

# SMS Passcode A/S

Park Allé 350 D, 2605 Brøndby

CVR no. 21 78 03 40

## Annual report 2015

Approved at the Company's annual general meeting on 27 May 2016

Chairman:



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## Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of SMS Passcode A/S for the financial year 1 January – 31 December 2015.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

It is our opinion that the financial statements give a true and fair view of the Company's financial position at 31 December 2015 and of the results of the Company's operations for the financial year 1 January – 31 December 2015.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.

Brøndby, 27 May 2016  
Executive Board:



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Lisa J. Davis

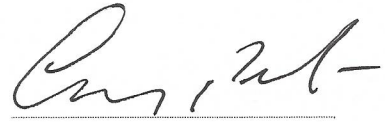
Board of Directors:



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Edward O. Macnair  
Chairman



\_\_\_\_\_  
Lisa J. Davis



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Craig Probert

## Independent auditors' report

To the shareholders of SMS Passcode A/S

Independent auditors' report on the financial statements

We have audited the financial statements of SMS Passcode A/S for the financial year 1 January – 31 December 2015, which comprise income statement, balance sheet and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

### *Management's responsibility for the financial statements*

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act. Management is also responsible for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' responsibility*

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit has not resulted in any qualification.

### *Opinion*

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2015 and of the results of its operations for the financial year 1 January – 31 December 2015 in accordance with the Danish Financial Statements Act.

### *Statement on the Management's review*

Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any other procedures in addition to the audit of the financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the financial statements.

Copenhagen, 27 May 2016  
ERNST & YOUNG  
Godkendt Revisionspartnerselskab  
CVR no. 30 70 02 28

Henrik Barner Christiansen  
State Authorised  
Public Accountant

Anders Flymer-Dindler  
State Authorised  
Public Accountant

## Management's review

### Company details

Name	SMS Passcode A/S
Address, zip code, city	Park Allé 350 D, 2605 Brøndby
CVR no.	21 78 03 40
Established	27 June 1999
Registered office	Brøndby
Financial year	1 January – 31 December
Website	<a href="http://www.smspsscode.com">www.smspsscode.com</a>
Telephone	+45 70 22 55 33
Board of Directors	Edward O. Macnair, Chairman Lisa J. Davis Craig Probert
Executive Board	Lisa J. Davis, CEO
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvold Helmuths Vej 4 P.O. Box 250 2000 Frederiksberg Denmark

## Management's review

### Operating review

#### Primary activities

SMS Passcode A/S is an internationally recognised and leading producer of software within the field of IT security. The Company produces and sells the product SMS PASSCODE®, which protects employees against identity theft through multi-factor authentication when using remote access systems and cloud applications, etc. The product is sold globally through distributors and resellers.

#### Development in activities and finances

In 2015, the Company continued to focus on efficiently delivering technology-leading products through qualified sales channels and international expansion in the USA and other markets around the world.

The income statement for 2015 shows a loss of DKK 3,937 thousand against a loss of DKK 1,962 thousand last year, and the balance sheet at 31 December 2015 shows equity of DKK -5,242 thousand.

The Company changed its accounting policy for development projects. Previously, costs of development projects were capitalised as intangible assets and amortised in the P&L. From 2015, costs of development projects are expensed in the P&L.

The above policy changes have implied that the profit for the year has been affected negatively by DKK 3,165 thousand (2014: negative impact DKK 2,265 thousand). The balance sheet total at 31 December 2015 has decreased by DKK 3,165 thousand (31 December 2014: decrease DKK 9,147 thousand), and equity at 31 December 2015 has decreased by DKK 3,165 thousand (31 December 2014: decrease DKK 9,147 thousand).

#### Events after the balance sheet date

The shares of Mousquetaires Holding ApS, who were the ultimate owners of SMS Passcode A/S, were sold to CensorNet Limited, a UK-based IT security company, on 18 February 2016. SMS Passcode A/S continues to operate as a subsidiary of CensorNet limited.



## Financial statements for the period 1 January – 31 December

### Income statement

Note	DKK '000	2015	2014
	Gross profit	27,483	28,315
2	Staff costs	-32,520	-30,057
	Depreciation, amortisation and impairment losses	-565	-856
	Operating profit	-5,602	-2,598
	Income from investments in group companies	249	81
3	Financial income	1,004	341
4	Financial expenses	-770	-260
	Profit before tax	-5,119	-2,436
5	Tax on loss for the year	1,182	518
	Profit for the year	-3,937	-1,918
	Proposed profit appropriation		
	Dividends for the financial year	0	1,400
	Reserve for net evaluation according to the equity method	249	81
	Retained earnings	-4,186	-3,399
		-3,937	-1,918

Financial statements for the period 1 January – 31 December

Balance sheet

Note	DKK'000	2015	2014
	ASSETS		
	Non-current assets		
6	Intangible assets		
	Acquired intangible rights	951	416
		951	416
7	Property, plant and equipment		
	Fixtures and fittings, tools and equipment	485	1,210
	Leasehold improvements	177	268
		662	1,478
	Investments		
8	Investments in subsidiaries	335	86
	Deposits	246	309
		581	395
	Total non-current assets	2194	2,289
	Current assets		
	Receivables		
	Trade receivables	12,095	11,103
	Amounts owed by group companies	923	188
	Amounts owed by associates	0	339
	Other receivables	1,764	1,172
	Tax receivable	1,305	630
		16,087	13,432
	Other investments	9,285	7,339
	Cash at hand and in bank	7,611	10,613
	Total current assets	32,983	31,384
	<b>TOTAL ASSETS</b>	<b>35,177</b>	<b>33,673</b>



## Financial statements for the period 1 January - 31 December

### Balance sheet

Note	DKK'000	2015	2014
	<b>EQUITY AND LIABILITIES</b>		
9	<b>Equity</b>		
	Share capital	500	500
	Reserve for net revaluation under the equity method	335	86
	Retained earnings	-6,077	-1,891
	Proposed dividends	0	1,400
	<b>Total equity</b>	<b>-5,242</b>	<b>95</b>
	<b>Provisions</b>		
	Deferred tax	194	111
	<b>Total provisions</b>	<b>194</b>	<b>111</b>
	<b>Liabilities</b>		
	<b>Current liabilities other than provisions</b>		
	Bank loans	315	130
	Trade payables	1,657	1,296
	Other payables	6,187	5,524
	Prepayments received from customers	32,066	26,517
		<b>40,225</b>	<b>33,467</b>
	<b>Total liabilities</b>	<b>40,419</b>	<b>33,578</b>
	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>35,177</b>	<b>33,673</b>

- 1 Accounting policies
- 11 Contractual obligations and contingencies, etc.
- 12 Assets charged and collateral
- 13 Ownership

## Financial statements for the period 1 January – 31 December

### Notes to the financial statements

#### 1 Accounting policies

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class B enterprises with addition of certain provisions for reporting class C.

In accordance with section 110(1) of the Danish Financial Statements Act, consolidated financial statements have not been prepared.

#### Change in accounting policy

The Company changed its accounting policy for development projects. Previously, costs of development projects were capitalised as intangible assets and amortised in the P&L. From 2015, costs of development projects are expensed in the P&L.

Comparative figures have been restated to reflect the policy change.

The above policy changes have implied that the profit for the year has been affected negatively by DKK 3,165 thousand (2014: negative impact DKK 2,265 thousand). The balance sheet total at 31 December 2015 has decreased by DKK 3,165 thousand (31 December 2014: decrease DKK 9,147 thousand), and equity at 31 December 2015 has decreased by DKK 3,165 thousand (31 December 2014: decrease DKK 9,147 thousand).

The financial statements have otherwise been presented in accordance with the same accounting policies as were applied last year.

#### Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

#### Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the one in effect at the payment date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses.

Other equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

## Financial statements for the period 1 January – 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

##### Income statement

###### Gross profit or loss

Gross profit or loss comprises revenue, changes in inventories of finished goods, other operating income, cost of raw materials and consumables and external expenses.

###### Revenue

Income from sale of licences is recognised in revenue when transfer of the most significant rewards and risks to the buyer has taken place.

Income from the sale of services, comprising service and hosting contracts, is recognised in revenue on a straight-line basis as delivered as the services are delivered in the form of an indefinite number of actions over a specific period of time.

Revenue is measured at the fair value of the agreed consideration excl. VAT and taxes charged on behalf of third parties. All discounts granted are recognised in revenue.

###### Other external expenses

Other external expenses include expenses relating to the entity's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc. This item also includes write-downs of receivables recognised in current assets.

###### Staff costs

Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc. for entity staff.

###### Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses relating to intangible assets and equipment comprise amortisation, depreciation and impairment losses for the financial year, calculated on the basis of the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of intangible assets as well as equipment.

###### Income from investments in group enterprises

Income from investments in group enterprises comprises the pro rata share of the individual enterprises' profit/loss after full elimination of internal profits or losses.

###### Financial income

Other financial income comprises dividends, etc. received on other investments, interest income, including interest income on receivables from group enterprises, net capital gains on payables and transactions in foreign currencies, etc.



## Financial statements for the period 1 January – 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

##### Financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital losses on payables and transactions in foreign currencies, amortisation of financial liabilities, etc.

##### Income taxes

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

The entity is jointly taxed with its Danish parent company. The current Danish income tax is allocated among the jointly taxed entities in proportion to their taxable income (full allocation with a refund concerning tax losses).

##### Balance sheet

##### Intangible assets

Intellectual property rights acquired are measured at cost less accumulated amortisations. Patents are amortised over their remaining duration, and licences are amortised over the term of the agreement, but over no more than 10 years.

Intellectual property rights, etc. are written down to the lower of recoverable amount and carrying amount.

##### Property, plant and equipment

Other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Other fixtures and fittings, tools and equipment	3-5 years
Leasehold improvements	5 years

For leasehold improvements and assets subject to finance leases, the depreciation period cannot exceed the contract period.

Fixed assets are written down to the lower of the recoverable amount and carrying amount.

##### Investments in group enterprises

Investments in group enterprises are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity.

## Financial statements for the period 1 January – 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

Group enterprises with negative equity are measured at DKK 0, and any receivables from these enterprises are written down by the Parent's share of such negative equity value if it is deemed irrecoverable. If the negative equity value exceeds the amount receivable, the remaining amount is recognised under provisions if the Parent has a legal or constructive obligation to cover the liabilities of the relevant enterprise.

Upon distribution of profit or loss, net revaluation of investments in group enterprises is transferred to reserve for net revaluation according to the equity method under equity.

Investments in group enterprises are written down to the lower of recoverable amount and carrying amount.

#### Inventories

Inventories are measured at the lower of cost using the FIFO method and net realisable value.

Cost consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consist of costs of raw materials, consumables, direct labour costs and indirect production costs.

#### Receivables

Receivables are measured at amortised cost, usually corresponding to nominal value less write-downs for bad and doubtful debts.

#### Tax payable or receivable

Current tax payable or receivable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

#### Other investments

Securities recognised under current assets comprise listed bonds and investments measured at fair value (market price) at the balance sheet date.

#### Cash

Cash comprises cash in hand and bank deposits.

#### Dividend

Dividend is recognised as a liability at the time of adoption at the general meeting. The proposed dividend for the financial year is disclosed as a separate item in equity.

#### Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

## Financial statements for the period 1 January – 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

##### Other provisions

Other provisions comprise anticipated costs of non-recourse guarantee commitments, etc. Other provisions are recognised and measured as the best estimate of the expenses required to settle the liabilities at the balance sheet date. Provisions that are estimated to mature more than one year after the balance sheet date are measured at their discounted value.

##### Operating leases

Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

##### Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

##### Prepayments received from customers

Prepayments received from customers comprise amounts received from customers prior to delivery of the goods agreed or completion of the service agreed.

	2015	2014
DKK'000		
2 Staff costs		
Wages and salaries	26,440	25,320
Pensions	3,974	1,523
Other social security costs	204	267
Other staff costs	1,902	2,947
	<u>32,520</u>	<u>30,057</u>
3 Financial income		
Other interest income	652	142
Gain other investments	257	0
Financial income from associates	42	44
Foreign exchange adjustments	53	155
	<u>1,004</u>	<u>341</u>



## Financial statements for the period 1 January – 31 December

### Notes to the financial statements

DKK'000	2015	2014
4 Financial expenses		
Interest expense to group enterprises	18	66
Interest expense	2	28
Foreign exchange adjustments	0	70
Loss on amounts owed by group companies	530	0
Other financial fees and expenses	220	96
	<u>770</u>	<u>260</u>
5 Tax on loss for the year		
Computed tax on the taxable income for the year	-1,265	-629
Adjustment of deferred tax for the year	83	237
Adjustment to tax relating to previous years	0	-126
	<u>-1,182</u>	<u>-518</u>
6 Intangible assets		Acquired intangible assets
DKK'000		<u>504</u>
Cost at 1 January 2015		0
Transfer		703
Additions		<u>1,207</u>
Cost at 31 December 2015		88
Impairment and amortisation at 1 January 2015		<u>168</u>
Amortisation		256
Impairment and amortisation at 31 December 2015		<u>951</u>
Carrying amount at 31 December 2015		<u>951</u>
7 Property, plant and equipment	Fixtures and fittings, tools and equipment	Leasehold improve- ments
DKK'000		
Cost at 1 January 2015	3,383	515
Additions	100	0
Disposals	-1,346	0
Cost at 31 December 2015	<u>2,137</u>	<u>515</u>
Impairment and depreciation at 1 January 2015	2,173	247
Amortisation	306	91
Amortisation, assets disposed of	-827	0
Impairment and depreciation at 31 December 2015	<u>1,652</u>	<u>338</u>
Carrying amount at 31 December 2015	<u>485</u>	<u>177</u>

## Financial statements for the period 1 January – 31 December

### Notes to the financial statements

#### 8 Investments in subsidiaries

Key figures of the Company's subsidiary at 31 December 2015:

Name and registered office (DKK)	Legal form	Ownership interest
SMS Passcode Cooperation, USA	Corp	100 %

#### 9 Equity

DKK'000	Share capital	Reserve for net revaluation according to the equity method	Retained earnings	Proposed dividends	Total
Balance at 1 January 2015	500	86	-1,891	1,400	95
Dividends paid	0	0	0	-1,400	-1,400
Transferred; see distribution of loss	0	249	-4,186	0	-3,937
Balance at 31 December 2015	<u>500</u>	<u>335</u>	<u>-6,077</u>	<u>0</u>	<u>-5,242</u>

There have been no changes in share capital for the past five years.

#### 10 Deferred tax

Deferred tax primarily relates to intangible assets.

#### 11 Contractual obligations and contingencies, etc.

##### Contingent liabilities

The Company has entered into a lease agreement on the premises at Park Allé 350 D, 2. in Brøndby. The lease agreement is terminable at six months' notice. The annual rent amounts to DKK 397 thousand.

The Company has entered into operating as well as financial leases concerning leasing of cars, etc. The total lease obligation amounts to DKK 177 thousand at 31 December 2015. Of this amount, DKK 177 falls due for payment within one year.

The Company participates in a Danish joint taxation arrangement in which Mousquetaires Holding ApS serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Company is therefore liable from the financial year 2013 for income taxes etc. for the jointly taxed companies and from 1 July 2012 also for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed companies.

## Financial statements for the period 1 January – 31 December

### Notes to the financial statements

#### 12 Assets charged and collateral

The Company has issued an all-money mortgage of DKK 1,600 thousand providing company charge in simple claims, completely new vehicles, operating fixtures and equipment as well as intangible rights as security for bank debt.

#### 13 Ownership

Mousquetaires Holding ApS owns 100 % of the shares in the Company.