

# **Dolby Europe Licensing Limited**

**Directors' Report and financial  
statements**

**Registered number 06035472**

**30 September 2009**

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## Directors' Report

The directors present their Directors' Report and financial statements for the year ended 30 September 2009

### Principal activities and business review

During the year the company performed liaison services for Dolby Laboratories International Services (DLIS). The company charged DLIS for these services. During the year these liaison services included carrying out a large number of product & technology demonstrations at customers, exhibiting Dolby products at European trade shows, assisting DLIS to secure technology wins from companies based in Europe, and assisting DLIS to build relationships and to define broadcast standards across Europe. The company also continued to perform promotional and related activities in the mobile phone market on behalf of DLIS.

### Proposed dividend

The directors recommend that no dividend is paid in respect of the current financial year (2008 £nil)

### Directors

The directors who held office during the year were as follows

Mr Charles Lafrades  
Mr Martin Abraham Jaffe (resigned 4 March 2009)  
Mr Jonathan Bruce Nottage  
Mr Eric Cohen (appointed 23 May 2009)

### Employees

As at 30 September 2009 there were 27 employees of the company (including directors)

The average number of employees (including directors) during the year was 25

### Political and charitable contributions

The company made no political or charitable donations or incurred any political expenditure during the year (2008 £nil)

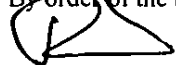
### Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

### Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



Jonathan Bruce Nottage  
Director

Interface Business Park,  
Wootton Bassett,  
Wiltshire  
SN4 8QJ

## **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 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, and
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



## KPMG LLP

Arlington Business Park  
Theale  
Reading  
RG7 4SD  
United Kingdom

### **Independent auditors' report to the members of Dolby Europe Licensing Limited**

We have audited the financial statements of Dolby Europe Licensing Limited for the year ended 30 September 2009 set out on pages 5 to 15. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 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 auditors' 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 explained more fully in the Directors' Responsibilities Statement set out on page 2, 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 of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

#### **Opinion on 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 September 2009 and of its profit for the year 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 Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.


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**Independent auditors' report to the members of Dolby Europe Licensing 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 director's remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



**Simon Baxter**  
For and on behalf of KPMG LLP, statutory auditor  
*Chartered Accountants*

30 June 2010

**Profit and Loss Account**  
*for the year ended September 30<sup>th</sup> 2009*

	<i>Note</i>	<b>2009</b> £	<b>2008</b> £
<b>Turnover</b>	<i>1</i>	<b>4,262,174</b>	<b>3,879,525</b>
Administrative expenses	<i>2, 3</i>	<b>(3,232,374)</b>	<b>(2,967,606)</b>
Marketing expenses		<b>(586,199)</b>	<b>(543,453)</b>
<b>Operating profit</b>		<b>443,601</b>	<b>368,466</b>
Interest payable and similar charges	<i>4</i>	<b>(47,268)</b>	<b>(15,782)</b>
<b>Profit on ordinary activities before taxation</b>		<b>396,333</b>	<b>352,684</b>
Tax on profit on ordinary activities	<i>5</i>	<b>(128,184)</b>	<b>(106,454)</b>
<b>Profit for the financial year</b>		<b>268,149</b>	<b>246,230</b>

All activities relate to continuing operations

The company did not have any other recognised gains or losses during the current period

**Balance Sheet**  
*at September 30<sup>th</sup> 2009*

	<i>Note</i>	<b>2009</b> £	£	<b>2008</b> £	£
<b>Fixed assets</b>					
Tangible assets	6		3,359		4,875
<b>Current assets</b>					
Debtors	7	1,289,893		3,879,526	
Creditors amounts falling due within one year	8	(778,872)		(3,638,170)	
<b>Net current assets</b>			<b>511,021</b>		<b>241,356</b>
			<b>514,380</b>		<b>246,231</b>
<b>Capital and reserves</b>					
Called up share capital	9		1		1
Profit and loss account	10		<b>514,379</b>		<b>246,230</b>
<b>Shareholders' funds</b>			<b>514,380</b>		<b>246,231</b>

These financial statements were approved by the board of directors on June 24, 2010 and were signed on its behalf by



**Jonathan Bruce Nottage**  
 Director  
 Company registered number 06035472



## Reconciliation of Movements in Shareholders' Funds

	2009 £	2008 £
Opening shareholders' funds	246,231	1
Profit for the financial year	268,149	246,230
Share based payment charge	158,834	124,550
Intercompany recharge in respect of share based payments	(158,834)	(124,550)
	<hr/>	<hr/>
Closing shareholders' funds	514,380	246,231
	<hr/>	<hr/>

## **Notes**

*(forming part of the financial statements)*

### **1 Accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

#### ***Basis of preparation***

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

As the company is a wholly owned subsidiary of Dolby Laboratories Inc, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties) The consolidated financial statements of Dolby Laboratories Inc, within which this Company is included, can be obtained from the address given in note 13

#### ***Going concern***

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on page 1

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

#### ***Fixed assets and depreciation***

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Computer equipment	4 years
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#### ***Foreign currencies***

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

#### ***Post-retirement benefits***

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 amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

#### ***Taxation***

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

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

Deferred tax is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

## Notes (continued)

### 1 Accounting policies (continued)

#### Turnover

The company charges Dolby Laboratories International Services Inc at cost plus 10% for the services provided by the company

#### Share based payments

The share option programme allows employees to acquire shares of the ultimate parent company Dolby Laboratories Inc. The fair value of options granted and those not yet vested is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

For corresponding recharges made by Dolby Laboratories Inc to the company an adjustment to the capital contribution is recognised (decrease in equity) and an intercompany liability is recorded.

### 2 Profit on ordinary activities before taxation

	2009 £	2008 £
Profit on ordinary activities before taxation is stated after charging		
Auditors' remuneration		
Audit of these financial statements	5,250	5,250
Depreciation and other amounts written off tangible fixed assets	1,516	1,833
	<u>          </u>	<u>          </u>

## Notes (continued)

### 3 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows

	Number of employees	
	2009	2008
Marketing & Business Development employees	25	21

The aggregate payroll costs of these persons were as follows

	2009 £	2008 £
Wages and salaries	1,412,681	1,211,930
Social security costs	145,580	118,187
Share based remuneration	158,834	124,550
Other pension costs	55,914	49,722
	<u>1,773,009</u>	<u>1,504,389</u>

The directors received no remuneration in respect of their services to the company

### 4 Interest payable and similar charges

	2009 £	2008 £
Net exchange losses	<u>47,268</u>	<u>15,782</u>

## Notes (continued)

### 5 Taxation

#### *Analysis of charge in period*

	2009 £	2008 £
<b>UK corporation tax</b>		
Current tax on income for the period	128,184	106,454
	<hr/>	<hr/>
Tax on profit on ordinary activities	128,184	106,454
	<hr/>	<hr/>

#### *Factors affecting the tax charge for the current period*

The current tax charge for the period is higher (2008 higher) than the standard rate of corporation tax in the UK 28% 2008 29%) The differences are explained below

	2009 £	2008 £
<b>Current tax reconciliation</b>		
Profit on ordinary activities before tax	396,333	352,684
	<hr/>	<hr/>
Current tax at 28% (2008 29%)	110,973	102,278
	<hr/>	<hr/>
<b>Effects of</b>		
Capital allowances for period in excess of depreciation, and asset reclassification	4,365	5,000
Disallowances	2,818	4,293
S23 claim for share based payments	10,028	(5,117)
	<hr/>	<hr/>
Total current tax charge (see above)	128,184	106,454
	<hr/>	<hr/>

## Notes (continued)

### 6 Tangible fixed assets

	<b>Computer Equipment £</b>
<i>Cost</i>	
At beginning and end of year	6,708
	<u>          </u>
<i>Depreciation</i>	
At beginning of year	(1,833)
Charge for year	(1,516)
	<u>          </u>
At end of year	(3,349)
	<u>          </u>
<i>Net book value</i>	
At 30 September 2009	3,359
	<u>          </u>
At 30 September 2008	4,875
	<u>          </u>

### 7 Debtors

	2009 £	2008 £
Amounts owed by group undertakings	1,285,448	3,879,525
Other debtors	4,444	-
Called up share capital not paid	1	1
	<u>          </u>	<u>          </u>
	1,289,893	3,879,526
	<u>          </u>	<u>          </u>

### 8 Creditors: amounts falling due within one year

	2009 £	2008 £
Amounts owed to group undertakings	650,688	3,531,716
Taxation and social security	128,184	106,454
	<u>          </u>	<u>          </u>
	778,872	3,638,170
	<u>          </u>	<u>          </u>

## Notes (continued)

### 9 Called up share capital

	2009 £	2008 £
<i>Authorised</i>		
Ordinary shares of £1 each	1,000	1,000
	<u>          </u>	<u>          </u>
<i>Called-up share capital not paid</i>		
Ordinary share of £1 each	1	1
	<u>          </u>	<u>          </u>

### 10 Reserves

	Other reserves £	Profit and loss account £
At beginning of year	-	246,230
Profit for the year	-	268,149
Share based payment charge	158,834	
Intercompany recharge in respect of share based payments	(158,834)	
	<u>          </u>	<u>          </u>
At end of year	-	514,379
	<u>          </u>	<u>          </u>

In line with FRS 20 – 'Share-based payment' the fair value of share options granted and those not yet vested is recognised as an employee expense with a corresponding increase in equity. For corresponding recharges made by Dolby Laboratories Inc. to the Company an adjustment to the capital contribution is recognised (decrease in equity) and an intercompany liability is recorded.

### 11 Pension scheme

#### Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £55,914 (2008 £49,722).

There were no outstanding or prepaid contributions at the end of the financial year.

## Notes (continued)

### 12 Employee share schemes

#### Share based payments

Employees of the company participate in share schemes of the ultimate parent company Dolby Laboratories, Inc. There were 4 share schemes in place during the year, these being

- 1 Stock options granted under the Dolby Laboratories Inc 2005 Stock Plan. These vest at a rate of 25% a year for 4 years or, for later grants, at a rate of 25% after year one & then monthly for the remaining 3 years. The valuation method used for stock options granted under this plan is the Black-Scholes method.
- 2 Stock options granted under the Dolby Laboratories UK Stock option Plan. These vest at a rate of 25% a year for 4 years. The valuation method used for stock options granted under this plan is a User Defined Valuation method. No options were granted under this scheme in 2009.
- 3 Restricted Stock units granted under the Dolby Laboratories Inc 2005 Stock Plan. These vest at a rate of 25% a year for 4 years. The valuation is based on the fair market value of the Dolby Laboratories Inc common stock on the date of grant.
- 4 Dolby Laboratories Inc Employee Stock Purchase Plan. Stock is purchased at a set discount to market value with the discount being treated as a gain for tax purposes.

The number and weighted average exercise prices of share options are as follows

Note that the amounts are in US\$. Number of options and exercise prices do not include restricted stock units

	2009		2008	
	Weighted average exercise price (\$)	Number of options	Weighted average exercise price (\$)	Number of options
Outstanding at the beginning of the year	32.55	54,372	-	-
Employee transfer	nil	nil	23.01	47,250
Granted during the year	31.70	13,960	45.86	20,060
Forfeited during the year	38.65	(4,880)	19.20	(100)
Exercised during the year	19.40	(11,500)	18.37	(12,838)
	<u>34.66</u>	<u>51,952</u>	<u>32.55</u>	<u>54,372</u>
Outstanding at the end of the year				
	<u>32.39</u>	<u>11,212</u>	<u>25.03</u>	<u>4,153</u>



## Notes (continued)

The weighted average market value at the date of exercise of share options exercised during the year was \$35 00

The options outstanding at the year end have an exercise price in the range of \$6 29 to \$48 15

For grants of equity instruments occurring in the current or comparative year

	2009	2008
Fair value at measurement date	\$442,462	\$384,338
Expected volatility expressed as percentage used in the modelling under Black-Scholes model	47 19%	42 45%
Expected dividends	nil	nil
Risk-free interest rate (based on national government bonds)	2 08%	3 10%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information

**Restricted Stock Units** Restricted stock units are granted to certain employees and officers under the parent company's 2005 Stock Plan. Awards granted to employees and officers generally vest over four years, with equal annual cliff-vesting. The 2005 Stock Plan also allows the company to grant restricted stock units which vest based on the satisfaction of specific performance criteria, although no such awards have been granted as of September 30, 2009. At each vesting date, the holder of the award is issued Class A common stock. Compensation expense from these awards is equal to the fair market value of the common stock on the date of grant and is recognized over the requisite service period. No restricted stock units were granted prior to fiscal 2009. In the year ended 30 September 2009 4,734 restricted stock units were granted. As of September 30, 2009, none of the restricted stock units were vested.

Profit on ordinary activities before taxation includes £158,834 in stock based compensation expense for the year ended 30 September 2009 related to employee stock options including restricted stock units, under the provisions of FRS 20, net of estimated forfeitures. Estimated forfeiture rate is based on an evaluation of historical forfeitures.

## 13 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of Dolby Laboratories International Services Limited and the ultimate parent company is Dolby Laboratories Inc incorporated in the United States of America.

The largest group in which the results of the company are consolidated is that headed by Dolby Laboratories Inc incorporated in the United States of America. The smallest group in which they are consolidated is that headed by Dolby International Services Inc incorporated in the United States of America. The consolidated financial statements of Dolby Laboratories Inc are available to the public from its registered office at 100 Potrero Avenue, San Francisco, California.