

LivingSocial Limited

Registered Number: 07227708

Annual Report for period from inception on 19 April 2010 to 31 December 2010

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Directors

Directors

Tim O'Shaughnessy
Jake Maas (resigned 1 August 2011)
James Bramson (resigned 1 August 2011)
Peter Briffett (appointed 2 August 2011)
John Bax (appointed 2 August 2011)

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Atrium
1 Harefield Road
Uxbridge
UB8 1EX

Bankers

NatWest
30 Market Place
Newbury
Berkshire
RG14 5AJ

Registered Office

25 Wellington Street
London
WC2E 7DA

Directors' report for LivingSocial Limited

Registered Number. 07227708

The directors present their report and audited financial statements for period from inception on 19 April 2010 to 31 December 2010

Principal activities

LivingSocial is a leader in the on-line "social commerce" industry with an existing subscriber-base of approximately 40 million in over 400 markets across 21 countries. The Company contracts with merchants to create offers marketed online to subscribers of the Company's service. These offers typically provide discounted products and services from featured merchants in selected markets.

The Company evaluates the presentation of turnover on a gross versus net basis. The Company assesses whether it acts as a principal in the transaction or as an agent acting on behalf of others. Where the Company has the risks and rewards of a principal in the transaction, the transaction is recorded on a gross basis. If the Company does not act as a principal in the transaction, the transactions are recorded on a net basis.

Business Review

LivingSocial Limited was founded in the UK on 19 April 2010 and ran its first "Daily Deal" in the UK on 29 June 2010. Turnover has increased rapidly since inception. As at 30 September 2011 the company employed over 200 staff in the UK and continues to hire aggressively. In exchange for significant discounts from merchants, LivingSocial drives thousands of new customers to local businesses. For consumers, LivingSocial provides great experiences to enjoy in their city of choice from restaurants and spas to skydiving and boat cruises.

Results

The company's loss for the period to 31 December 2010 was £2,796,760. No dividend was paid during the period.

Directors

The directors who held office during the period are given below:

Tim O'Shaughnessy (appointed 19 April 2010)

James Bramson (appointed 19 April 2010)

Jake Maas (appointed 19 April 2010)

Going Concern

The financial statements have been prepared on the going concern basis as the company's parent undertaking has undertaken to provide the necessary support to enable the company to meet its liabilities as they fall due.

As a result of these considerations the directors are confident that the company will be able to meet its liabilities as they fall due for the foreseeable future. Accordingly, the directors consider that it is appropriate to prepare the accounts on a going concern basis.

Directors' report for LivingSocial Limited (continued)

Principal risks and uncertainties

Credit risk

The company's policy in respect of credit risk is to assess the risk of contracting with clients and set credit limits that are carefully monitored. If a significant risk is identified credit facilities are withdrawn.

Liquidity risk

Management are responsible for managing the company's liquidity. Sufficient funds need to be available to meet the business needs as and when they arise. Once all business needs have been met, any surplus cash will be invested in deposit accounts with the company's bank. The directors actively consider other sources of funding to ensure that the company has sufficient available funds for its operations.

Directors' report for LivingSocial Limited (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the directors' 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 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.

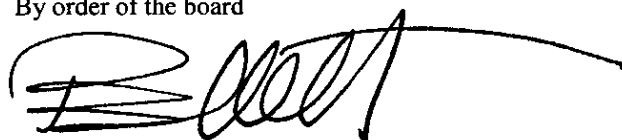
Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Independent Auditors

As part of the board's commitment to good governance, the directors have undertaken a review of the audit arrangements of the group. This included, amongst other things, a reflection on the duration of service of the incumbent auditors. Following this process, a recommendation was made to the board to appoint PricewaterhouseCoopers LLP as auditors for the period to December 2010.

By order of the board



Peter Briffett

Director

30 SEPTEMBER 2011

Independent auditors' report

to the members of LivingSocial Limited

We have audited the financial statements of LivingSocial Limited for the period to December 2010 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, 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 and express an opinion on 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 Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial statements for the period to December 2010 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs period to 31 December 2010 and of its loss for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, 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 period for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report

to the members of LivingSocial Limited (continued)

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



Jaskamal Sarai (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge

30 September 2011

Profit and loss account

for period to 31 December 2010

		2010
Continuing operations	Note	£
Turnover	3	508,779
Cost of sales		(100,991)
Gross profit		407,788
Administrative expenses		(3,204,548)
Loss on ordinary activities before taxation	2	(2,796,760)
Tax on profit on ordinary activities	11	-
Loss for the period	8	(2,796,760)

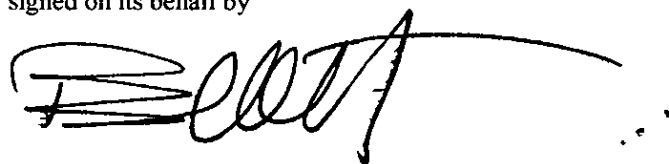
The company has no recognised gains and losses other than those included in the results above, and therefore no separate statement of recognised gains and losses has been presented

Balance sheet

as at 31 December 2010

	Note	2010 £
Fixed assets		
Tangible assets	4	24,752
		<u>24,752</u>
Current assets		
Cash at bank		271,120
Debtors	5	11,653
Current assets		<u>282,773</u>
Creditors – Amounts falling due within one year	6	(329,294)
Net current liabilities		<u>(46,521)</u>
Total assets less current liabilities		<u>(21,769)</u>
Net liabilities		<u>(21,769)</u>
Capital and reserves		
Called-up share capital	7	10
Share premium account		-
Capital Reserve		2,774,981
Profit and loss deficit	8	(2,796,760)
Total shareholders' deficit	9	<u>(21,769)</u>

The financial statements on pages 7-15 were approved by the board of directors on ~~30 SEPTEMBER 2011~~ and were signed on its behalf by



Peter Briffett
Director

30 SEPTEMBER 2011

Notes to the financial statements

for period to 31 December 2010

1. Accounting policies

The principal accounting policies, which have been applied consistently throughout the period, are set out below

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and in accordance with the applicable Financial Reporting Standards for Smaller Entities (effective April 2008)

Going concern

The directors believe that preparing the accounts on the going concern basis is appropriate due to the continued financial support of the ultimate parent company LivingSocial, Inc. The directors have received confirmation that LivingSocial, Inc. intends to support the company for at least one period after these financial statements are signed

As a result of these considerations the directors are confident that the group will be able to meet its liabilities as they fall due for the foreseeable future. Accordingly, the directors consider that it is appropriate to prepare the accounts on a going concern basis

The company has incurred a loss for the period of £2,796,760. During the period the company invested significant funds in online marketing which primarily represents the cost to acquire new subscribers. The company expects to continue to invest significant amounts to acquire new subscribers. The directors believe that a relatively small portion of the online marketing expense relates to existing subscribers

Turnover

The Company recognises turnover net of value added tax principally from "Daily Deals". Turnover is recognised upon delivery of the product or service, provided that title and risk of loss have passed to the customer, there is persuasive evidence of an arrangement, fees are fixed and determinable and collection is reasonably assured. The Company evaluates the presentation of turnover on a gross versus net basis. The Company assesses whether it acts as a principal in the transaction or as an agent acting on behalf of others. Where the Company has the risks and rewards of a principal in the transaction, the transaction is recorded on a gross basis. If the Company does not act as a principal in the transaction, the transactions are recorded on a net basis.

The Company's Deals currently comprise the vast majority of the Company's turnover transactions, and include "daily deals," "instant deals," "families" and "escapes". The Company's Deal merchants assume the majority of the contractual risks, which include providing the goods or service and the risk of unsold inventory. As such, all Deal transactions are recorded at the net amount, which is the amount charged to the purchaser less the amount to be paid to the merchant. The net amount recorded as turnover represents the Company's negotiated commission percentage with the merchants.

The Company acts as the principal in its "adventures" deals, pursuant to which its subscribers may purchase vacation or other adventure packages directly from the Company. Because the Company assumes the majority of the contractual risks, adventures transactions are recorded at the gross amount, which is the amount charged to the purchaser. Amounts paid to the underlying merchants are recorded as costs of turnover in the periods incurred.

The Company records a provision for estimated refunds based on historical refund patterns. Refunds

are recorded as a reduction of turnover and are adjusted as appropriate as actual refund activity occurs

Fixed Assets

Tangible fixed assets are stated at original cost less accumulated depreciation. Depreciation is calculated to write off the cost less estimated residual value of each asset evenly over its expected useful life at the following rates

Computer hardware and office equipment – three years

Trade Debtors

Trade debtors represent amounts due from payment processing companies. Payments are typically received within 7 days of the conclusion of the daily deal. The risk of bad debts is deemed low given that payments are collected from subscribers by payment processing companies.

Trade Creditors

Trade creditors represent amounts owed to merchant and suppliers. Payments to suppliers are typically on 30 day terms and merchants on 15 business day terms.

Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Cash flow

The company has taken advantage of a small company exemption from preparing a cash flow statement.

2. Loss on ordinary activities

The operating loss results from charging the following costs

	2010
	£
Wages	642,659
Marketing costs	2,193,350
Professional service fees	87,033
Depreciation on tangible fixed assets (note 4)	3,531
Auditors remuneration – audit services	23,210
Other	254,765

3. Turnover

The Company's Deals currently comprise all of the Company's turnover transactions, and include "daily deals," "instant deals," "families" and "escapes" All turnover arises in the United Kingdom

4. Tangible assets

	Computer Equipment
	£
<u>Cost</u>	
Additions during the period	28,283
<u>Accumulated Depreciation</u>	
Charge for the period	(3,531)
At 31 December 2010	(3,531)
<u>Net Book Value</u>	
At 31 December 2010	24,752

5. Debtors	2010
	£
Trade Debtors	11,653
	11,653

Trade debtors primarily represent the net cash due from the Company's credit card and other payment processors for cleared transactions. The carrying amount of the Company's trade debtors is reduced by an allowance for doubtful debtors that reflects management's best estimate of amounts that will not be collected. The allowance is based on historical loss experience and any specific risks identified in collection matters. Accounts receivable are charged off against the allowance for doubtful accounts when it is determined that the receivable is uncollectible.

The company has made losses in the period but has not recognised any deferred tax asset as there is no history of the company making profits to utilise any such tax asset.

6. Creditors - amounts falling due within one year	2010
	£
Trade creditors	97,916
Amounts owed to group members	59,205
Other creditors	172,173
	329,294

Trade creditors represent amounts payable to merchants and general suppliers.

7. Called up share capital	2010
	£
Authorised	
100 ordinary shares of £1.00 each	100
Allotted and fully paid	
10 ordinary shares of £1.00 each	10

8. Loss for the period	2010
	£
At 19 April 2010	-
Loss for the period	<u>(2,796,760)</u>
At 31 December 2010	<u>(2,796,760)</u>

9. Reconciliation of movements in equity shareholders' deficit	2010
	£
Loss for the financial period	(2,796,760)
Increase in called up share capital	10
Increase in capital reserve	2,774,981
Opening equity shareholder's deficit	<u>-</u>
Closing equity shareholder's deficit	<u>(21,769)</u>

10. Directors emoluments	2010
	£
Aggregate emoluments	<u>-</u>

The Company had three directors during the period. The emoluments relating to the highest paid director amounted to £0. No other remuneration was paid to directors during the period.

11. Taxation on profit on ordinary activities**(a) Analysis of charge in the period**

	2010 £
UK corporation tax	
Current tax on income for the period	-
Adjustment in respect of prior periods	-
Total current tax	-
Deferred tax	
Origination and reversal of timing differences (ACA and other)	-
Adjustments in respect of prior periods	-
Total deferred tax charge	-
Total tax charge	-

(b) Factors affecting the tax charge for the current period

The above current tax charge is explained below

	2010 £
Current tax reconciliation	
(Loss) / profit on ordinary activities before tax	(2,796,760)
Current tax at 28 0% (2009 28 0%)	(783,092)
Effects of:	
Income not subject to tax	-
Expenses not deductible for tax purposes	-
Utilisation of losses	-
Other timing differences	783,092
Losses not previously recognized	-
Total current tax charge	-

Further disclosure relating to deferred taxation is made in note 5 Debtors

(c) Factors affecting the tax charge in future periods

The UK Government announced on 22 June 2010 the gradual reduction in the main rate of corporation tax from 28% to 24% over 4 years from 1 April 2011. In addition they announced a slight reduction in the main capital allowance rate from 20% to 18% from 1 April 2012.

Note, the above does not have any implication in respect of current accounting as it has not been substantively enacted.

12. Related party transactions

LivingSocial Limited is wholly owned within the LivingSocial Inc group. The company has taken advantage of the exemption available under Financial Reporting Standard No 8 not to disclose related party transactions with other group companies.

13. Ultimate parent undertaking and controlling party

The immediate parent undertaking is LivingSocial, Inc, a company registered in the United States of America. Their address is 1445 New York Avenue, Suite 200, Washington DC 20005.

LivingSocial Inc is also the parent undertaking of the smallest and largest group to consolidate these financial statements.

14. Post Balance Sheet Events

There are no post balance sheet events that are relevant to disclose.