

Registered number: 3780600

Princeton Softech UK Limited

Directors' Report and Financial Statements

For the year ended 31 December 2006

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Princeton Softech UK Limited

Company information

Directors	P J Garstang L L Enns
Secretary	A Sullivan
Company number	3780600
Registered office	20-22 Bedford Row London WC1R 4JS
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants & Registered Auditors The Atrium 1 Harefield Road Uxbridge UB8 1EX

Princeton Softech UK Limited

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Princeton Softech UK Limited

Directors' Report For the year ended 31 December 2006

The directors present their report and the audited financial statements of the company for the year ended 31 December 2006

Principal activities and review of business

During the year, the company was principally engaged in the provision of software for developing and deploying strategic enterprise and related maintenance contracts. The directors are satisfied with the position and performance of the company.

Results and dividends

The profit for the year, after taxation, amounted to £36,918 (2005 - £12,079), which will be added to reserves.

The directors do not recommend the payment of a dividend (2005 - £nil).

Post balance sheet events

On 3 August 2007 International Business Machines Corporation ("IBM") announced that it had entered into an agreement to acquire the company's immediate parent undertaking, Princeton Softech Inc. The acquisition was completed on 10 September 2007 and the company is now wholly-owned by IBM. On 10 December 2007 Princeton Softech Inc merged with and into Princeton Softech LLC, a subsidiary of IBM. On 11 December 2007 Princeton Softech LLC distributed its subsidiaries, including the company, to IBM. The company is currently wholly-owned by IBM, and the company's trade and assets were transferred to a fellow subsidiary, IBM United Kingdom Limited, on 1 February 2008.

Future developments

The directors expect the company to remain dormant for the foreseeable future.

Directors

The directors who served during the year and up to the date of signing of these financial statements were:

P T Winn (resigned 10 December 2007)
W G Levering (resigned 10 December 2007)
J J Robinson (resigned 10 December 2007)
L L Enns (appointed 10 December 2007)
D J Stark (resigned 29 February 2008)
P J Garstang (appointed 1 April 2008)

Donations

There were no donations made during the year (2005 - £nil).

Going concern

The directors have received confirmation that IBM intends to support the company for at least one year after these financial statements are signed and therefore believe that preparing the financial statements on the going concern basis is appropriate.

Princeton Softech UK Limited

Directors' Report

For the year ended 31 December 2006

Statement of directors' responsibilities

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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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 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.

Each of the persons who is a director at the date of approval of this report confirms that

(1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(2) each director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Independent auditors

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

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

This report was approved by the board on 28th April 2008 and signed on its behalf by

Director 

Princeton Softech UK Limited

Independent auditors' report to the members of Princeton Softech UK Limited

We have audited the financial statements of Princeton Softech UK Limited for the year ended 31 December 2006 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom 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). 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 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.

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 2006 and of its profit 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

West London

Date 29 April 2007

Princeton Softech UK Limited

**Profit and loss account
For the year ended 31 December 2006**

	Note	31 December 2006 £	31 December 2005 £
Turnover	2	2,701,852	1,701,283
Cost of sales		<u>(1,570,442)</u>	<u>(1,060,287)</u>
Gross profit		1,131,410	640,996
Selling and distribution costs		(861,730)	(611,838)
Administrative expenses		(264,444)	(163,182)
Other operating income	3	<u>-</u>	<u>119,313</u>
Operating profit/(loss)	3	5,236	(14,711)
Interest receivable	5	<u>31,682</u>	<u>26,790</u>
Profit on ordinary activities before taxation		36,918	12,079
Tax on profit on ordinary activities	6	<u>-</u>	<u>-</u>
Profit on ordinary activities after taxation	11	<u><u>36,918</u></u>	<u><u>12,079</u></u>

All results derive from continuing operations

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

**Statement of total recognised gains and losses
For the year ended 31 December 2006**

	31 December 2006 £	31 December 2005 £
Profit for the financial year	36,918	12,079
Foreign exchange gains/(losses)	<u>228</u>	<u>(5)</u>
Total recognised gains relating to the year	<u><u>37,146</u></u>	<u><u>12,074</u></u>

Princeton Softech UK Limited

**Balance Sheet
As at 31 December 2006**

	Note	£	2006 £	£	2005 £
Fixed assets					
Tangible fixed assets	7		21,120		8,581
Current assets					
Debtors	8	2,000,648		1,354,517	
Cash at bank		<u>185,079</u>		<u>453,621</u>	
		2,185,727		1,808,138	
Creditors: amounts falling due within one year	9	<u>(2,621,247)</u>		<u>(2,268,265)</u>	
Net current liabilities			<u>(435,520)</u>		<u>(460,127)</u>
Total assets less current liabilities			<u>(414,400)</u>		<u>(451,546)</u>
Net liabilities			<u>(414,400)</u>		<u>(451,546)</u>
Capital and reserves					
Called up share capital	10		1,401,276		1,401,276
Other reserves	11		1,168,733		1,168,733
Profit and loss account	11		<u>(2,984,409)</u>		<u>(3,021,555)</u>
Shareholders' deficit - all equity	12		<u>(414,400)</u>		<u>(451,546)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 28th April 2008

Director 

The notes on pages 6 to 12 form part of these financial statements

1. Accounting policies

1.1 Basis of preparation of financial statements

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

During the year FRS 20 "Share based payments" became effective, however there was no impact on the financial statements on the adoption of this standard.

1.2 Going concern

The directors have received confirmation that IBM intends to support the company for at least one year after these financial statements are signed and therefore believe that preparing the financial statements on the going concern basis is appropriate.

1.3 Turnover

Turnover is the total amount receivable by the company for the provision of software for developing and deploying strategic enterprise and related maintenance contracts supplied and services provided, excluding VAT and trade discounts. Income received in respect of maintenance contracts is spread over the period of the contract.

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful economic lives on the following basis:

Furniture, fittings and equipment – 33% straight line

1.5 Operating leases

Rentals under operating leases are charged to the profit and loss account 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 period until the date the rent is expected to be adjusted to the prevailing market rate.

**Notes to the financial statements
For the year ended 31 December 2006**

1.6 Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

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

1.7 Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the date of the balance sheet. Transactions in foreign currency are converted to sterling at the rate ruling at the date of the transaction. All differences on exchange are taken to the profit and loss account. Monetary assets and liabilities of the Belgian branch have been translated at the closing rate on the balance sheet date, with differences arising on retranslation being taken to reserves

1.8 Cash flow statement

The company has taken advantage of the exemption in FRS 1 "Cash flow statements" from the requirement to prepare a cash flow statement, as it is a small company

1.9 Pensions

The company does not make any contributions to pension schemes on behalf of its employees

Princeton Softech UK Limited

**Notes to the financial statements
For the year ended 31 December 2006**

2. Turnover

An analysis of turnover by geographical destination is as follows

	31 December 2006 £	31 December 2005 £
United Kingdom	2,191,717	1,570,160
Rest of the World	<u>510,135</u>	<u>131,123</u>
	<u>2,701,852</u>	<u>1,701,283</u>

All turnover is derived from one class of business

3. Operating profit/(loss)

The operating profit/(loss) is stated after charging/(crediting)

	31 December 2006 £	31 December 2005 £
Depreciation of tangible fixed assets		
- owned by the company	4,252	3,662
Auditors' remuneration – audit services	21,972	14,000
Operating lease rentals		
- other operating leases	44,539	33,763
Difference on foreign exchange	(33,070)	(2,934)
Other operating income	-	(119,313)

During the year, no director received any emoluments in respect of services to the company (2005 - £nil)

Other operating income in 2005 related to the receipt of fees in relation to the Select divestiture in 2001. These fees were not previously recognised as there was insufficient certainty over the likelihood of collection.

4. Staff costs

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

	31 December 2006 Number	31 December 2005 Number
Selling and distribution	11	6
	<u>11</u>	<u>6</u>
	31 December 2006 £	31 December 2005 £
Wages and salaries	887,439	460,702
Social security costs	131,290	96,688
	<u>1,018,729</u>	<u>557,390</u>

Princeton Softech UK Limited

**Notes to the financial statements
For the year ended 31 December 2006**

5. Interest receivable

	31 December 2006 £	31 December 2005 £
Other interest	<u>31,682</u>	<u>26,790</u>

6. Taxation

	2006 £	2005 £
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Analysis of tax charge in year

Current tax

UK corporation tax charge on profits of the year	<u>-</u>	<u>-</u>
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Factors affecting tax charge for the year

The tax assessed for the year is lower (2005 lower) than the standard rate of corporation tax in the UK (30%) The differences are explained below

	31 December 2006 £	31 December 2005 £
Profit on ordinary activities before tax	<u>36,918</u>	<u>12,079</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005 - 30%)	11,075	3,624

Effects of:

Expenses not deductible for tax purposes	623	6,000
Capital allowances more than depreciation	(11,698)	(9,624)

Current tax charge for the year

Deferred tax asset – unrecognised

Current tax

	2006 £	2005 £
Accelerated capital allowances	64,619	32,757
Losses	579,238	230,338
	<u>643,857</u>	<u>263,095</u>

The deferred tax asset has not been recognised, as the directors believe that it is unlikely that there will be sufficient taxable profits in future periods with which it might be realised There is no material impact arising from the changes announced in the March 2007 Budget Statement

Princeton Softech UK Limited

**Notes to the financial statements
For the year ended 31 December 2006**

7. Tangible fixed assets

	Furniture, fittings and equipment £
Cost	
At 1 January 2006	33,548
Additions	16,791
	<hr/>
At 31 December 2006	50,339
Accumulated depreciation	
At 1 January 2006	24,967
Charge for the year	4,252
	<hr/>
At 31 December 2006	29,219
Net book value	
At 31 December 2006	<hr/> 21,120 <hr/>
At 31 December 2005	<hr/> 8,581 <hr/>

8. Debtors

	2006 £	2005 £
Trade debtors	1,531,959	891,509
Amounts due from group undertakings	338,802	344,545
Other debtors	88,761	88,813
Prepayments and accrued income	41,126	29,650
	<hr/>	<hr/>
	<hr/> 2,000,648 <hr/>	<hr/> 1,354,517 <hr/>

Amounts due from group undertakings are unsecured, interest free, and repayable on demand

Princeton Softech UK Limited

**Notes to the financial statements
For the year ended 31 December 2006**

9. Creditors: amounts falling due within one year

	2006 £	2005 £
Trade creditors	40,790	17,301
Amounts owed to group undertakings	1,718,085	1,572,752
Social security and other taxes	102,256	83,864
Accruals and deferred income	760,116	594,348
	<u>2,621,247</u>	<u>2,268,265</u>

Amounts due to group undertakings are unsecured, interest free, and repayable on demand

10. Called up share capital

	2006 £	2005 £
Authorised		
2,000,000 (2005 2,000,000) Ordinary shares of £1 each	<u>2,000,000</u>	<u>2,000,000</u>
Allotted, called up and fully paid		
1,401,276 (2005 1,401,276) Ordinary shares of £1 each	<u>1,401,276</u>	<u>1,401,276</u>

11. Reserves

	Other reserves £	Profit and loss account £
At 1 January 2006	1,168,733	(3,021,555)
Profit for the financial year	-	36,918
Foreign exchange gain	-	228
	<u>1,168,733</u>	<u>(2,984,409)</u>
At 31 December 2006	<u>1,168,733</u>	<u>(2,984,409)</u>

Other reserves relate to a capital contribution arising on the capitalisation of amounts previously owed to the immediate parent undertaking

Princeton Softech UK Limited

Notes to the financial statements For the year ended 31 December 2006

12. Reconciliation of movement in shareholders' deficit

	2006 £	2005 £
Opening shareholders' deficit	(451,546)	(463,620)
Profit for the year	36,918	12,079
Foreign exchange gain/(loss)	228	(5)
Closing shareholders' deficit	<u>(414,400)</u>	<u>(451,546)</u>

13. Operating lease commitments

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as follows

	Land and buildings		Other	
	2006 £	2005 £	2006 £	2005 £
Expiry date:				
Within 1 year	<u>31,728</u>	<u>21,714</u>	<u>-</u>	<u>-</u>

14. Related party transactions

The company undertook transactions during the year with its immediate parent undertaking, Princeton Softech Inc. These transactions consisted of £1,106,528 (2005 £772,357), relating to management charges payable by the company. At the balance sheet date an amount of £1,718,085 (2005 £1,572,752) was owed to the immediate parent company.

There was also a total of £85,480 (2005 £211,224) paid by the company to fellow group companies in relation to trade undertaken in the ordinary course of business. At the balance sheet date an amount of £338,802 (2005 £344,545) was owed by the fellow group companies to the company.

15. Post balance sheet events

On 3 August 2007 International Business Machines Corporation ("IBM") announced that it had entered into an agreement to acquire the company's immediate parent undertaking, Princeton Softech Inc. The acquisition was completed on 10 September 2007 and the company is now wholly-owned by IBM. On 10 December 2007 Princeton Softech Inc merged with and into Princeton Softech LLC, a subsidiary of IBM. On 11 December 2007 Princeton Softech LLC distributed its subsidiaries, including the company, to IBM. The company is currently wholly-owned by IBM, with the trade and assets of the company being transferred to a fellow subsidiary, IBM United Kingdom Limited, on 1 February 2008.

The directors expect the company to remain dormant for the foreseeable future.

16. Ultimate parent undertaking and controlling party

The immediate parent undertaking at 31 December 2006 was Princeton Softech Inc.

As at the date of signing these financial statements, the immediate parent undertaking is IBM United Kingdom Holdings Limited. The company's ultimate parent undertaking and controlling party is International Business Machines Corporation.