

**O'Melveny and Myers LLP  
Financial Statements  
Year ended 31<sup>st</sup> January 2006**

O'MELVENY & MYERS LLP



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**Registered office**

Warwick Court, 5 Paternoster Square, London EC4M 7DX

**Company number**

OC307988

**Auditors**

PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH

**Report to the members**

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The Management Committee of O'Melveny & Myers LLP presents this report on behalf of the members together with the audited financial statements of the partnership for the year ended 31 January 2006.

**Firm Structure**

O'Melveny & Myers LLP has been established to carry on the practice of law as a limited liability partnership in the United Kingdom in accordance with the applicable professional regulations.

O'Melveny & Myers LLP was formed on 13 May 2004. On 19<sup>th</sup> November 2004, the business previously carried on by O'Melveny & Myers, an English general partnership, was transferred to O'Melveny & Myers LLP.

It is a condition of admission as a member of the UK LLP that such a member shall also be a member of the UK LLP's associated US firm also called O'Melveny & Myers LLP, which is a limited liability partnership organised and existing under the laws of the State of California.

**Principal Activities**

The principal activities of the UK partnership comprise the provision of professional legal advisory services. It operates in association with the US LLP referred to above in the following offices: Beijing, Brussels, Century City, Hong Kong, Los Angeles, Newport Beach, New York, San Francisco, Shanghai, Silicon Valley, Tokyo and Washington D.C.

**Results**

The results for the year are set out in the profit and loss account on page 6.

**Designated Members**

The designated members (as defined in the Limited Liability Partnership Act 2000) of O'Melveny & Myers LLP during the year were John D. Daghljan, Matthew D. J. Hudson and Stephen J. Stern (Resigned 30<sup>th</sup> October 2005).

**Members' subscription and repayment of members' capital**

Under the terms of the Members' Agreement relating to the UK LLP, the partners of the LLP can be required to make capital contributions to the LLP as determined from time to time by the Management Committee. It is intended that any member's capital so contributed will be repayable to the contributing member within 30 days following the date on which that member ceases to be a member of the LLP.

**Members' profit shares**

Members can be remunerated out of the profits of O'Melveny & Myers LLP (and can also be separately remunerated from the profits of the associated US firm in their capacity as partners in that firm) and are required to make their own provision for pensions and other benefits. Profits are allocated and divided between the members after finalisation of the financial statements. Certain members, as designated from time to time in a separate agreement between such members and the US LLP, hold such portion of the interest allocated to them in the profits of the UK LLP for the benefit of the partners of the US LLP. Members' profit shares normally comprise:

- a base component, reflecting the role and seniority of each member;
- an allocation of residual profits not retained for future investment in the business.

**Report to the members (continued)**

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**Creditor Payment Policy**

O'Melveny & Myers LLP does not follow a specific standard or code for the payment of creditors. It agrees payment terms with its suppliers when it enters into purchase contracts. It then seeks to adhere to these arrangements providing it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions.

**Going concern**

The Management Committee considers that the financial resources available to the business from the Californian LLP are adequate to meet its operational needs for the foreseeable future. Consequently the going concern basis has been adopted in preparing these financial statements.

**Responsibilities of the Members and Management Committee**

The law relating to UK limited liability partnerships ('LLPs') requires the members to prepare financial statements which give a true and fair view of the state of affairs of the partnership at the end of the financial year and of the profit and loss and cash flows for that period. In preparing those financial statements the members are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that these are reasonable and prudent
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the limited liability partnership will continue in business

The members are also responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the partnership and which will enable them to ensure that the financial statements comply with the Companies Act 1985, as applied to limited liability partnerships. The members are also responsible for safeguarding the assets of the LLP and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

These responsibilities are exercised by the Management Committee on behalf of the members. The Management Committee confirms it has complied with the above requirements in preparing the financial statements.

On behalf of the Management Committee



Matthew D. J. Hudson  
Designated Member  
11 November 2006

**Independent auditors' report to the members of O'Melveny & Myers LLP**

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We have audited the financial statements of O'Melveny & Myers LLP (the 'LLP') for the year ended 31<sup>st</sup> January 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

As described in the Statement of Members' Responsibilities the LLP's members' are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 LLP's members as a body in accordance with Section 235 of the Companies Act 1985, as it applies to the LLP in accordance with the Limited Liability Partnerships Act 2000, 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, as applied to limited liability partnerships. We also report to you if, in our opinion, the Members' Report is not consistent with the financial statements, if the LLP 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 members' remuneration and other transactions is not disclosed.

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

**Basis of audit opinion**

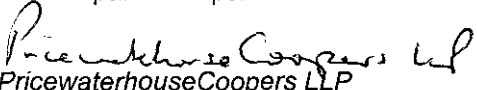
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the LLP'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 LLP's affairs as at 31<sup>st</sup> January 2006 and of its profit and cash flows for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985, as applied to limited liability partnerships.

  
PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London

11 November 2006

## Profit and loss account for the year ended 31 January 2006

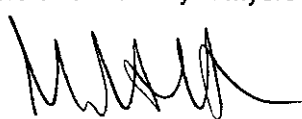
	Notes	2006	2005
<b>Turnover</b>	2	<u>12,132,421</u>	<u>3,868,914</u>
<b>Operating Costs</b>			
Staff costs	3	(4,691,863)	(1,654,981)
Depreciation and other amounts written off tangible fixed assets	4	(456,433)	(224,161)
Other operating charges	4	<u>(4,485,801)</u>	<u>(3,296,114)</u>
		<u>(9,634,097)</u>	<u>(5,175,256)</u>
<b>Operating profit / (loss)</b>		<b>2,498,324</b>	<b>(1,306,342)</b>
Loss on disposal of fixed assets		(266,684)	(432,870)
Net Interest payable	5	<u>(36,020)</u>	<u>(10,875)</u>
		<b>2,195,620</b>	<b>(1,750,087)</b>
<b>Profit / (loss) on ordinary activities before taxation</b>		<b>2,195,620</b>	<b>(1,750,087)</b>
Tax on profit / (loss) on ordinary activities	6	-	-
<b>Profit / (loss) for the financial year before members' remuneration and profit shares available for division among members</b>		<u><b>2,195,620</b></u>	<u><b>(1,750,087)</b></u>

All amounts relate to continuing operations.

There were no other recognised gains or losses in the period other than those set out above.

		2006	2005
	Notes		
<b>Fixed Assets</b>			
Tangible assets	9	<u>3,082,343</u>	<u>2,804,436</u>
<b>Current Assets</b>			
Debtors receivable within one year	8	<u>1,416,068</u>	<u>662,425</u>
Cash at bank and in hand		<u>252,562</u>	<u>1,184,200</u>
		<u>1,668,630</u>	<u>1,846,625</u>
<b>Creditors - amounts falling due within one year</b>	10	<u>(2,070,562)</u>	<u>(1,113,858)</u>
<b>Net Current (Liabilities) / Assets</b>		<u>(401,932)</u>	<u>732,767</u>
<b>Creditors - amounts falling due after one year</b>	11	<u>(4,701,769)</u>	<u>(7,854,182)</u>
<b>Provisions</b>	12	<u>(83,333)</u>	<u>(33,333)</u>
<b>Net Liabilities</b>		<u>(2,104,691)</u>	<u>(4,350,311)</u>
<b>Members' other interests</b>			
Members' capital	14	<u>50,000</u>	<u>-</u>
Other reserves	14	<u>(2,154,691)</u>	<u>(4,350,311)</u>
<b>Members' other interests</b>		<u>(2,104,691)</u>	<u>(4,350,311)</u>
<b>Total Members' interest</b>			
Loans and other debts due to members	14	<u>4,701,769</u>	<u>7,854,182</u>
Members' capital	14	<u>50,000</u>	<u>-</u>
Members' other interests	14	<u>(2,154,691)</u>	<u>(4,350,311)</u>
<b>Members' other interests</b>		<u>2,597,078</u>	<u>3,503,871</u>

The financial statements on pages 6 to 17 were approved on 11 November 2006 and signed on behalf of the members of O'Melveny & Myers LLP by:



**Matthew Hudson**  
Designated Member

## Cash flow statement for the year ended 31 January 2006

	Notes	2006	2005
Net cash inflow / (outflow) from operating activities	15	<b>3,057,637</b>	(598,230)
Returns on investments and servicing of finance	16	<b>(36,020)</b>	(10,875)
Capital expenditure and financial investment	16	<b>(850,842)</b>	(2,702,503)
Transactions with members	16	<b>(3,102,413)</b>	4,420,127
<b>(Decrease) / Increase in cash in the year</b>		<b><u>(931,638)</u></b>	<b><u>1,108,519</u></b>
 (Decrease) / increase in cash in the year	17	<b>(931,638)</b>	1,108,519
Net funds at beginning of year	17	<b><u>1,184,200</u></b>	<u>75,681</u>
<b>Net funds at end of year</b>		<b><u>252,562</u></b>	<b><u>1,184,200</u></b>

**1 Accounting policies**

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

**Basis of preparation**

These financial statements are the second statutory accounts for O'Melveny & Myers LLP and reflect the results for the year to 31 January 2006.

The Financial Statements have been prepared in accordance with the applicable United Kingdom accounting standards including the Statement of Recommended Practice (SORP), Accounting by Limited Liability Partnerships, and under historical cost convention except that they have been modified to include the revaluation of certain fixed assets. The policies have remained unchanged from the previous year.

**Going concern**

O'Melveny & Myers LLP has the support of its associated US law firm of the same name. Accordingly these financial statements have been prepared on a going concern basis.

**Foreign Currencies**

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates prevailing at that date. Translation differences are dealt with in the profit and loss account.

**Turnover**

Turnover represents amounts chargeable to clients for professional services provided during the year, inclusive of direct expenses incurred but excluding value added tax.

**Taxation**

*The taxation payable on the partnership profits is the personal liability of the members during the year and consequently neither taxation nor related deferred taxation are accounted for in the financial statements. Amounts retained for members' personal tax liabilities if any are treated in the same way as other profits of the partnership and included in the 'Members' interest' or in 'Loans and other debts due to members' depending on whether or not an allocation of profits has occurred.*

**Tangible fixed assets and depreciation**

Depreciation is provided to write off the costs less the estimated residual value of tangible fixed asset any equal instalments over their estimated useful economic lives as follows:

Software	5 Years
Furniture & Fixtures	7 Years
Office Art	7 Years
Office Machines and Equipment	5 Years
Library	5 Years
Architectural Fees/Leasehold Improvements	10 Years

**Retirement Benefits**

O'Melveny & Myers LLP operates a defined contribution pension scheme for staff. Contributions are charged to the profit and loss account when they become payable.

**Leases**

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line method.

**Related Party Transactions**

From time to time O'Melveny & Myers LLP has also received advances from the Californian limited liability partnership which have been included in the financial statements. At 31 January 2006 amounts totalling £4,701,769 were due as a result of these transactions.

**Allocation of profits and losses and drawings**

Unallocated profits and losses are included in other reserves within members' other interests. There were no drawings in the period covered by these financial statements.

**2 Turnover**

Fee income comprises amounts rendered (excluding VAT) and movements in accrued revenue in respect of the provision of services completed for clients during the period.

	2006 £	2005 £
<b>Fee income</b>	<b><u>12,132,421</u></b>	<b><u>3,868,914</u></b>

**3 Employees**

Salaries	4,106,513	1,374,125
Social security costs	357,135	220,777
Other benefits (including pension costs)	228,215	60,079
	<b><u>4,691,863</u></b>	<b><u>1,654,981</u></b>

The average number of employees employed during the year was:

Assistants	23	8
Paralegals	3	1
Secretaries	13	6
Support Staff	9	4
	<b><u>48</u></b>	<b><u>19</u></b>

**4 Other operating costs**

Depreciation and other amounts written off tangible fixed assets:	2006 £	2005 £
Depreciation of owned assets	<u>456,433</u>	<u>224,161</u>
<b>Other operating costs</b>		
Occupancy	1,907,379	1,319,941
Maintenance and repairs	36,526	35,667
Office housekeeping	60,268	20,821
Delivery and postage	26,602	21,088
Equipment costs	83,287	55,092
Books and reference database	54,676	42,984
Communication	157,216	68,892
Photocopying	(7,647)	(4,210)
Business taxes	17,521	168,907
Insurance	68,402	102,959
Outside services	298,836	106,276
Other operating costs	227,513	267,467
Disbursements written off	914	35,815
Attorneys' expenses	714,585	374,397
Recruiting	646,804	627,277
Contribution	697	322
Foreign exchange loss	192,222	52,419
	<u><b>4,485,801</b></u>	<u><b>3,296,114</b></u>

Auditors' remuneration for the year was £30,000 (2005 – £40,000), fees paid to the auditors for non audit services were £31,715 (2005 - £26,822).

A charge for depreciation from the associated firm is included in these financial statements of £47,128 (2005 - nil).

**5 Net interest payable**

	2006 £	2005 £
Interest payable	(36,340)	(10,895)
Interest receivable	320	20
	<u><b>(36,020)</b></u>	<u><b>(10,875)</b></u>

**6 Tax on loss on of ordinary activities**

These financial statements do not incorporate any charge or liability for taxation on the results of the LLP, as the relevant income tax is the responsibility of the individual members.

**7 Members' profit shares**

The basis on which profits are shared among members is set out in note 1. The average monthly number of members during the year was 11 (2005 – 9).

	2006 £	2005 £
The average profit per member is calculated by dividing the profit for the financial year by the average number of members.	<b>199,602</b>	-
The profit attributable to the member with the largest entitlement to profit (in their capacity as a trustee member on behalf of other members of the firm).	<b>1,646,715</b>	-

**8 Debtors**

	2006 £	2005 £
Trade debtors	<b>176,296</b>	137,399
Other debtors	<b>6,460</b>	408,138
Prepayments and accrued income	<b>1,233,312</b>	116,888
	<b>1,416,068</b>	662,425

**O'Melveny & Myers LLP**

**Notes forming part of the financial statements for the year ended 31 January 2006 (Continued)**

**9 Tangible assets**

	Software	Furniture & Fixtures	Art, drapery & carpets	Office machines and equipment	Library	Leasehold property	Telephone	Total
<b>Costs</b>								
At Beginning of Year	32,273	23,788	14,253	224,968	104,495	2,820,734	14,881	3,235,392
Opening balance adjustments	4,782	193	226	10,224	15,312	97,679	190	128,606
<b>Revised Costs</b>	<b>37,055</b>	<b>23,981</b>	<b>14,479</b>	<b>235,192</b>	<b>119,807</b>	<b>2,918,413</b>	<b>15,071</b>	<b>3,363,998</b>
Additions	11,992	458,744	687	187,681	34,952	110,855	45,931	850,842
Disposals and write-offs	-	-	-	-	-	(416,930)	-	(416,930)
<b>At end of year</b>	<b>49,047</b>	<b>482,725</b>	<b>15,166</b>	<b>422,873</b>	<b>154,759</b>	<b>2,612,338</b>	<b>61,002</b>	<b>3,797,910</b>
<b>Depreciation</b>								
At Beginning of Year	29,280	6,138	1,335	38,863	65,695	285,760	3,885	430,956
Opening balance adjustments	4,253	(480)	(10)	1,228	11,116	9,685	(240)	25,552
<b>Revised Depreciation</b>	<b>33,533</b>	<b>5,658</b>	<b>1,325</b>	<b>40,091</b>	<b>76,811</b>	<b>295,445</b>	<b>3,645</b>	<b>456,508</b>
Additions	2,838	36,195	2,117	66,415	18,066	276,514	7,160	409,305
Disposals and write-offs	-	-	-	-	-	(150,246)	-	(150,246)
<b>At end of year</b>	<b>36,371</b>	<b>41,853</b>	<b>3,442</b>	<b>106,506</b>	<b>94,877</b>	<b>421,713</b>	<b>10,805</b>	<b>715,567</b>
<b>Net book amount at end of year</b>	<b>12,676</b>	<b>440,872</b>	<b>11,724</b>	<b>316,367</b>	<b>59,882</b>	<b>2,190,625</b>	<b>50,197</b>	<b>3,082,343</b>
<b>At end of Prior year</b>	<b>2,993</b>	<b>17,650</b>	<b>12,918</b>	<b>186,105</b>	<b>38,800</b>	<b>2,534,974</b>	<b>10,996</b>	<b>2,804,436</b>

**10 Creditors: amounts falling due within one year**

	2006 £	2005 £
Trade creditors	92,158	72,203
Other taxation and social security costs	246,087	146,675
Accruals and deferred income	1,732,317	894,980
	<u>2,070,562</u>	<u>1,113,858</u>

**11 Creditor amounts falling due after more than a year**

Due to associated law firm (note 14)	<u>4,701,769</u>	<u>7,854,182</u>
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Included in the above figure is accrued income of £2,109,825 (2005 - £629,478).

**12 Provisions**

	As at 1 February 2005 £	Utilised in the year £	Charged in the year £	At 31 January 2006 £
Property dilapidations provision	<u>33,333</u>	-	<u>50,000</u>	<u>83,333</u>

The dilapidations provision is in respect of work to be carried out at the end of the lease of the property. The provision is due to expire in 2014. The provision has not been discounted.

**13 Commitments under operating leases**

The firm's annual commitments under operating leases are as follows:

	2006		2005	
	Land and buildings £	Other £	Land and buildings £	Other £
Due within one year	-	-	-	-
Due within two to five years	-	30,600	-	30,114
Over five years	931,003	-	931,003	-
	<u>931,003</u>	<u>30,600</u>	<u>931,003</u>	<u>30,114</u>

**14 Members' interests**

	<b>Members' capital</b>	<b>Other reserves</b>	<b>Total</b>	<b>Loans and other debts due to members</b>	<b>Total</b>
<b>Members interest as at 1 February 2004</b>	-	(2,600,224)	<b>(2,600,224)</b>	3,434,055	<b>833,831</b>
Loss for the year ended 31 January 2005 available for division among members	-	(1,750,087)	<b>(1,750,087)</b>	-	<b>(1,750,087)</b>
Loans from members	-	-	-	4,420,127	<b>4,420,127</b>
<b>Members' interest as at 31 January 2005</b>		<b>(4,350,311)</b>	<b>(4,350,311)</b>	<b>7,854,182</b>	<b>3,503,871</b>
Profit for the year ended 31 January 2006 available for division among members	-	2,195,620	<b>2,195,620</b>	-	<b>2,195,620</b>
Capital contribution from members	50,000	-	<b>50,000</b>	-	<b>50,000</b>
Loans from members	-	-	-	(3,152,413)	<b>(3,152,413)</b>
<b>Members interest as at 31 January 2006</b>	<b>50,000</b>	<b>(2,154,691)</b>	<b>(2,104,691)</b>	<b>4,701,769</b>	<b>2,597,078</b>

Under the terms of the Members' Agreement relating to the UK LLP, the partners of the LLP can be required to make capital contributions to the LLP as determined from time to time by the Management Committee. It is intended that any member's capital so contributed will be repayable to the contributing member within 30 days following the date on which that member ceases to be a member of the LLP

**15 Reconciliation of operating loss to net cash outflow from operating activities**

	<b>2006 £</b>	<b>2005 £</b>
Operating profit / (loss)	<b>2,498,324</b>	(1,306,342)
Depreciation	<b>409,305</b>	224,161
Increase in creditors	<b>956,705</b>	914,938
Net adjustment to fixed assets	<b>(103,054)</b>	-
Increase / (decrease) in provisions	<b>50,000</b>	(66,831)
Increase in debtors	<b>(753,643)</b>	(364,156)
<b>Net cash inflow / (outflow) from operating activities</b>	<b>3,057,637</b>	<b>(598,230)</b>

**16 Analysis of cash flows**

	2006 £	2005 £
<b>Returns on investments</b>		
Interest received	320	20
Interest paid	(36,340)	(10,895)
	<u>(36,020)</u>	<u>(10,875)</u>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(850,842)	(2,702,503)
<b>Transactions with members</b>		
Drawings and distributions	-	-
(Repayment of) / Loans from members	(3,152,413)	4,420,127
Capital contributions	50,000	-
Capital payments to members	-	-
	<u>(3,102,413)</u>	<u>4,420,127</u>

**17 Analysis of net funds**

	2005	Cash flow	2006
<b>Net funds</b>			
Cash at bank and in hand	<u>1,184,200</u>	<u>(931,638)</u>	<u>252,562</u>

**18 Ultimate controlling party**

The ultimate controlling party is considered to be the members of O'Melveny & Myers LLP.