

Rainbow Technologies Limited
(Registered Number: 2258824)

Annual Report
for the year ended 31 December 2003

28



Rainbow Technologies Limited

Annual report for the year ended 31 December 2003

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Rainbow Technologies Limited

Directors and advisers

Directors

A Caputo

C Argo

Secretary

K Hicks

Auditors

PricewaterhouseCoopers LLP

Harman House

1 George Street

Uxbridge

Middlesex

UB8 1QQ

Bankers

Barclays Bank PLC

City Office

Old Bank

Oxford

OX1 3HS

Registered office

Becket House

1 Lambeth Palace Road

London

SE1 7EU

Rainbow Technologies Limited

Directors' Report

Directors' report for the year ended 31 December 2003

The directors present their report and the audited financial statements of the company for the year ended 31 December 2003.

Principal activities, review of the business and future developments

The principal activity of the company continues to be marketing and distribution of software protection systems.

On October 22, 2003 an announcement was made concerning a merger between Rainbow Technologies Inc. and SafeNet Inc. (Nasdaq : SFNT) a global leader in information security based in Belcamp, MD, USA. The merger was effective on March 15, 2004.

Results and dividends

The company's loss for the financial year is £340,050 (2002: loss £685,061). The directors do not recommend the payment of a dividend (2002: £nil).

Interests in land

In the opinion of the directors, the current open market value of the company's interests exceeds the amount at which the assets are included in the balance sheet at 31 December 2003 by £200,000 (2002: £175,000). In the event of a disposal at the amount of the valuation, a taxation liability may arise.

Directors and their interests

The following directors held office during the year and up to the date of signing the accounts:

W Straub (resigned 16 March 2004)
P Fevery (resigned 16 March 2004)
A Caputo (appointed 16 March 2004)
C Argo (appointed 16 March 2004)

The interest of W Straub in the share capital of the company was as follows:

	31 December 2003	31 December 2002
	Ordinary shares	Ordinary shares
W Straub	50	50

Rainbow Technologies Limited

Directors' report for the year ended 31 December 2003 (continued)

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2003 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that 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

During the year Ernst and Young LLP resigned as auditors to the company and PricewaterhouseCoopers LLP were appointed. Following the merger of the company's parent with SafeNet Inc (see note 17), PricewaterhouseCoopers LLP will not be seeking reappointment. They have stated that there are no matters connected with their ceasing to hold office which should be brought to the attention of members or creditors.

Because Ernst and Young LLP (in the USA) are the auditors of SafeNet Inc, the Board intends to nominate the UK firm of Ernst and Young LLP as auditors of the company.

By order of the board

K Hicks
Secretary



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2005

Rainbow Technologies Limited

Auditors' Report

Independent auditor's report to the members of Rainbow Technologies 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2003 and of its loss 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
West London

21 March 2005

Rainbow Technologies Limited

Profit and loss account for the year ended 31 December 2003

		2003	2002
	<i>Note</i>	£	(restated) £
Turnover	2	1,993,320	2,037,022
Cost of sales		785,219	969,083
Gross profit		1,208,101	1,067,939
Distribution costs		1,006,666	1,132,395
Administrative expenses		1,220,678	1,226,734
		(1,019,243)	(1,291,190)
Other operating income	3	610,717	607,684
Operating loss	4	(408,526)	(683,506)
Interest receivable and similar income		29,540	13,327
Loss on ordinary activities before taxation		(378,986)	(670,179)
Tax on loss on ordinary activities	7	38,936	(14,882)
Retained loss for the financial year	13	(340,050)	(685,061)

The results for both periods are entirely derived from continuing operations.

There were no recognised gains or losses other than the loss for the financial year shown above.

There are no material differences between the loss on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents.

The notes on pages 8 to 14 form an integral part of these financial statements.

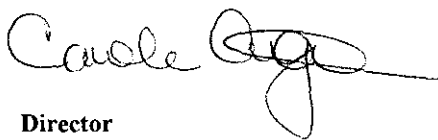
Rainbow Technologies Limited

Balance sheet at 31 December 2003

	<i>Note</i>	2003 £	2002 £
Fixed assets			
Tangible assets	8	561,251	653,653
Current assets			
Debtors	9	474,017	685,474
Cash at bank and in hand		1,093,083	1,196,168
		1,567,100	1,881,642
Creditors - amounts falling due within one year	10	397,072	463,966
Net current assets		1,170,028	1,417,676
Total assets less current liabilities		1,731,279	2,071,329
Capital and reserves			
Called up share capital	12	50,000	50,000
Profit and loss account	13	1,681,279	2,021,329
Equity shareholders' funds	13	1,731,279	2,071,329

The notes on pages 8 to 14 form an integral part of these financial statements.

The financial statements on pages 6 to 14 were approved by the board of directors on 21 March 2005 and were signed on its behalf by:



Director

Rainbow Technologies Limited

Notes to the financial statements for the year ended 31 December 2003

1 Accounting policies

Accounting convention

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. The principal accounting policies are set out below.

Cash flow statement and related party disclosures

As at 31 December 2003, the company was a greater than 90% owned subsidiary of Rainbow Technologies Inc., and is included in the consolidated financial statements of Rainbow Technologies Inc., which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996). The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Rainbow Technologies Inc. group or investees of the Rainbow Technologies Inc. group.

Tangible fixed assets and depreciation

Depreciation is calculated to write down the cost less estimated residual value of tangible fixed assets by equal annual instalments over their expected useful lives as follows:

Computer equipment	over 4 years
Furniture and office equipment	over 5 years
Freehold buildings	over 31 years

Freehold land is not depreciated.

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying values may not be recoverable.

Deferred taxation

Provision is made for deferred tax liabilities and assets, using full provision accounting, otherwise known as incremental liability method, when an event has taken place by the balance sheet date which gives rise to an increased or reduced tax liability in the future in accordance with FRS 19.

A deferred tax asset is only set up when it is considered more likely than not that it will be realised. Deferred tax is measured at average tax rates that are expected to apply in the period in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Resulting exchange differences are dealt with in the profit and loss account.

Rainbow Technologies Limited

Notes to the financial statements for the year ended 31 December 2003 (continued)

1 Accounting policies (continued)

Leasing commitments

No assets are held under finance leases or hire purchase contracts. All leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight-line basis over the lease term.

Pensions

The Company operates a defined contribution pension scheme. All contributions payable are charged to the profit and loss account in the year to which they relate.

Change in accounting policy

The split between distribution costs and administrative expenses has been changed to reflect the payroll costs of the sales and marketing function within distribution costs rather than within administrative expenses, as the directors feel that this is a more appropriate classification for these costs. Accordingly, the prior year comparatives have been restated. There is no impact to net assets, operating loss or retained loss for either year.

2 Turnover

Maintenance revenues are deferred and recognised rateably over the maintenance period, which is usually one year.

All other revenues are recognised when persuasive evidence of an arrangement exists, the product has been shipped, fees are fixed and determinable and collectability is considered probable.

Revenue is stated net of value added tax.

The company turnover and pre-tax result is attributable to one continuing activity, the marketing and distribution of software protection systems and arises wholly in the UK and Ireland.

3 Other operating income

	2003 £	2002 £
Commissions and cost recharges receivable from fellow group companies	610,717	607,684

Rainbow Technologies Limited

Notes to the financial statements for the year ended 31 December 2003 (continued)

4 Operating loss

Operating loss is stated after charging/(crediting):

	2003 £	2002 £
Auditors' remuneration – audit services	17,000	16,500
Depreciation – owned assets	98,282	110,004
Operating lease rentals - other	-	1,085
- plant and machinery	1,151	1,171
Profit on disposal of fixed assets	(7,155)	-
Exchange (gain)/loss	16,337	(14,864)

5 Employee information

	2003 £	2002 £
Wages and salaries	1,181,591	1,219,532
Social security costs	135,044	128,591
Other pension costs	50,361	51,205
	1,366,996	1,399,328

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

	2003 No.	2002 No.
Office and management	15	16
Distribution and marketing	10	11
	25	27

6 Directors' emoluments

No directors received any remuneration in respect of services provided to the company during the year ended 31 December 2003 (2002: £nil).

Rainbow Technologies Limited

Notes to the financial statements for the year ended 31 December 2003 (continued)

7 Taxation on the loss for the year

	2003 £	2002 £
Current tax		
UK corporation tax on the loss for the year	-	-
(Over)/under provision in respect of prior years	(38,936)	14,882
Total tax (credit)/charge for year	(38,936)	14,882

The tax assessed for the year differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2003 £	2002 £
Loss on ordinary activities before tax	(378,986)	(670,179)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK 30% (2002: 30%)	(113,696)	(201,054)
Effects of:		
Expenses not deductible for tax purposes	12,098	10,670
Depreciation in advance of capital allowances	22,499	7,947
Tax losses carried forward	79,099	182,437
Adjustments to tax charge in respect of previous years	(38,936)	14,882
Current tax (credit)/charge for the year	(38,936)	14,882

Factors that may affect future tax charges:

The company has tax losses arising in the UK of £798,555 (2002: £208,120) that are available indefinitely for offset against future trading profits. A deferred tax asset has not been recognised in respect of these losses, as the company was loss making in the current and prior period. This will be re-evaluated once a pattern of taxable profits is re-established.

Rainbow Technologies Limited

Notes to the financial statements for the year ended 31 December 2003 (continued)

8 Tangible assets

	Computer Equipment £	Furniture and office equipment £	Freehold land and buildings £	Total £
Cost				
At 1 January 2003	319,131	257,507	650,000	1,226,638
Additions	12,733	-	-	12,733
Disposals	(23,028)	-	-	(23,028)
At 31 December 2003	308,836	257,507	650,000	1,216,343
Accumulated depreciation				
At 1 January 2003	194,056	201,281	177,648	572,985
Charge for the year	58,711	23,442	16,129	98,282
Disposals	(16,175)	-	-	(16,175)
At 31 December 2003	236,592	224,723	193,777	655,092
Net book amount				
At 31 December 2003	72,244	32,784	456,223	561,251
At 31 December 2002	125,075	56,226	472,352	653,653

Freehold land included above at a cost of £150,000 (2002: £150,000) is not depreciated.

9 Debtors

	2003 £	2002 £
Trade debtors	333,227	417,774
Amounts owed by fellow group undertakings	82,915	130,219
Other debtors	100	59,925
Prepayments and accrued income	57,775	77,556
	474,017	685,474

Amounts owed by fellow group undertakings are unsecured, interest free and have no fixed date of repayment.

Rainbow Technologies Limited

Notes to the financial statements for the year ended 31 December 2003 (continued)

10 Creditors – amounts falling due within one year

	2003 £	2002 £
Trade creditors	107,236	52,421
Amounts due to parent undertaking	22,248	183,025
Amounts due to fellow group undertakings	-	20,520
Taxation and social security	62,597	65,323
Other creditors	790	4,214
Accruals and deferred income	204,201	138,463
	397,072	463,966

Amounts owed to parent and fellow group undertakings are unsecured, interest free and have no fixed date of repayment.

11 Deferred taxation

Deferred taxation amounts not provided are as follows:

	Not provided 2003 £	Not provided 2002 £
Decelerated capital allowances	55,417	6,254
Tax losses	239,567	62,436
Deferred tax asset not provided	294,984	68,690

12 Called up share capital

	Authorised, allotted, and fully paid 2003 £	2002 £
50,000 ordinary shares of £1 each	50,000	50,000

13 Reconciliation of shareholders' funds and movements on reserves

	Share capital £	Profit and loss account £	Total £
At 1 January 2003	50,000	2,021,329	2,071,329
Retained loss for the financial year		(340,050)	(340,050)
At 31 December 2003	50,000	1,681,279	1,731,279

Rainbow Technologies Limited

Notes to the financial statements for the year ended 31 December 2003 (continued)

14 Pension commitments

The company operates a defined contribution pension scheme for its directors and senior employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost represents contributions payable by the company to the fund and amounted to £50,361 (2002: £51,205). Included in creditors is £6,403 (2002: £6,230) in respect of contributions to the scheme.

15 Financial commitments

At 31 December 2003 the company had annual commitments under non-cancellable operating leases for assets other than land and buildings expiring as follows:

	2003 £	2002 £
Within one year	337	337
Within two to five years	814	-
After five years	-	814
	<u>1,151</u>	<u>1,151</u>

16 Parent undertaking and controlling party

As at 31 December 2003, the ultimate parent undertaking and controlling party was Rainbow Technologies Inc, incorporated in the United States of America, which is the smallest and largest group to consolidate these financial statements. Copies of Rainbow Technologies Inc financial statements can be obtained from the Company Secretary at 50 Technology Drive, Irvine, CA 927, USA.

17 Post balance sheet events

On 15 March 2004, the company's ultimate parent undertaking, Rainbow Technologies Inc., merged with SafeNet Inc., a company incorporated in the United States of America. Consequently from 15 March 2004 the company's ultimate parent undertaking and controlling party is SafeNet Inc.