

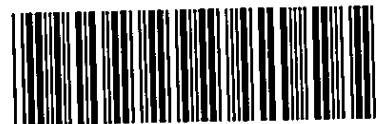
100498/20

Companies House:
FC026153

COMPANY REGISTRATION NUMBER 3533689 (DELAWARE)

PHORM UK, INC.
ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2011

THURSDAY



L218PNWZ

L10

31/01/2013

#163

COMPANIES HOUSE

PHORM UK, INC.

CONTENTS OF THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

CONTENTS	PAGES
Officers and professional advisers	1
Directors' report	2 - 3
Statement of directors' responsibilities	4
Profit and loss account	5
Statement of total recognized gains and losses	6
Balance sheet	7
Notes to the financial statements	8 - 20

PHORM UK, INC.

OFFICERS AND PROFESSIONAL ADVISERS

YEAR ENDED 31 DECEMBER 2011

THE BOARD OF DIRECTORS

A Croxson

REGISTERED OFFICE

2711 Centerville Road
Suite 400
City of Wilmington 19808
County of New Castle
Delaware
USA

BANKERS

HSBC Group plc
70 Pall Mall
St James
London
SW1Y 5EZ

SOLICITORS

Hogan Lovells International LLP
Atlantic House
Holborn Viaduct
London
EC1A 2FG

PHORM UK, INC.

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2011

The Directors present their annual report and the unaudited financial statements of the company for the year ended 31 December 2011. The company is a Delaware corporation, however as the parent company's shares are quoted on the Alternative Investment Market in London, the financial statements have been prepared using United Kingdom Generally Accepted Accounting Principles.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the parent company and of the Group during the year was to develop a platform for the delivery and management of targeted, contextual and behavioural online advertising campaigns on behalf of its clients. The Review of Business is included in the Directors reports.

PRINCIPAL RISKS AND UNCERTAINTIES

The Directors recognise that within the business there are a number of risks, which may affect the performance of the Group. These risks are subjected to regular review and where appropriate processes are established to minimise the level of exposure.

ISP Risk

The Group's plan to deploy its service using the network of numerous ISPs is wholly dependent on reaching arrangements with such ISPs. There can be no assurance that we will be able to reach satisfactory agreements with said ISPs.

Financial Risks

The Group's financial instruments comprise cash and other items, including trade debtors and trade creditors that arise directly from its operations. The Group seeks to reduce or eliminate financial risk and to invest cash assets safely and profitably. It operates within policies and procedures approved by the Board, which include strict controls on the use of financial instruments in managing the Group's risk. The Group has transactional currency exposure as it deals in multi-currencies however the Directors do seek to limit this risk as much as possible.

People

One of the key assets of the Group is the commitment and skill of its staff. The retention of these people is therefore key to the success of the business. The Group monitors closely the satisfaction of its employees and that their remuneration packages match both contribution and the wider employment market. In addition the Group has a share option scheme which allows employees to participate in the success of the Group as a whole.

Technology and market changes

Phorm UK, Inc. operates at the forefront of the digital advertising technology marketplace. The Directors acknowledge that this is a rapidly evolving environment and the Group monitors closely how changes will impact the Group. During 2006 the Directors made a strategic decision to redirect the focus of the Group towards the ISP marketplace. The Group has needed to expend considerable capital in pursuing its strategy with the global ISP community prior to obtaining any significant revenues from this business.

Competition

The Group continuously monitors new product offerings into the market place and the Directors believe Phorm's technical team have a strong track record in maintaining competitive advantage.

RESEARCH AND DEVELOPMENT

Research and development is undertaken on an ongoing basis in order to further develop and enhance the Group's software products.

PHORM UK, INC.

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2011

THE DIRECTORS AND THEIR INTERESTS

The Directors at the end of the year were as follows

A Croxson

None of the directors who served during the year had any beneficial interests in the share capital of the company

EMPLOYEE CONSULTATION

The policy of informing and consulting with employees is maintained by means of regular team briefs, conference calls and meetings. Employees are encouraged to present their views and suggestions in respect of the Group's performance.

CREDITOR PAYMENT POLICY

The Group's current policy concerning the payment of trade creditors is to

- (i) settle the terms of payment with suppliers when agreeing the terms of each transaction
- (ii) ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts
- (iii) pay in accordance with the Group's contractual or other legal obligations

The average trade creditor days for the year were 12 days (2010 13 days)

PHORM UK, INC.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2011

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 these 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.

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 and detection of fraud and other irregularities.

PHORM UK, INC.

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2011

		2011	2010
	Notes	\$	\$
Cost of Sales		<u>(428,957)</u>	(484,086)
Gross Loss		(428,957)	(484,086)
Sales and Administrative Expenses			
- General		(17,713,165)	(20,414,212)
- Share Based Payments		<u>(5,688,607)</u>	<u>(1,671,056)</u>
Operating Loss	3	(23,830,729)	(22,569,354)
Interest receivable	6	16,007	16,054
Interest Payable and similar Charges	7	<u>(49)</u>	<u>(923)</u>
Loss on Ordinary Activities Before Taxation		(23,814,771)	(22,554,223)
Taxation on Loss on Ordinary Activities	8	<u>-</u>	<u>-</u>
Loss on Ordinary Activities After Taxation		(23,814,771)	(22,554,223)

All activities of the Company are classed as continuing

PHORM UK, INC.

STATEMENT OF TOTAL RECOGNIZED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 \$	2010 \$
Loss for the financial year		(23,814,771)	(22,554,223)
Share option charge taken to option reserve		5,688,607	1,671,056
Currency translation difference on overseas divisions		(78,972)	(989,368)
Total recognized gains and losses relating to the year		(18,205,136)	(21,872,535)
Total gains and losses recognized since last annual report		(18,205,136)	(21,872,535)

PHORM UK, INC.


BALANCE SHEET

AS AT 31 DECEMBER 2011

		2011	2010
	Notes	\$	\$
Fixed Assets			
Tangible assets	9	324,994	293,511
		<u>324,994</u>	<u>293,511</u>
Current Assets			
Debtors	10	10,905,476	5,597,707
Cash at bank and in hand		15,760,399	5,589,254
		<u>26,665,875</u>	<u>11,186,961</u>
Creditors Amounts Falling Due Within One Year	11	(140,422,350)	(106,706,817)
Net Current Assets		<u>(113,756,475)</u>	<u>(95,519,856)</u>
Total Assets Less Current Liabilities		<u>(113,431,481)</u>	<u>(95,226,345)</u>
Creditors Amounts Falling Due After One Year	12	-	-
Net Assets		<u>(113,431,481)</u>	<u>(95,226,345)</u>
Capital and Reserves			
Called Up Share Capital	13	-	-
Share Premium Account	14	-	-
Foreign Exchange Reserve	14	(13,976,101)	(13,897,128)
Profit and Loss Account	14	(99,455,380)	(81,329,217)
Shareholders' Funds		<u>(113,431,481)</u>	<u>(95,226,345)</u>

The financial statements of Phorm UK, Inc , registered number 3533689 (Delaware), were approved by the Board of Directors and authorised for issue on 30 January 2013

Signed on behalf of the Board of Directors


A Croxson
Director

PHORM UK, INC.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

1 ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted are described below, and have been applied consistently in the current and preceding year.

Basis of preparation

These financial statements present information about the company as an individual undertaking and not about its group. The accounts have been prepared on an historical cost basis.

The company is exempt from the obligation to prepare and deliver group accounts under Sections 228(2) of the Companies Act 1985 as it is a wholly-owned subsidiary of Phorm Inc (see note 20).

Basis of going concern

These financial statements have been prepared on a going concern basis which assumes that the company will continue to be supported by its parent, Phorm, Inc.

Turnover

Turnover represents amounts receivable for services net of VAT and trade discounts.

Research and development

In accordance with best practice in the software industry, research and development expenditure is expensed to the profit and loss accounts as incurred.

Tangible fixed assets

All tangible fixed assets are initially recorded at cost, and then stated at cost less depreciation.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Computer hardware & machinery	- 50% on cost
Fixtures and fittings	- 33% on cost
Software development costs	- 50% on cost

Fixed asset investments

Fixed asset investments are stated at cost less provision for impairment in value.

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are treated as if they had been purchased outright at the present value of the rentals payable, less finance charges, over the primary period of the agreements. The corresponding obligations under these agreements are included in creditors. The finance element of the rentals payable is charged to the profit and loss account so as to produce a constant rate of charge on the outstanding balance in each period.

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight-line basis over the period of the lease.

Contribution to pension funds

The company contributes to individual defined contribution pension plans for the benefit of certain employees and directors. The assets of the scheme are administered by trustees in a fund independent from those of the company.

The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

PHORM UK, INC.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

ACCOUNTING POLICIES *(Continued)*

Share based payments

The Group issues equity-settled share-based payments to certain employees and has applied Financial Reporting Standard No 20 'Share-based payments'

The cost of employee share-based compensation awards is recognised as an expense. The total amount to be expensed rateably over the vesting period is determined by reference to the fair value of the options determined at the grant date, excluding the impact of non-market vesting conditions (for example, profitability and sales targets). Non-market vesting conditions are included in the assumptions about the number of options that will eventually vest. This estimate is revised at each reporting date and an adjustment is made to the profit and loss account. Fair value is measured by using the Black-Scholes pricing model, except for options with market based vesting conditions, where a binomial model is used.

Employer's taxes on share options

Employers' national insurance contributions in the UK, are calculated using the market value of the company's shares at the reporting date, and pro-rated over the vesting period of the options.

Deferred taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the assets. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into US dollars at the closing rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into US dollar at the rate of exchange ruling at the date of the transaction. All differences are taken to the profit and loss account.

The results of overseas branches are translated into US dollars at the average rates for the year. The net assets/(liabilities) of overseas branches are translated at year-end exchange rates. The exchange differences arising on translation of the opening net assets/(liabilities) and results of overseas operations are taken to reserves.

Functional and presentation currency

Items included in the financial statements of the entity are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's only cash flows relate to the provision of inter-company loans in GBP sterling from the parent company. The functional currency of the Company has therefore been determined to be GBP sterling. The financial statements are presented in US dollars, which differs to the functional currency of the Company. A different presentation currency has been used as the company considers this aids comparability with other companies in the sector and reflects the international nature of the Group's operations.

Cash flow statement

The company has taken advantage of the exemption available under Financial Reporting Standard No 1 'Cash flow statements (Revised 1996)' not to prepare a statement of cash flows as it is a wholly-owned subsidiary undertaking. Phorm UK, Inc. cash flows are included in the consolidated accounts of Phorm, Inc, which are publicly available.

Segmental reporting

The company has taken advantage of the exemption available under Statement of Standard Accounting Practice 25 'Segmental reporting', paragraph (41) not to provide additional segmental reporting disclosures as it is a wholly owned subsidiary undertaking. Phorm UK, Inc. segmental reporting disclosures are included in the consolidated accounts of Phorm Inc, which are publicly available.

PHORM UK, INC.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

2 TURNOVER

During 2006 the Directors made a strategic decision to cease the sale and marketing of the desktop software business (Pagesense Desktop), and focus the company's resources on the online behavioural and contextual advertising market through arrangements with global ISPs. The company therefore did not generate any revenue in the current year (2010: none).

3 OPERATING LOSS BEFORE TAX

Operating loss is stated after charging/(crediting)

	2011 \$	2010 \$
Research and development expenditure written off	5,804,896	6,709,281
Operating lease rentals		
- Other assets	560,859	733,808
Share Based Payments		
- Charge under FRS 20	5,688,607	1,671,056
- Employer's NIC	-	(98,820)
Depreciation of owned fixed assets	450,729	653,245
Depreciation of tangible fixed assets held under finance lease and hire purchase contracts	-	10,445
Auditors' remuneration		
Fees payable to the Company's auditors for the audit of the company's annual accounts	113,988	117,000
Fees payable to the Company's auditors for other services	117,585	78,786
Net loss/(profit) on foreign currency translation	(1,277,085)	(2,732,016)

Fees payable to the company's auditors for non-audit services to the company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

4 STAFF COSTS

The average number of staff employed by the Company during the financial year amounted to

	2011 No	2010 No
Research and development	4	7
Sales and administration	40	66
	<u>44</u>	<u>73</u>

The aggregate payroll costs of the above were

	2011 \$	2010 \$
Wages and salaries	5,837,948	7,978,360
Compensation for loss of office	40,678	223,299
Social security costs	621,445	745,140
Other pension costs	272,926	301,452
	<u>6,772,997</u>	<u>9,248,251</u>

PHORM UK, INC.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

5 DIRECTORS' EMOLUMENT

The Directors' aggregate emoluments in respect of qualifying services were

	2011 \$	2010 \$
Emoluments receivable	433,956	627,018
Compensation for loss of office	-	-
Sums paid to third parties in respect of directors' services	-	-
	<u>433,956</u>	<u>627,018</u>

Emoluments of highest paid director

	2011 \$	2010 \$
Total emoluments (excluding pension contributions)	<u>433,956</u>	<u>396,959</u>

The highest paid director did not exercise any share options in the year

The company has made pension contributions of \$43,396 (2010 \$40,980) under defined contribution schemes in respect of the directors

6 INTEREST RECEIVABLE

	2011 \$	2010 \$
Bank interest receivable	<u>16,007</u>	<u>16,054</u>
	<u>16,007</u>	<u>16,054</u>

7 INTEREST PAYABLE AND SIMILAR CHARGES

	2011 \$	2010 \$
Interest payable on Finance lease and hire purchase contracts	-	923
Other interest	49	-
	<u>49</u>	<u>923</u>

8 TAXATION ON ORDINARY ACTIVITIES

	2011 \$	2010 \$
Current tax		
Delaware state tax	-	-
Total current tax	<u>-</u>	<u>-</u>
Factors affecting the tax charge for the period		
Loss on ordinary activities before taxation	(23,814,771)	(22,554,223)
Profit on ordinary activities before taxation multiplied by blended rate of UK corporation tax of 26.5% (2010 28%)	(6,310,914)	(6,315,182)
Effects of		
Expenses not deductible for tax purposes	14,453	35,951
Capital allowances for the period in excess of depreciation	1,674,783	51,360

PHORM UK, INC.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

Other tax adjustments	125,643	638,355
Movement on tax losses	4,496,035	5,589,516
Current Tax charge	-	-

Deferred tax assets have not been recognised as they may not be utilised until suitable profits arise and it is not yet sufficiently probable that such profits will be available in the future

9 TANGIBLE FIXED ASSETS

	Computer Hardware & Machinery \$	Fixtures & Fittings \$	Total \$
COST			
At 1 January 2011	2,421,002	106,011	2,527,013
Additions	1,051,947	4,694	1,056,641
Transfer	(789,179)	-	(789,179)
Disposals	-	-	-
Exchange differences	(5,903)	(21)	(5,924)
At 31 December 2011	2,677,867	110,684	2,788,551
DEPRECIATION			
At 1 January 2011	2,136,635	96,867	2,233,502
Charge for the year	440,799	9,930	450,729
Transfer	(203,075)	-	(203,075)
Disposals	-	-	-
Exchange differences	(17,562)	(37)	(17,599)
At 31 December 2011	2,356,797	106,760	2,463,557
NET BOOK VALUE			
At 31 December 2011	321,070	3,924	324,994
At 31 December 2010	284,367	9,144	293,511

Finance Leases and Hire Purchase Contracts

The net book value of tangible fixed assets includes an amount of \$NIL (2010 \$3,482) in respect of assets held under finance lease or hire purchase contracts. The depreciation charge for the year was \$NIL (2010 \$10,445)

10 DEBTORS

	2011 \$	2010 \$
Amounts owed by Group undertakings	8,347,413	4,279,874
Outstanding proceeds due on issue of shares	1,282,080	-
Rent deposit	532,567	201,380
VAT recoverable	166,642	120,730
Other debtors	99,778	135,145
Prepayments and accrued income	476,996	860,578
	10,905,476	5,597,707

PHORM UK, INC.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

11 CREDITORS Amounts falling due within one year

	2011 \$	2010 \$
Net obligations under finance leases and hire purchase contracts	-	4,004
Amounts owed to Group undertakings	139,051,507	104,693,930
Trade creditors	411,235	985,317
Other taxation and social security	297,240	297,257
Other creditors	-	71,488
Accruals and deferred income	662,368	654,821
	<u>140,422,350</u>	<u>106,706,817</u>

The intercompany balance due to the parent company represents the sterling fund raising on the UK equity market. The parent company has confirmed that this loan is of any equity nature and it is not envisaged that this loan will be repaid.

12 CREDITORS Amounts falling due after one year

	2011 \$	2010 \$
Provisions for social taxes on share based payments	-	-
Net obligations under finance leases and hire purchase contracts	-	-
	<u>-</u>	<u>-</u>
Net obligations under finance leases and hire purchase contracts		
Repayable within one year	-	4,004
Repayable between one and five years	-	-
	<u>-</u>	<u>4,004</u>
Included in liabilities falling due within one year	-	(4,004)
	<u>-</u>	<u>-</u>

13 SHARE CAPITAL

Authorised share capital

	2011 \$	2010 \$
100 Common shares of \$0.001 each	<u>0.1</u>	<u>0.1</u>

Allotted, called up and fully paid

	2011 No	\$	2010 No	\$
Common shares of \$0.001 each	<u>100</u>	<u>0.1</u>	<u>100</u>	<u>0.1</u>

PHORM UK, INC.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

14 RESERVES

	Share capital \$	Additional paid in capital \$	Warrants \$	Translation reserve \$	Accumulated Deficit \$	Total \$
At 1 January 2010	-	-	-	(12,907,761)	(60,446,049)	(73,353,810)
Loss for the year	-	-	-	-	(22,554,223)	(22,554,223)
Share-based payment charge	-	-	-	-	1,671,056	1,671,056
Issue of new stock	-	-	-	-	-	-
Transfer of stock	-	-	-	-	-	-
Exchange differences on translation of overseas operations	-	-	-	(989,368)	-	-
Transfer on exercise of warrants	-	-	-	-	-	-
At 1 January 2011	-	-	-	(13,897,129)	(81,329,216)	(95,226,345)
Loss for the year	-	-	-	-	(23,814,771)	(23,814,771)
Share-based payment charge	-	-	-	-	5,688,607	5,688,607
Issue of new stock	-	-	-	-	-	-
Transfer of stock	-	-	-	-	-	-
Exchange differences on translation of overseas operations	-	-	-	(78,972)	-	(78,972)
Transfer on exercise of warrants	-	-	-	-	-	-
At 31 December 2011	-	-	-	(13,976,101)	(99,455,380)	(113,431,481)

PHORM UK, INC.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

15 SHARE BASED PAYMENTS

The group has a share scheme whereby options over the common shares of the company are granted to employees, consultants and directors. Options are granted at the mid market price on close of the day of grant and must be exercised within 10 years of grant unless the employment is terminated in which case options generally must be exercised within 90 days of termination.

The reconciliation of option movements during the year ended 31 December 2011 is shown below

	Number	2011 Weighted average exercise price £	Number	2010 Weighted average exercise price £
Outstanding at beginning of period	6,603,922	3.76	3,214,642	5.96
Granted during the year	26,832,382	0.86	4,121,851	2.24
Lapsed	(585,264)	4.86	(731,527)	4.07
Cancelled	(2,659,244)	1.41		
Exercised	-	-	(1,044)	3.45
Outstanding at end of period	30,191,796	1.20	6,603,922	3.76
Exercisable at end of period	1,175,492	6.62	1,531,413	7.12

The following options over ordinary shares were in existence at 31 December 2011

Range of exercise Price £	Number	Weighted average exercise price £	2011 Weighted average remaining life (years)	Number	Weighted average exercise price £	2010 Weighted average remaining life (years)
£0.01 - £2.49	28,471,792	0.88	9.78	2,060,052	1.21	8.52
£2.50 - £4.99	1,262,090	2.90	8.01	3,908,906	2.97	8.95
£5.00 - £9.99	121,750	9.61	5.11	123,050	9.61	6.11
£10.00-£15.00	20,000	11.50	6.42	80,000	12.21	6.04
£15.00-£20.00	222,000	17.96	6.04	297,000	17.98	7.03
£20.00-£25.00	54,250	21.89	5.89	75,000	21.48	6.92
£25.00-£30.00	39,914	27.30	5.58	59,914	27.30	6.58
Total	30,191,796	1.20	9.64	6,603,922	3.76	8.60

PHORM UK, INC.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

15 Share-based payment expense (continued)

In 2011, options were granted on 29 April 2011 and 11 November 2011. The aggregate of the estimated fair values of options granted on those dates is \$36.8 million. The inputs into the option valuation model are as follows:

2011 grants

Grant date	29 Apr 2011	11 Nov 2011	11 Nov 2011	11 Nov 2011	11 Nov 2011
Pricing model	Black Scholes	Black Scholes	Black Scholes	Monte Carlo	Black Scholes
Share price at grant	£1.15	£0.861	£0.861	£0.861	£0.861
Exercise price	£1.15	£0.861	£0.861	£0.861	£0.861
Vesting criteria	(1)	(7)	(8)	(9)	(10)
Expected volatility	85.1%	92.4%	89.1%	83.4%	89.9%
Expected life (years)	6.3	5.5	6.0	10.0	5.8
Risk free rate	2.77%	1.43%	1.56%	2.42%	1.51%
Dividend yield	0%	0%	0%	0%	0%
Estimated forfeiture rate p.a.	0%	0%	0%	0%	0%
Probability non-market based performance criteria is met	N/A	N/A	N/A	100%	N/A
Fair value per option	£0.85	£0.77	£0.78	£0.83	£0.77

Grant date	11 Nov 2011
Pricing model	Black Scholes
Share price at grant	£0.861
Exercise price	£0.861
Vesting criteria	(11&12)
Expected volatility	93.7%
Expected life (years)	5
Risk free rate	1.29%
Dividend yield	0%
Estimated forfeiture rate p.a.	0%
Probability non-market based performance criteria is met	100%
Fair value per option	£0.76

PHORM UK, INC.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

15 Share-based payment expense (continued)

In 2010, options and RSUs were granted on 29 March 2010, 22 April 2010, 16 August 2010 and 31 December 2010. The aggregate of the estimated fair values of options and RSUs granted on those dates is \$3.8 million. The inputs into the option valuation model are as follows:

2010 grants

Grant date	29 Mar 2010	22 Apr 2010	16 Aug 2010	31 Dec 2010	31 Dec 2010
Pricing model	RSU	Monte Carlo	Black Scholes	Black Scholes	Black Scholes
Share price at grant	£3.45	£2.53	£1.375	£1.025	£1.025
Exercise price	N/A	£2.53	£1.375	£1.025	£1.025
Vesting criteria	(2)	(3)	(1)	(1)	(2)
Expected volatility	N/A	75%	88.4%	95.6%	N/A
Expected life (years)	N/A	10	6.1	6.1	N/A
Risk free rate	N/A	3.98%	2.5%	3.1%	N/A
Dividend yield	0%	0%	0%	0%	0%
Estimated forfeiture rate p.a.	N/A	0%-12%	0%	5%/12%	0%
Probability non-market based performance criteria is met	N/A	N/A	N/A	N/A	N/A
Fair value per option	£3.45	£0.226	£1.02	£0.81	£0.92

Grant date	31 Dec 2010	31 Dec 2010	31 Dec 2010	31 Dec 2010
Pricing model	Monte Carlo	Monte Carlo	Black Scholes	Modification
Share price at grant	£1.025	£1.025	£1.025	£2.53
Exercise price	£1.025	£1.025	£1.025	£1.025
Vesting criteria	(6)	(5)	(2)	(6)
Expected volatility	95.6%	95.6%	N/A	95.6%
Expected life (years)	10	10	N/A	10
Risk free rate	3.1%	3.1%	N/A	3.1%
Dividend yield	0%	0%	0%	0%
Estimated forfeiture rate p.a.	0%	0%	0%	0%-12%
Probability non-market based performance criteria is met	N/A	N/A	N/A	N/A
Fair value per option	£0.39	£0.39	£0.92	£0.46

PHORM UK, INC.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

15 Share-based payment expense (continued)

Vesting criteria

- 1 At the rate of 1/8th after 6 months, and 1/48th subsequently, for a total vesting period of 48 months
- 2 100% vested immediately
- 3 The vesting commencement date shall be the first day of the month following the date upon which the share price of the Company achieves the share price target. Upon the vesting commencement date, the option shall be deemed to have vested at a rate of 1/36th of the original number of shares subject to option on the first day of each calendar month after the grant date (in each case rounded down to the nearest whole share), and shall continue to vest in a similar manner with respect to the balance of the shares subject to option until fully vested. The intent is for the option to vest within 3 years from the grant date. If the share price target is not achieved within 3 years of the grant date, then the option will expire.

The "share price target" shall be achieved where the average price of Common Stock during any period of 90 days is equal to or greater than £30 per share and shall be calculated as in accordance with the following formula:

- "A" divided by "B" must be equal or greater than £30 per share, where
 - "A" is the sum of the closing price of Common Stock on each trading day in any period of 90 days, and
 - "B" is the number of trading days in the period of 90 days that is used in the calculation of "A"

These options were subject to subsequent modification – see item (14) below

- 4 The vesting commencement date shall be the first day of the month following the date upon which the share price of the Company achieves the share price target. Upon the vesting commencement date, the option shall be deemed to have vested at a rate of 1/28th of the original number of shares subject to option on the first day of each calendar month after the grant date (in each case rounded down to the nearest whole share), and shall continue to vest in a similar manner with respect to the balance of the shares subject to option until fully vested. The intent is for the option to vest within 2 years and 4 months or 28 months from the grant date. If the share price target is not achieved within 2 years 4 months of the grant date, then the option will expire.

The "share price target" shall be achieved where the average price of Common Stock during any period of 6 weeks is equal to or greater than £5 per share and shall be calculated as in accordance with the following formula:

- "A" divided by "B" must be equal or greater than £5 per share, where
 - "A" is the sum of the closing price of Common Stock on each Trading Day in any period of 6 weeks, and
 - "B" is the number of Trading Days in the period of 6 weeks that is used in the calculation of "A"

PHORM UK, INC.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

15 Share-based payment expense (continued)

- 5 The vesting commencement date shall be the first day of the month following the date upon which the share price of the Company achieves the share price target. Upon the vesting commencement date, the option shall be deemed to have fully vested. The intent is for the option to vest within 2 years and 4 months or 28 months from the grant date. If the share price target is not achieved within 2 years 4 months of the grant date, then the option will expire.

The "share price target" shall be achieved where the average price of Common Stock during any period of 6 weeks is equal to or greater than £5 per share and shall be calculated as in accordance with the following formula:

- "A" divided by "B" must be equal or greater than £5 per share, where
 - "A" is the sum of the closing price of Common Stock on each Trading Day in any period of 6 weeks, and
 - "B" is the number of Trading Days in the period of 6 weeks that is used in the calculation of "A"

- 6 Modification of vesting criteria (3) to amend the following values:
- a Exercise price to be amended to £1.025
 - b Share price target amended to £5 within a 6 week period
- 7 On the first anniversary of the grant of the options, the grantee has the right to buy at a price per share equal to the exercise price 7.5% of the entire issued share capital.
- 8 On the second anniversary of the grant of the options, the grantee has the right to buy at a price per share equal to the exercise price 7.5% of the entire issued share capital.
- 9 The grantee has the right to buy at a price per share equal to the exercise price 2% of the entire issued capital of Phorm when the market capitalisation of Phorm reaches for the first time £200 million, £300 million, £400 million and £500 million respectively. The maximum additional percentage of the entire issued capital of Phorm the grantee may buy in this way is 8% following the market capitalisation of Phorm having reached £500 million.
- 10 The grantee has a right to buy at a price per share equal to the exercise price a percentage of the entire issued share capital of Phorm where this percentage is calculated on a daily basis on a straight line basis from 0% on grant date to 1% on the third anniversary of grant date.
- 11 The grantee has the right to buy at a price per share equal to the exercise price 0.5% of the entire issued share capital of Phorm upon the commercial launch of Phorm's operations in a specified market where the grantee is deemed to have had a direct and primary influence as reasonably determined by the Board.
- 12 The grantee has the right to buy at a price per share equal to the exercise price an additional 0.1% of the entire issued share capital of Phorm for each additional one million subscribers in each market subject to the grantee having a direct and primary influence as reasonably determined by the Board in that market. The maximum additional percentage of the entire issued capital of Phorm the grantee may buy in this way is 0.5% for five million additional subscribers.

The expected volatility was based upon historical volatility of the company's share price from IPO to date of grant. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Market based performance conditions have been incorporated into the determination of the fair value of relevant share options through the use of a Monte Carlo simulation model.

The likelihood of non-market based performance conditions being satisfied has been incorporated into the number of options expected to vest by reference to the Group's business plan approved by the Board.

The business recognised total expenses of \$5,688,607 in 2011 (2010: \$1,671,056 related to equity-settled share based payment transactions).

At the year end the company has provided for \$nil (2010: \$1,218) in respect of potential employers' National Insurance contributions arising on exercise of the options by United Kingdom employees and the equivalent social security taxes applicable in the US.

PHORM UK, INC.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2011	2010
	\$	\$
Loss for the financial year	(23,814,771)	(22,554,223)
New share capital subscribed	-	-
Other recognized gains and losses	5,609,635	681,688
Net addition/(reduction) to shareholders' funds	(18,205,136)	(21,872,535)
Opening shareholders' funds	(95,226,345)	(73,353,810)
Closing shareholders' funds	(113,431,481)	(95,226,345)

17 PENSIONS

Defined Contribution

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to \$272,926 (2010 \$301,452). At the year end a creditor of \$31,512 (2010 \$38,110) was owed in respect of unpaid contributions.

18 FINANCIAL COMMITMENTS

Capital commitments

At 31 December 2011, no capital commitments (2010 none) had been authorised or contracted for by the directors.

Operating lease commitments

At 31 December 2011, the Company had annual commitments under non-cancellable operating leases as set out below -

	Land and buildings	
	2011	2010
	\$	\$
Operating leases which expire		
Within one year	305,059	299,305
Within 2 to 5 years	330,481	-
More than 5 years	-	-
	635,540	299,305

19 RELATED PARTY TRANSACTIONS

Transactions with the directors of the company are disclosed in note 5.

The company has taken advantage (where applicable) of the exemptions in paragraph 3(c) of Financial Reporting Standard 8 'Related party disclosures' and has not disclosed details of transactions with fellow group companies.

There are no other related party transactions during the year.

20 ULTIMATE CONTROLLING PARTY

Phorm Inc is the immediate and ultimate parent company and controlling party of the smallest and largest group that prepares group accounts, which are publicly available. The Group's annual report and accounts are available from www.phorm.com.