



ASX Announcement

Acquisition of Sonar/MyNet

PERTH – 8 November 2016

FAMILY ZONE CYBER SAFETY LIMITED ACQUIRES LEADING EDUCATION CYBER SECURITY PRODUCT

- Family Zone to offer a first-of-its-kind integrated school, home and mobile cyber safety service.
- Acquires Sonar/MyNet cyber safety IP from Tesseract (ASX:TNT) for \$3.8 million in cash and shares.
- Sonar/MyNet has over 180 installations in schools around Australia. Sonar is also being deployed in 47 schools across two counties in the USA.
- Generates immediate license fee revenue of \$840,000 a year and is expected to be operating cash flow accretive in the first 12 months.
- Strengthens Family Zone's management team with two senior appointments.

Family Zone Cyber Safety Limited (ASX: FZO) has signed agreements (subject to shareholder approval) to acquire the intellectual property rights in the cyber security and education platform Sonar/MyNet owned by Tesseract Limited (**Tesseract**) and to engage Tesseract as a global reseller and distribution partner.

The proposed acquisition allows Family Zone to extend its offerings, embed its services into schools, and offer the market a comprehensive solution for the home and schools. With more than 180 school installs in Australia and 47 underway in the US Family Zone will be poised for sales acceleration.

Completion of the transaction will also see the addition of experienced IT and education executives Robert Smyth and Nick Conolly to Family Zone's senior executive team.

The commercial opportunity

This transaction offers exciting short and long term product and distribution opportunities for Family Zone and is expected to accelerate sales.

The transaction immediately generates revenue for Family Zone through licence fees in both Australia and the USA and gives Family Zone the ability to cross sell its consumer services to a significant customer base of families associated with the deployed schools.

Through the proposed reseller arrangements with Tesseract, Family Zone expects to swiftly grow its education presence and then market Family Zone's consumer services to the associated school communities. Family Zone's research supports the importance and influence of schools in matters of home technology.

Tesseract's expanding global reach and distribution partnerships will enable acceleration of Family Zone's expansion.

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Through this transaction Family Zone will be well placed to interface its innovative cloud based policy eco-system to global providers of cyber security platforms in education and enterprise.

Tim Levy, Managing Director of Family Zone said *“Schools are influential leaders in parental engagement in cyber safety. Through the acquisition of Sonar & MyNet, Family Zone will have a world first story for educators and parents.*

“We will have a comprehensive cyber safety platform that meets the educational and pastoral needs of schools and offers an affordable, integrated and feature rich cyber safety environment in and outside of school for the first time”, he added.

Keith Glennan, Chief Executive Officer of Tesseract said *“I’m pleased to see Family Zone committed to further development of the Sonar/MyNet platform and the integration of cyber safety technology between the school and home environments.”*

Acquisition of Sonar/MyNet by Family Zone

Family Zone will acquire the integrated Sonar/MyNet cyber security platform from Tesseract.

Sonar (originally part of a product offering from Blue Reef Pty Limited) is one of the leading cyber security platforms in the Australian education sector offering firewall technologies, plus web and content filtering.

MyNet is an administration, self-service and reporting tool recently launched by Tesseract as an extension of Sonar. MyNet responds to the specific cyber needs of the education sector, which differs from typical enterprises. MyNet handles the complex demands around the IC&T curriculum, pastoral care and parental reporting requirements.

Family Zone will lead the market with a fully integrated “at school”, “at home” and “when mobile” cyber safety offering.

Family Zone will pay \$3,800,000 in cash and shares to Tesseract made up of:

- \$0.25m non-refundable cash deposit;
- \$0.75m in cash on completion (i.e. following shareholder approval);
- \$0.30m in shares (1,000,000 shares at assumed price of 30c), issued on completion;
- \$0.50m in cash on 28 February 2017; and
- \$2.00m in cash on 31 May 2017.

As part of the acquisition the Company will be undertaking a \$1.0m placement of shares at 30c to Mr Robert Smyth, subject to shareholder approval (**Smyth Placement**). The Company has received a waiver from ASX allowing the Smyth Placement shares to be issued on or before 30 April 2017 subject to the conditions of the ASX waiver described in more detail below.

Robert Smyth is an existing executive with Tesseract and will be joining the Family Zone team along with Mr Nick Conolly, Tesseract Limited’s existing CTO, and four engineers.

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Engagement of Tesseract Limited as Reseller & Distributor

Tesseract is a specialist in managed cyber security operating in Australia and expanding globally through partnerships.

Consistent with Family Zone's strategy of going to market through strong distribution partnerships, Family Zone has engaged Tesseract as a global reseller and distributor of Sonar/MyNet under these arrangements:

- Tesseract offers Family Zone's Sonar/MyNet platform to education clients, bundled with its managed services offerings;
- Tesseract will pay Family Zone monthly license fees for each active installation;
- Tesseract is appointed as Family Zone's exclusive agent in Australia & New Zealand;
- Tesseract is also engaged to leverage its growing global distribution in the USA and beyond to distribute Sonar/MyNet;
- Family Zone's consumer offerings are to be swiftly interfaced and harmonised with Sonar/MyNet, creating compelling offers for parents of these schools; and
- Tesseract and Family Zone agree to work together to generate consumer Family Zone sign ups from schools operating Sonar/MyNet.

Engagement of Robert Smyth & Nick Conolly

Mr Robert Smyth is a seasoned IT sales professional, specialising in education and is the key driver behind Sonar and MyNet.

Mr Smyth will join Family Zone as VP Sales taking responsibility for driving Family Zone's education sales through Tesseract and other resellers and Family Zone's consumer sales through school "activations", retail and direct channels.

Mr Nick Conolly is a software practitioner with over 15 years of experience. Mr Conolly holds a Masters of Information Technology in Software Engineering and has been the technical architect of Sonar/MyNet for the last five years.

Mr Conolly will join Family Zone as VP Enterprise Technology.

The Company has agreed to issue 1,999,998 Performance Shares and 4,000,000 Employee Options (\$0.30, 3 years) to Robert Smyth and 999,999 Performance Shares and 2,000,000 Employee Options (\$0.30, 3 years) to Nick Conolly as long term performance incentives in connection with their appointment and as part consideration for the executive services to be provided to the Company. The issue of Performance Shares to Mr Smyth and Mr Conolly is subject to Shareholder approval at a General Meeting to be held in December 2016 and the Employee Options will be issued under the terms of the Company's Employee Share Option Plan.

ASX Waiver

The Company is pleased to announce that ASX has granted a waiver from Listing Rule 7.3.2 allowing it to issue the Smyth Placement shares on or before 30 April 2017 (later than three months after the General Meeting to be held in December 2016). Subject to shareholder approval, the Company intends to issue the Smyth Placement shares on or before 28 April 2017.

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The specific terms of the waiver is as follows:

1. *Based solely on the information provided, in connection with the proposed acquisition by Family Zone of the Sonar/MyNet intellectual property of Tesseract (**Acquisition**) and the proposed issue of 3,333,333 fully paid ordinary shares in the Company (**Smyth Placement Shares**) to Robert Smyth (or his nominees) ASX Limited (**ASX**) grants the Company a waiver from Listing Rule 7.3.2 to permit the notice seeking shareholder approval to issue the Smyth Placement Shares not to state that the Smyth Placement Shares will be issued within 3 months after the date of the shareholders' meeting being held by the Company in early December 2016, on the following conditions:*
 - 1.1 *the Smyth Placement Shares must be issued on or before 30 April 2017;*
 - 1.2 *for the periods in which the Smyth Placement Shares may be issued, the Company's half yearly report set out in reasonable detail the Smyth Placement Shares which have been, or remain to be issued, and details of the conditions which are to be satisfied prior to their issue; and*
 - 1.3 *the Company releases the terms of this waiver to the market immediately.*
2. *ASX has considered listing rules 7.3.2 only and makes no statement as to the Company's compliance with other listing rules.*

The notice of meeting for the General meeting to be held in December 2016 which contains the shareholder approvals associated with the proposed Acquisition will be dispatched to shareholders shortly.

For further information, please contact:

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About Family Zone

Family Zone is an Australian owned and operated technology company focused on the cyber safety market. Meeting a growing demand to keep kids and families safe online, Family Zone has developed a unique and innovative cloud-based parental control solution which combines Australian innovation with leading global technology.

See more by visiting our website: www.familyzone.com

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