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SafeNet UK Limited

Report and Financial Statements

31 December 2007

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COMPANIES HOUSE

Directors

G Clark

C Fedde

(appointed 4 May 2007)

R Barkhordari

(appointed 1 October 2007)

Secretary

K Hicks

Auditors

Ernst & Young LLP

Apex Plaza

Forbury Road

Reading

Berkshire

RG1 1YE

Bankers

Barclays Bank PLC

City Office

Old Bank

Oxford

OX1 3HS

Registered office

Rivercourt

3 Meadows Business Park

Station Approach

Blackwater

Camberley

Surrey

GU17 9AB

Directors' report

The directors present their report and financial statements for the year ended 31 December 2007.

Results and dividends

The loss for the year, after taxation, amounted to £563,486 (2006: profit of £414,663).

The directors do not recommend the payment of a dividend (2006: £nil).

Principal activity and review of the business

The company's principal activity during the year continued to be the marketing and distribution of hardware and software protection systems.

The company's key financial and other performance indicators for the year were as follows:-

	2007 £'000	2006 £'000	Change %
Turnover	3,536	3,581	-1.2%
Total operating (loss)/profit	(568)	414	-237%
(Loss)/profit after tax	(563)	415	-236%
Shareholders' funds	945	1,622	-42%
Current assets as % of current liabilities	103%	122%	-16%
Average number of employees	58	45	+29%

The business in the UK is based almost completely on the enterprise and rights management products. Both business segments experienced a continued steady trend in 2007, and this was also the 3rd year where Safenet UK benefited from newly added customers as a result of the Eracom acquisition in 2005.

In 2006, Safenet UK Ltd developed and increased the shared service and management functions for the entire business in EMEA. This approach continued in the current year with an increasing headcount and resulting increase in staff costs of approximately £1m.

In addition the negative currency development resulted in exchange losses, bringing the total loss for the year to £563,486.

Increased growth is expected for 2008 in both the enterprise business as well as the rights management segment due to full year leverage of the acquired businesses. The enterprise business will profit from increased demands for LUNA and Ethernet products while the rights management segment could record significant new business wins.

Directors' report

Risks and uncertainties

The directors consider that the following are principal risk factors that could materially and adversely affect the company's future operating benefits or financial position. Management and the Board regularly review risks facing the company.

- Regulatory decisions and changes in the regulatory environment could adversely affect our business;
- Failure to maintain effective internal controls could have a material adverse effect on our business and operating results;
- Fluctuations in the exchange rate between the UK pound, the US dollar, and the Euro affect the company by impacting upon revenue, expenses and the balance sheet.

Directors and their interests

The directors who held office during the year and to the date of this report, together with dates of changes as appropriate, are as follows:

G Clark	
C Fedde	(appointed 4 May 2007)
R Barkhordari	(appointed 1 October 2007)
C Madsen-Oesterbye	(resigned 1 October 2007)

None of the directors who held office at the end of the financial period had any disclosable interest in the shares of the company.

The company has not granted an indemnity to any directors against liability of proceedings brought by third parties.

Political contributions

No political contributions have been made during the year (2006: £nil).

Charitable contributions

No charitable contributions have been made during the year (2006: £nil).

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

By order of the Board



R Barkhordari
Director

Date: 6 APRIL 2009

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 that 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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report

to the members of SafeNet UK Limited

We have audited the company's financial statements for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

Independent auditors' report

to the members of SafeNet UK Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Reading

Date: *7 April 2009*

Profit and loss account

for the year ended 31 December 2007

	Notes	2007 £	2006 £
Turnover	2	3,535,846	3,581,418
Cost of sales		(1,493,423)	(492,094)
Gross profit		2,042,423	3,089,324
Distribution costs		(2,076,070)	(1,480,649)
Administrative expenses		(4,605,452)	(3,814,248)
		(4,639,099)	(2,205,573)
Other operating income	3	4,071,215	2,619,172
Operating (loss)/profit	4	(567,884)	413,599
Interest receivable and similar income	7	4,398	5,527
Interest payable		-	(544)
(Loss)/ profit on ordinary activities before taxation		(563,486)	418,582
Tax credit/ (charge) on profit on ordinary activities	8	-	(3,919)
(Loss)/ Profit for the financial year		(563,486)	414,663

Statement of total recognised gains and losses

for the year ended 31 December 2007

	2007 £	2006 £
Retained (loss)/ profit for the year	(563,486)	414,663
Share-based payment	255,311	103,761
Share options payout	(368,538)	-
Total (loss)/ gains recognised since last financial statements	(676,713)	518,424

Balance sheet

at 31 December 2007

	Notes	2007 £	2006 £
Fixed assets			
Tangible assets	9	700,967	851,977
Current assets			
Debtors	11	2,353,079	3,974,816
Cash at bank and in hand		172,164	231,659
		2,525,243	4,206,475
Creditors: amounts falling due within one year	12	(2,459,270)	(3,436,190)
Net current assets		65,973	770,285
Long term receivable	10	178,609	-
Total assets less total liabilities		945,549	1,622,262
Capital and reserves			
Called up share capital	14	50,000	50,000
Share options reserve	15	53,497	166,724
Profit and loss account	15	842,052	1,405,538
Equity shareholders funds	15	945,549	1,622,262

Approved by the Board


R. Barkhordari
Director

Date: 5 APRIL 2009

Notes to the financial statements

at 31 December 2007

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

Statement of cash flows

The company has taken advantage of the exemption available under FRS 1 not to prepare a statement of cash flows.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition or revaluation, of each asset evenly over its expected useful life, as follows:

Freehold buildings	-	over 31 years
Leasehold improvements	-	over 5 years
Computer equipment	-	over 5 years
Furniture and office equipment	-	over 4 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 value may not be recoverable.

Stocks

Stocks are valued at the lower of cost and net realisable value.

Deferred taxation

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

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Notes to the financial statements

at 31 December 2007

1. Accounting policies (continued)

Share based payments

The cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. The fair values of equity-settled share options are estimated at the date granted using the Black-Scholes-Merton formula, taking into accounts the terms and conditions upon which the options are granted.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the equity instruments that will ultimately vest. The movement in the cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Leasing commitments

Rentals paid under operating leases 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. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

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 collection is considered probable.

Revenue is stated net of value added tax and any trade discounts.

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

	2007	2006
	£	£
Commissions and cost recharges receivable from fellow group subsidiary	4,071,215	2,619,172

Notes to the financial statements

at 31 December 2007

4. Operating (loss)/ profit

This is stated after charging:

	2007	2006
	£	£
Auditors remuneration	38,000	36,000
Depreciation	211,163	223,152
Operating lease rentals - equipment	2,170	701
Exchange loss	589,724	53,304
	<u> </u>	<u> </u>

5. Staff costs

	2007	2006
	£	£
Wages and salaries	3,329,034	2,303,364
Social security costs	438,838	317,483
Pension contributions	141,279	103,907
	<u> </u>	<u> </u>
	3,909,151	2,724,754
	<u> </u>	<u> </u>

Included in staff costs is a total expense of share-based payments of £255k (2006: £104k) which arises from transactions accounted for as equity-settled share-based payment transactions.

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

	2007	2006
	No.	No.
Office and management	49	35
Distribution and marketing	9	10
	<u> </u>	<u> </u>
	58	45
	<u> </u>	<u> </u>

Notes to the financial statements

at 31 December 2007

6. Directors' emoluments

The directors' emoluments for the year were:

	2007 £	2006 £
Salary and other emoluments	360,371	220,299
	<u> </u>	<u> </u>
	2007 No.	2006 No.
Number of directors accruing benefits under defined benefit scheme	3	2
	<u> </u>	<u> </u>
Number of directors who exercised share options	2	1
	<u> </u>	<u> </u>
In respect of the highest paid director:		
Salary and other emoluments	215,177	192,838
	<u> </u>	<u> </u>

During 2007, £105,824 (2006: £nil) was payable to one director as compensation for loss of office

7. Interest receivable and similar income

	2007 £	2006 £
Bank deposit interest	4,398	5,527
	<u> </u>	<u> </u>

8. Taxation

(a) Tax on (loss)/profit on ordinary activities

The tax charge is made up as follows:

	2007 £	2006 £
<i>Current tax</i>		
UK corporation tax on the (loss)/profit for the year	-	1,658
Under provision in prior years	-	2,261
	<u> </u>	<u> </u>
Total current tax (note 8(b))	-	3,919
	<u> </u>	<u> </u>

Notes to the financial statements

at 31 December 2007

8. Taxation (continued)

(b) Factors affecting the tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2006 - 30%). The differences are explained below:

	2007 £	2006 £
(Loss)/profit on ordinary activities before tax	(563,486)	418,582
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 - 30%)	(169,046)	125,574
<i>Effects of:</i>		
Expenses not deductible for tax purposes	31,364	11,801
Accelerated capital allowances	(4,512)	12,601
Other timing differences	(21,444)	16,974
Share based payments	76,593	-
Tax losses carried forward /(utilised)	87,045	(186,285)
Adjustments to tax charge in respect of previous years	-	2,261
Deduction for share options & ESOPS	-	20,993
Current tax for the year (note 8(a))	-	3,919

c) Deferred tax

The company has tax losses arising in the UK of £1,494,003 (2006 - £1,529,139) that are available indefinitely for offset against future trading profits (see note 13).

The rate of UK corporation tax will reduce from 30% to 28% from 1 April 2008. This rate change will both affect the amount of future cash tax payments to be made by the company and will also reduce the size of the company's unrecognised deferred tax asset. The effect on the company of these proposed changes to the UK tax system will be fully reflected in the company's financial statements for the period ending 31 December 2008.

Notes to the financial statements

at 31 December 2007

9. Tangible fixed assets

	<i>Freehold land and buildings £</i>	<i>Leasehold improvements £</i>	<i>Computer equipment £</i>	<i>Furniture and office equipment £</i>	<i>Total £</i>
Cost:					
At 1 January 2007	650,000	398,271	602,258	698,581	2,349,110
Additions	–	–	55,970	4,183	60,153
At 31 December 2007	650,000	398,271	658,228	702,764	2,409,263
Depreciation:					
At 1 January 2007	242,165	194,583	462,908	597,477	1,497,133
Provided during the year	16,129	52,694	103,267	39,073	211,163
At 31 December 2007	258,294	247,277	566,175	636,550	1,708,296
Net book value:					
At 31 December 2007	391,706	150,994	92,053	66,214	700,967
At 1 January 2007	407,835	203,688	139,350	101,104	851,977

Freehold land included above at a cost of £150,000 (2006 - £150,000) is not depreciated.

10. Long term receivable

	<i>2007 £</i>	<i>2006 £</i>
Rent deposit for Rivercourt building in Camberley	178,609	–

11. Debtors

	<i>2007 £</i>	<i>2006 £</i>
Trade debtors	841,184	1,551,478
Amounts owed by parent undertaking	176,888	–
Amounts owed by fellow group undertakings	1,150,120	2,161,878
Prepayments and accrued income	184,887	261,460
	2,353,079	3,974,816

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

Notes to the financial statements

at 31 December 2007

12. Creditors: amounts falling due within one year

	2007	2006
	£	£
Trade creditors	144,230	72,406
Amounts owed to parent undertaking	-	769,118
Amounts owed to fellow group undertakings	1,137,888	1,294,466
Corporation tax payable	1,658	3,919
Other taxes and social security	289,863	228,699
Accruals and deferred income	846,304	1,048,984
Other creditors	39,327	18,598
	<u>2,459,270</u>	<u>3,436,190</u>

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

13. Deferred taxation

Deferred taxation amounts not provided are as follows:

	2007	2006
	£	£
Decelerated capital allowances	76,786	79,715
Short term timing differences	(539)	19,475
Tax losses	511,528	427,319
	<u>587,775</u>	<u>526,509</u>

A deferred tax asset has not been recognised on the grounds that the directors consider that there is insufficient evidence that there will be sufficient taxable profits in the foreseeable future from which the timing differences can be deducted.

14. Share capital

			<i>Authorised</i>	
			<i>2007</i>	<i>2006</i>
			£	£
Ordinary shares of £1 each			50,000	50,000
			<u>50,000</u>	<u>50,000</u>
			<i>Allotted, called up and fully paid</i>	
			<i>2007</i>	<i>2006</i>
	<i>No.</i>	£	<i>No.</i>	£
Ordinary shares of £1 each	50,000	50,000	50,000	50,000

Notes to the financial statements

at 31 December 2007

15. Reconciliation of shareholders' funds and movements on reserves

	<i>Share capital</i>	<i>Share-based payment reserve</i>	<i>Profit and loss account</i>	<i>Total shareholders' funds</i>
	£	£	£	£
At 1 January 2006	50,000	62,963	990,875	1,103,838
Share-based payment reserve	-	103,761	-	103,761
Profit for the year	-	-	414,663	414,663
At 31 December 2006	50,000	166,724	1,405,538	1,622,262
Share-based payment reserve (note 17)	-	255,311	-	255,311
Share options payout (note 17)	-	(368,538)	-	(368,538)
Loss for the year	-	-	(563,486)	(563,486)
At 31 December 2007	50,000	53,497	842,052	945,549

16. 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 £141,279 (2006: £103,907). Included in creditors is £8,076 (2006 - £7,184) in respect of contributions to the scheme.

17. Share-based payments

All Employee Share-option Plan

The Share-option plan has been withdrawn since the acquisition of SafeNet Inc. by Vector Capital Limited on 11 April 2007. All outstanding Share-options as at 11 April 2007 were paid at the stock acquisition price of \$28.75 per share. The total payment made to employees in 2007 by the company was £368,538.

The plan was open to all employees, and granted options in the fully paid up common stock of SafeNet Inc. Safenet UK Ltd has recorded the stock options payout based on an accelerated vesting method prescribed in FRS 20 Share based payment. As a result of the accelerated vesting, stock option charge of £255,311 has been recorded in 2007.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	<i>2007</i>	<i>2007</i>	<i>2006</i>	<i>2006</i>
	<i>No.</i>	<i>WAEP</i>	<i>No.</i>	<i>WAEP</i>
		£		£
Options outstanding at 1 January	93,130	12.02	94,906	13.41
Options granted	-	-	3,212	12.86
Options exercised	(90,091)	14.71	(4,488)	7.38
Options cancelled	(3,039)	11.99	(500)	11.78
Options outstanding at 31 December	-	-	93,130	12.02

Notes to the financial statements

at 31 December 2007

17. Share-based payments (continued)

There are no share options outstanding at 31 December 2007. The weighted average remaining contractual life of the options at the end of the previous year was 5.59 years.

The expense from share option based payment transactions in the current year is £255,311 (2006: £103,761). For the purposes of FRS20, a share option based payment expense is only required for share options granted after 7 November 2002.

No options were granted during the year.

The weighted fair value of options granted during the previous year was £5.91, and the range of exercise price for options outstanding at 11 April 2007 was £4.51 to £21.80 (2006: £4.51 to £21.80). The fair values of equity-settled share options are estimated at the date granted using the Black-Scholes-Merton formula, taking into account the terms and conditions upon which the options are granted. The following table lists the inputs to the formula used:

	2007	2006
Dividend yield (%)	0%	0%
Expected share price volatility (%)	52%	52%
Risk-free interest rate (%)	4.14%	4.14%
Estimated expected life of share options (years)	5.59	5.59

The average fair values of share options at grant date, calculated by using the Black-Scholes-Merton formula, are as follows:

	<i>Pence</i>
Share options average fair value at 31 December 2006	713
Share options fair value at 11 April 2007	713

18. Related party transactions

The company has taken advantage of the exemption available under FRS 8 not to disclose transactions with other members of the SafeNet Inc. group.

19. Parent undertaking and controlling party

The directors consider the ultimate parent undertaking and controlling party to be Vector Stealth Holdings II, LLC, a company incorporated in the United States of America.

The parent undertaking of the group of undertakings for which group financial statements are drawn up and of which the company is a member is SafeNet Inc. Copies of the financial statements can be obtained from 4690 Millennium Drive, Suite 400, Belcamp, MD 21017 USA.

20. Cash flow statement

Under the provisions of FRS 1, the company is exempt from the requirement to prepare a cash flow statement on the basis that it is a wholly owned subsidiary whose parent company produces consolidated financial statements which are publicly available.