
| | <u>972,111</u> | <u>769,970</u> |

10. Debtors

| | 2016 £ | <i>As restated</i> 2015 £ |
|--|------------------|---------------------------------|
| Due after more than one year | | |
| Amounts owed by group undertakings | - | 675,058 |
| Deferred costs | 1,462,910 | 2,352,285 |
| | <u>1,462,910</u> | <u>3,027,343</u> |
| Due within one year | | |
| Trade debtors | 2,473,944 | 2,325,087 |
| Other debtors | 203,161 | 128,876 |
| Prepayments, accrued income and deferred costs | 2,258,070 | 1,705,249 |
| | <u>4,935,175</u> | <u>4,159,212</u> |

The comparatives have been restated to correctly reflect the deferred cost figure and the intercompany balance. This restatement has had no impact on the profit and loss reserve brought forward.

SQUARETRADE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

11. Cash and cash equivalents

| | 2016 £ | 2015 £ |
|--------------------------|------------------|------------------|
| Cash at bank and in hand | 3,853,108 | 1,503,828 |
| | <u>3,853,108</u> | <u>1,503,828</u> |

12. Creditors: Amounts falling due within one year

| | 2016 £ | <i>As restated</i> 2015 £ |
|------------------------------------|------------------|---------------------------------|
| Bank overdrafts | 8,495 | 28,661 |
| Trade creditors | 608,815 | 540,111 |
| Amounts owed to group undertakings | 1,231,712 | 1,712,048 |
| Other taxation and social security | 556,466 | 201,582 |
| Other creditors | 153,250 | 137,212 |
| Accruals and deferred income | 4,019,747 | 4,651,937 |
| | <u>6,578,485</u> | <u>7,271,551</u> |

The comparatives have been restated to correctly reflect the deferred income figure and the intercompany balance. This restatement has had no impact on the profit and loss reserve brought forward.

13. Creditors: Amounts falling due after more than one year

| | 2016 £ | <i>As restated</i> 2015 £ |
|------------------------------------|-------------------|---------------------------------|
| Amounts owed to group undertakings | 20,734,775 | 7,920,733 |
| Accruals and deferred income | 1,703,607 | 2,797,619 |
| | <u>22,438,382</u> | <u>10,718,352</u> |

The comparatives have been restated to correctly reflect the deferred income figure and the intercompany balance. This restatement has had no impact on profit and loss reserves brought forward.

SQUARETRADE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

14. Financial instruments

| | 2016 £ | 2015 £ |
|---|-------------------|---------------------|
| Financial assets | | |
| Financial assets measured at fair value through profit or loss | 41,341 | 3,875 |
| Financial assets measured at amortised cost | 6,530,213 | 4,632,848 |
| | <u>6,571,554</u> | <u>4,636,723</u> |
| Financial Liabilities | | |
| Financial liabilities measured at amortised cost | 28,460,401 | (17,788,321) |
| | <u>28,460,401</u> | <u>(17,788,321)</u> |
| Financial assets that are debt instruments measured at amortised cost comprise: | | |
| - Trade debtors | 2,473,944 | 2,325,087 |
| - Loan owed from parent company | | 675,058 |
| - Other debtors | 203,161 | 128,875 |
| - Cash at bank and in hand | 3,853,108 | 1,503,828 |
| Financial liabilities measured at amortised cost comprise: | | |
| - Trade creditors | 608,815 | 540,111 |
| - Loan owed to parent company | 21,966,487 | 9,632,781 |
| - Accruals | 2,081,140 | 2,191,973 |
| - Other creditors | 153,250 | 137,212 |
| - Bank overdrafts | 8,495 | 28,661 |
| Financial assets measured at fair value through profit or loss comprise of cash and share options measured at fair value at the date of grant only. | | |

15. Share capital

| | 2016 £ | 2015 £ |
|---|----------------|----------------|
| Shares classified as equity | | |
| Allotted, called up and fully paid | | |
| 851,000 Ordinary shares of £1 each | <u>851,000</u> | <u>851,000</u> |

16. Reserves

Profit and loss account

This reserve includes all current and prior year retained profit and losses. Also, the profit and loss account consists of share options measured at the fair value.

SQUARETRADE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

17. Share based payments

Generally, the company grants stock options at a price equal to the estimated fair market value of the common stock on the date of the grant, as determined by the company's board of directors. Under the 2012 Equity Incentive plan (the "2012 Plan"), stock options granted under the 2012 plan are only subject to the service-based vesting conditions. The service-based options generally vest over a four-year period at a rate of 25% one year from the grant date and 1/48 each month thereafter and expire no later than ten years from the date of grant.

Also, for share options with service-based vesting conditions, the company uses Black Scholes to estimate the calculated value, and makes assumptions regarding the key inputs to the model, such as volatility, dividend rate, risk-free rate and expected life. The company utilises the historical volatility of representative public companies to determine its implied volatility, as there is no public trading of the Company's stock. The company has not paid any dividends, nor does it expect to pay dividends in the near future; therefore, a dividend yield of zero was used. The company uses the risk-free interest rate on the implied yield currently available in the United States Treasury zero-coupon issues with an equivalent expected term. The expected term of stock options represents the period that the company's stock options are expected to be outstanding.

| | Weighted average exercise price (pence) 2016 | Number 2016 | Weighted average exercise price (pence) 2015 | Number 2015 |
|---|---|------------------------|---|------------------------|
| Outstanding at the beginning of the year | 1.79 | 343,000 | 1.66 | 282,000 |
| Granted during the year | 2.23 | 45,000 | 2.07 | 61,000 |
| Outstanding at the end of the year | | 388,000 | | 343,000 |

18. Commitments under operating leases

At 31 December 2016 the Company had future minimum lease payments under non-cancellable operating leases as follows:

| | 2016 £ | 2015 £ |
|--|-------------------|-------------------|
| Not later than 1 year | 156,223 | 114,419 |
| Later than 1 year and not later than 5 years | 142,229 | - |
| | 298,452 | 114,419 |

SQUARETRADE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

19. Related party transactions

FRS 102 does not require disclosure of transactions entered into between two or more members of a group. As Squaretrade Limited is a fully owned subsidiary of Squaretrade Inc, it has therefore chosen not to disclose transactions and balances with that entity.

20. Controlling party

Squaretrade Limited is a 100% owned subsidiary of Squaretrade Inc, a company incorporated in the United States of America. Squaretrade Inc is a 100% owned subsidiary of Squaretrade Holding Company Inc.

The ultimate controlling party is Allstate Non-Insurance Holdings, Inc. who acquired Squaretrade Holding Company Inc. on 3 January 2017.

SQUARETRADE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

21. First time adoption of FRS 102

The Company transitioned to FRS 102 from previously extant UK GAAP as at 1 January 2015. The impact of the transition to FRS 102 is as follows:

| | | As previously stated 1 January 2015 £ | Effect of transition 1 January 2015 £ | FRS 102 (as restated) 1 January 2015 £ | As previously stated 31 December 2015 £ | Effect of transition 31 December 2015 £ | FRS 102 (as restated) 31 December 2015 £ |
|---|------|--|---|--|---|--|---|
| | Note | | | | | | |
| Fixed assets | | 27,286 | - | 27,286 | 17,216 | - | 17,216 |
| Current assets | 2 | 6,827,886 | - | 6,827,886 | 8,700,194 | 760,159 | 9,460,353 |
| Creditors: amounts falling due within one year | 1,2 | (5,103,092) | - | (5,103,092) | (7,363,208) | 91,657 | (7,271,551) |
| Net current assets | | 1,724,794 | - | 1,724,794 | 1,336,986 | 851,816 | 2,188,802 |
| Total assets less current liabilities | | 1,752,080 | - | 1,752,080 | 1,354,202 | 851,816 | 2,206,018 |
| Creditors: amounts falling due after more than one year | 1,2 | (4,560,102) | - | (4,560,102) | (9,764,168) | (954,184) | (10,718,352) |
| Net liabilities | | (2,808,022) | - | (2,808,022) | (8,409,966) | (102,368) | (8,512,334) |
| Capital and reserves | | (2,808,022) | - | (2,808,022) | (8,409,965) | (102,368) | (8,512,333) |

SQUARETRADE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

21. First time adoption of FRS 102 (continued)

| | | <i>As previously stated 31 December 2015 £</i> | <i>Effect of transition 31 December 2015 £</i> | FRS 102 (as restated) 31 December 2015 £ |
|--|---|--|--|---|
| Turnover | | 4,423,754 | - | 4,423,754 |
| Cost of sales | | (4,185,733) | - | (4,185,733) |
| | | <hr/> | <hr/> | <hr/> |
| | | 238,021 | - | 238,021 |
| Administrative expenses | 3 | (5,840,202) | (3,875) | (5,844,077) |
| | | <hr/> | <hr/> | <hr/> |
| Operating profit | | (5,602,181) | (3,875) | (5,606,056) |
| Interest receivable and similar income | | 226 | - | 226 |
| Interest payable and similar charges | 1 | (12) | (102,342) | (102,354) |
| | | <hr/> | <hr/> | <hr/> |
| Loss on ordinary activities after taxation and for the financial year | | (5,601,967) | (106,217) | (5,708,184) |
| | | <hr/> | <hr/> | <hr/> |

Explanation of changes to previously reported profit and equity:

- 1 A rate of effective interest on the intercompany loan has been charged on transition to FRS102.
- 2 The comparatives for deferred revenue and deferred costs due within one year and in more than one year and amount due to group companies have been reclassified in order to show the correct amounts. This has had no impact on brought forward profit and loss reserves.
- 3 On transition to FRS102, equity-settled share-based payments have been measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments has been expensed on a straight-line basis over the vesting period from transition date, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions. The company has elected to take exemption against applying retrospective application of equity share-based payments which were granted before the date of transition.