

Shazam Entertainment Limited

REPORT AND FINANCIAL STATEMENTS

For the year ended 30 June 2009



Company Registration No 3998831

Shazam Entertainment Limited

DIRECTORS AND ADVISORS

DIRECTORS

A Fisher
K Lovell
N Marovac
P Parodi
AJ Pearson
C Smart
CS Wong

SECRETARY

K Lovell

REGISTERED OFFICE

Charles House
4th Floor, Block F
375 Kensington High Street
London W14 8QH

INDEPENDENT AUDITOR

Baker Tilly UK Audit LLP
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

BANKERS

HSBC Bank plc
43 Queensway
Bayswater
London W2 4QL

Royal Bank of Scotland Group plc
London Knightsbridge Branch
175 - 177 Kensington High Street
London
W8 6SH

Shazam Entertainment Limited

DIRECTORS' REPORT

The directors submit their report and the financial statements of Shazam Entertainment Limited for the year ended 30 June 2009

PRINCIPAL ACTIVITIES

The principal activity of the company during the period was the provision of music recognition services via mobile phone, both in the UK and internationally. The company also continued to develop and improve methodology and systems for real time music identification via smart client applications on mobile phones. The company has also developed an integrated web presence. Shazam's mission is to be the world's leading provider of mobile music services enabling consumers to experience music through discovery, purchase and interaction with others across mobile devices and the internet.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

During the year the company continued rapidly expanding the international distribution of its services with significant contracts with major networks, manufacturers and service providers, plus successful launches on a number of App Stores. The company expects to continue to invest in the marketing of its services, support geographic expansion and undertake new product development.

RESULTS AND DIVIDENDS

The loss for the year after taxation was £89,943 (2008 £1,329,011)

The directors are precluded from recommending a dividend (2008 £Nil)

DIRECTORS

The following directors have held office during the year

CS Wong
N Marovac
A Fisher
P Parodi
AJ Pearson
K Lovell
C Smart

POST BALANCE SHEET EVENTS

In October 2009, the company announced a strategic investment from Kleiner Perkins Caufield and Byers who subscribed for 217,237,129 Preferred Ordinary C1 Shares for consideration of circa £3 million.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the directors has confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Shazam Entertainment Limited

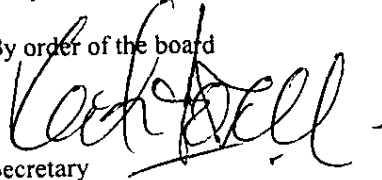
DIRECTORS' REPORT

AUDITOR

Baker Tilly UK Audit LLP has indicated its willingness to continue in office

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption

By order of the board


Secretary

18 MARCH 2010

Shazam Entertainment Limited

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF 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

- a select suitable accounting policies and then apply them consistently,
- b make judgements and estimates that are reasonable and prudent,
- c 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 which 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 requirements of the Companies Act 2006. 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SHAZAM ENTERTAINMENT LIMITED

We have audited the financial statements on pages 6 to 15. The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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

As more fully explained in the Directors' Responsibilities Statement on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 June 2009 and its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- the directors were not entitled to prepare the financial statements and the directors' report in accordance with the small companies regime.



PAUL SPENCER NEWMAN (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

12/02/ 2010

Shazam Entertainment Limited
PROFIT AND LOSS ACCOUNT
for the year ended 30 June 2009

	Notes	Year ended 30 June 2009 £	Year ended 30 June 2008 £
TURNOVER	1	7,336,293	4,597,246
Cost of sales		(886,903)	(645,159)
Gross profit		<u>6,449,390</u>	<u>3,952,087</u>
Other operating expenses (net)	2	(6,582,852)	(5,804,474)
OPERATING LOSS		<u>(133,462)</u>	<u>(1,852,387)</u>
Exceptional income	3	33,774	389,699
Investment income	4	78,745	162,300
Interest payable	5	-	(10,150)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	6	<u>(20,943)</u>	<u>(1,310,538)</u>
Taxation	8	(69,000)	(18,473)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	15	<u><u>(89,943)</u></u>	<u><u>(1,329,011)</u></u>

The operating loss for the period arises from the company's continuing operations

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the profit and loss account

Shazam Entertainment Limited

BALANCE SHEET

30 June 2009

Company Registration No 3998831

	Notes	30 June 2009 £	30 June 2008 £
FIXED ASSETS			
Tangible assets	9	586,540	450,803
Investments	10	100	100
		<u>586,640</u>	<u>450,903</u>
CURRENT ASSETS			
Debtors due within one year	11	3,226,259	1,859,258
Cash at bank and in hand		3,091,000	3,242,619
		<u>6,317,259</u>	<u>5,101,877</u>
CREDITORS Amounts falling due within one year	12	(3,208,154)	(1,767,526)
NET CURRENT ASSETS		<u>3,109,105</u>	<u>3,334,351</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,695,745</u>	<u>3,785,254</u>
CAPITAL AND RESERVES			
Called up share capital	13	5,269,979	5,269,728
Share premium account	14	6,409,255	6,409,072
Profit and loss account	15	(7,983,489)	(7,893,546)
SHAREHOLDERS' FUNDS	16	<u>3,695,745</u>	<u>3,785,254</u>

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime and with the Financial Reporting Standard for Smaller Entities (effective April 2008)

Approved and authorised for issue by the board on 18 March 2010



Director

Shazam Entertainment Limited

ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008), "the FRSSE 2008"

The directors have prepared and considered trading and cash flow forecasts for a period of at least 12 months from the date of signing these financial statements. On this basis, the directors consider that the company will be able to continue to trade and to meet its liabilities as they fall due.

GROUP ACCOUNTS

The company has not opted to prepare group accounts under section 398 of the Companies Act 2006. The accounts therefore present information about the company as an individual undertaking and not about the group.

TANGIBLE FIXED ASSETS

Fixed assets are stated at historical cost less depreciation.

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows -

Fixtures, fittings & equipment	-	Straight line over 3 years
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INVESTMENTS

Fixed asset investments are stated at cost less provision for diminution in value. Current asset investments are stated at the lower of cost and net realisable value.

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. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recoverable against suitable taxable profits in the future.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which 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.

LEASED ASSETS

The annual rentals on 'operating leases' are charged to the profit and loss account on a straight line basis over the lease term.

Shazam Entertainment Limited

ACCOUNTING POLICIES

FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

TURNOVER

Turnover represents the invoiced value, net of Value Added Tax where appropriate, of services provided to customers. Revenue is derived from four sources:

- (a) Usage income from music recognition services carried out in a period. Some agreements allow for advance payment of such fees and revenue is spread accordingly. Minimum periodic guarantees apply in some instances and revenue is spread over the explicit periods.
- (b) Exclusivity fees and fees for recurring contractual rights, relating to music recognition services. Some agreements allow for one-off upfront exclusivity fees in which case revenue is recognised at the point the contract starts. Upfront fees for recurring contractual rights are spread over the appropriate period.
- (c) Implementation and development income is recognised over the period from the delivery of the software to the point at which there are no significant vendor obligations remaining. In most instances monies are collected in advance or at performance milestones.
- (d) Maintenance fees and recurring licence fees are spread over the contract period.

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

1 TURNOVER AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The company's turnover and loss before taxation were all derived from its principal activity

2	OTHER OPERATING EXPENSES (NET)	Year ended 30 June 2009 £	Year ended 30 June 2008 £
	Administration expenses	6,582,852	5,804,474
3	EXCEPTIONAL INCOME	Year ended 30 June 2009 £	Year ended 30 June 2008 £
	Net profit on disposal of intellectual property and contracts	33,774	389,699
4	INVESTMENT INCOME	Year ended 30 June 2009 £	Year ended 30 June 2008 £
	Bank interest	78,745	162,300
5	INTEREST PAYABLE	Year ended 30 June 2009 £	Year ended 30 June 2008 £
	Other interest	-	10,150
6	LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	Year ended 30 June 2009 £	Year ended 30 June 2008 £
	Loss on ordinary activities before taxation is stated after charging		
	Depreciation and amounts written off tangible fixed assets		
	Charge for the year		
	owned assets	328,502	230,858
	Operating lease rentals		
	Land and buildings	114,776	88,000
	(Profit)/loss on foreign exchange transactions	(282,259)	55,053
	Auditors' remuneration	18,500	18,000

Shazam Entertainment Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

7	EMPLOYEES	Year ended 30 June 2009 No	Year ended 30 June 2008 No
	The average monthly number of persons (including directors) employed by the company during the year was		
	Management and administration	53	45
		<u>£</u>	<u>£</u>
	Staff costs for above persons		
	Wages and salaries	3,352,509	2,733,450
	Social security costs	401,897	271,383
		<u>3,754,406</u>	<u>3,004,833</u>
		Year ended 30 June 2009 £	Year ended 30 June 2008 £
	DIRECTORS' REMUNERATION		
	Emoluments	665,499	712,108
	Emoluments disclosed above include the following amounts paid to the highest paid director		
	Emoluments	281,478	276,023
8	TAXATION	Year ended 30 June 2009 £	Year ended 30 June 2008 £
	Current tax	-	-
	UK corporation tax on results of the period	69,000	18,473
	Foreign tax		
	Total current tax	<u>69,000</u>	<u>18,473</u>
	Tax charge on loss on ordinary activities	<u>69,000</u>	<u>18,473</u>

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

8 TAXATION (continued)

Factors affecting tax charge for period	Year ended 30 June 2009 £	Year ended 30 June 2008 £
Loss on ordinary activities before tax	(20,943)	(1,310,538)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 21% (2008 29.50%)	(4,398)	(386,608)
Effects of		
Expenses not deductible for tax purposes	13,759	23,926
Capital allowances less than depreciation	5,129	47,797
Tax losses carried forward	-	320,335
Foreign tax deduction claimed	(14,490)	(5,450)
Foreign tax suffered	69,000	18,473
Tax charge for period	69,000	18,473

The company has trading losses of approximately £6.6 million (2008 £6.6 million) which, subject to agreement with HM revenue and Customs, are available to carry forward and offset future profits of the same trade.

A deferred tax asset of £1.8 million (2008 £1.8 million) has not been recognised in the financial statements as there is sufficient uncertainty as to the timing of future profits available to offset these losses.

9 TANGIBLE FIXED ASSETS

	Fixtures, fittings and equipment £
Cost	
1 July 2008	2,140,580
Additions	464,239
30 June 2009	2,604,819
Depreciation	
1 July 2008	1,689,777
Charged in the year	328,502
30 June 2009	2,018,279
Net book value	
30 June 2009	586,540
30 June 2008	450,803

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

10 FIXED ASSETS INVESTMENTS

*Shares in group
undertakings
£*

Cost	
1 July 2008 and 30 June 2009	100

In the opinion of the directors the aggregate value of the company's investment in subsidiary undertakings is not less than the amount included in the balance sheet

Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies

<i>Company</i>	<i>Country of registration or incorporation</i>	<i>Class</i>	<i>Shares held %</i>
Subsidiary undertakings			
Shazam Entertainment Inc	USA	Ordinary	100

Shazam Entertainment Inc was dormant throughout the period

11	DEBTORS	30 June 2009 £	30 June 2008 £
	Due within one year		
	Trade debtors	2,879,709	1,107,883
	Other debtors	26,374	46,926
	Corporation tax	-	5,554
	Prepayments and accrued income	320,176	698,895
		<u>3,226,259</u>	<u>1,859,258</u>

12	CREDITORS Amounts falling due within one year	30 June 2009 £	30 June 2008 £
	Trade creditors	566,335	479,726
	Amounts owed to group undertakings	-	100
	Taxes and social security costs	89,040	79,843
	Accruals and deferred income	2,552,779	1,207,857
		<u>3,208,154</u>	<u>1,767,526</u>

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

13	SHARE CAPITAL	30 June 2009 £	30 June 2008 £
	Authorised		
	1,500,000,000 Ordinary shares of £0 000004 each	6,000	6,000
	25,000,000 Preferred "A" shares of £0 20 each	5,000,000	5,000,000
	215,168,319 Preferred "B" shares of £0 01 each	2,151,683	2,151,683
	1,200,000,000 Preferred "C" shares of £0 0001 each	120,000	120,000
	250,000,000 Management Incentive shares of £0 000001 each	250	250
		<u>7,277,933</u>	<u>7,277,933</u>
	Allotted, issued and fully paid		
	97,160,184 (2008 97,075,038) Ordinary shares of £0 000004 each	389	388
	21,527,781 Preferred "A" shares of £0 20 each	4,305,556	4,305,556
	85,709,455 Preferred "B" shares of £0 01 each	857,095	857,095
	1,066,889,647 Preferred "C" shares of £0 0001 each	106,689	106,689
	250,000,000 (2008 Nil) Management Incentive shares of £0 000001 each	250	-
		<u>5,269,979</u>	<u>5,269,728</u>

During the year 85,146 Ordinary shares of £0 000004 were issued for £184 and 250,000,000 Management Incentive shares of £0 000001 were issued for £250

All shares rank pari passu except

- i) The Preferred "A" shares carry voting rights only in relation to resolutions proposed to holders of each share
- ii) The Preferred "A" shares, Preferred "B" shares and Preferred "C" shares can all be converted into Ordinary shares based on various ratios and conditions as indicated in the company's Articles
- iii) The Preferred "A" shares, Preferred "B" shares and Preferred "C" shares are entitled to dividends declared in relation to the Ordinary shares
- iv) The Management Incentive shares have no voting or dividend rights

SHARE OPTIONS

The company has established an Enterprise Management Incentive Scheme ("EMI") and an Unapproved Share Option Scheme ("Unapproved")

Under the terms of the EMI Scheme, a total of 227,290,550 options over Ordinary shares have been issued between July 2001 and June 2009 and remain exercisable, subject to vesting conditions being met, at an exercise price of between £0 00253 and £0 032 per share. A total of 72,646 options were exercised during the year, at a price of £0 00253

Under the terms of the Unapproved Scheme, a total of 94,867,985 options over Ordinary shares have been issued between July 2001 and June 2009 and remain exercisable, subject to vesting conditions being met, at an exercise price of between £0 000004 and £0 30 per share. A further 12,500 options were exercised during the year, at a price of £0 000004

All options vest over a forty-eight month period and expire on the tenth anniversary from date of grant

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

13 SHARE CAPITAL (continued)

WARRANTS

There are 64,379,447 warrants in issue that can be exercised over Preferred C or Preferred C1 shares (at the option of the warrant holders) at an exercise price of £0.0031625 per share, representing an aggregate value of £203,600

14	SHARE PREMIUM ACCOUNT	30 June 2009 £	30 June 2008 £
	1 July 2008	6,409,072	6,409,072
	Premium on shares issued during the year	183	-
	30 June 2009	<u>6,409,255</u>	<u>6,409,072</u>
15	PROFIT AND LOSS ACCOUNT	30 June 2009 £	30 June 2008 £
	1 July 2008	(7,893,546)	(6,564,535)
	Loss for the financial year	(89,943)	(1,329,011)
	30 June 2009	<u>(7,983,489)</u>	<u>(7,893,546)</u>
16	RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	30 June 2009 £	30 June 2008 £
	Loss for the financial year	(89,943)	(1,329,011)
	Proceeds from issue of shares	434	-
	Net decrease in shareholders' funds	<u>(89,509)</u>	<u>(1,329,011)</u>
	Opening shareholders' funds	3,785,254	5,114,265
	Closing shareholders' funds	<u>3,695,745</u>	<u>3,785,254</u>

17 COMMITMENTS UNDER OPERATING LEASES

At 30 June 2009 the company had annual commitments under non-cancellable operating leases as follows

	30 June 2009 £	30 June 2008 £
Land and buildings within one year	<u>75,000</u>	<u>88,000</u>

18 POST BALANCE SHEET EVENTS

In October 2009, the company announced an investment by Kleiner Perkins Caufield and Byers who subscribed for 217,237,129 Preferred Ordinary C1 Shares for consideration of circa £3 million