

Dolby Laboratories, Inc.
Form 10-Q
August 02, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended July 1, 2016

OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From _____ To _____
Commission File Number: 001-32431

DOLBY LABORATORIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

90-0199783

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

1275 Market Street
San Francisco, CA

94103-1410(415) 558-0200

(Address of principal executive offices)

(Zip Code) (Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

On July 29, 2016, the registrant had 55,272,713 shares of Class A common stock, par value \$0.001 per share, and 45,682,736 shares of Class B common stock, par value \$0.001 per share, outstanding.

Table of Contents

DOLBY LABORATORIES, INC.
FORM 10-Q
For the Fiscal Quarter Ended July 1, 2016
TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1.	<u>Unaudited Interim Condensed Consolidated Financial Statements</u>	<u>4</u>
	<u>Unaudited Interim Condensed Consolidated Balance Sheets</u>	<u>4</u>
	<u>Unaudited Interim Condensed Consolidated Statements of Operations</u>	<u>5</u>
	<u>Unaudited Interim Condensed Consolidated Statements of Comprehensive Income</u>	<u>6</u>
	<u>Unaudited Interim Condensed Consolidated Statements of Stockholders' Equity</u>	<u>7</u>
	<u>Unaudited Interim Condensed Consolidated Statements of Cash Flows</u>	<u>8</u>
	<u>Notes to Unaudited Interim Condensed Consolidated Financial Statements</u>	<u>9</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>40</u>
Item 4.	<u>Controls and Procedures</u>	<u>42</u>

PART II – OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	<u>43</u>
Item 1A.	<u>Risk Factors</u>	<u>43</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>55</u>
Item 6.	<u>Exhibits</u>	<u>56</u>

Signatures

Table of Contents

GLOSSARY OF TERMS

The following table summarizes certain terms and abbreviations that may be used within the text of this report:

Abbreviation	Term
AAC	Advanced Audio Coding
AOCI	Accumulated Other Comprehensive Income
APIC	Additional-Paid In-Capital
ASP	Average Selling Price
ASU	Accounting Standards Update
ATSC	Advanced Television Systems Committee
AVR	Audio/Video Receiver
CE	Consumer Electronics
CODM	Chief Operating Decision-Maker
COGS	Cost Of Goods Sold
COSO	Committee Of Sponsoring Organizations (Of The Treadway Commission)
DCI	Digital Cinema Initiative
DD	Dolby Digital®
DD+	Dolby Digital Plus™
DMA	Digital Media Adapter
DTV	Digital Television
DVB	Digital Video Broadcasting
DVD	Digital Versatile Disc
EPS	Earnings Per Share
ESP	Estimated Selling Price
ESPP	Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
FCPA	Foreign Corrupt Practices Act
G&A	General & Administrative
GAAP	Generally Accepted Accounting Principles
HDR	High Dynamic Range
HDTV	High Definition Television
HE AAC	High Efficiency Advanced Audio Coding
HEVC	High Efficiency Video Coding
HFR	High Frame Rate
HTIB	Home Theater In-A-Box
IC	Integrated Circuit
IMB	Integrated Media Block
IPO	Initial Public Offering
IPTV	Internet Protocol Television
ISO	Incentive Stock Option
ISV	Independent Software Vendor
IT	Information Technology
LCD	Liquid Crystal Display
LP	Limited Partner/Partnership
ME	Multiple Element
NATO	North American Theatre Owners
NOL	Net Operating Loss
NQ	Non-Qualified/Non-Statutory Stock Option
OCI	Other Comprehensive Income

ODD	Optical Disc Drive
OECD	Organization For Economic Co-Operation & Development
OEM	Original Equipment Manufacturer
OLED	Organic Light-Emitting Diode
OTT	Over-The-Top
PC	Personal Computer
PCS	Post-Contract Support
PP&E	Property, Plant And Equipment
PSO	Performance-Based Stock Option
R&D	Research & Development
RSU	Restricted Stock Unit
S&M	Sales & Marketing
SAR	Stock Appreciation Rights
SERP	Supplemental Executive Retirement Plan
SoC	System(s)-On-A-Chip
STB	Set-Top Box
TAM	Total Available Market
TPE	Third Party Evidence
TSR	Total Stockholder Return
UHD	Ultra High Definition
U.S. GAAP	Generally Accepted Accounting Principles In The United States
VSOE	Vendor Specific Objective Evidence

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DOLBY LABORATORIES, INC.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	July 1, 2016	September 25, 2015
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$599,991	\$ 531,926
Restricted cash	5,673	2,936
Short-term investments	118,778	138,901
Accounts receivable, net of allowance for doubtful accounts of \$2,534 and \$1,542	91,637	101,563
Inventories	18,544	13,872
Prepaid expenses and other current assets	37,306	32,031
Total current assets	871,929	821,229
Long-term investments	266,431	321,015
Property, plant and equipment, net	428,225	403,091
Intangible assets, net	222,868	127,507
Goodwill	309,020	307,708
Deferred taxes	149,633	143,279
Other non-current assets	15,247	9,464
Total assets	\$2,263,353	\$ 2,133,293
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$14,762	\$ 20,710
Accrued liabilities	174,573	169,307
Income taxes payable	212	754
Deferred revenue	22,530	18,910
Total current liabilities	212,077	209,681
Long-term deferred revenue	34,903	30,581
Other non-current liabilities	76,053	77,024
Total liabilities	323,033	317,286
Stockholders' equity:		
Class A, \$0.001 par value, one vote per share, 500,000,000 shares authorized: 54,978,917 shares issued and outstanding at July 1, 2016 and 50,291,426 at September 25, 2015	56	51
Class B, \$0.001 par value, ten votes per share, 500,000,000 shares authorized: 45,888,962 shares issued and outstanding at July 1, 2016 and 50,743,311 at September 25, 2015	46	51
Additional paid-in capital	15,380	17,571
Retained earnings	1,926,528	1,800,857
Accumulated other comprehensive (loss)	(10,205)	(11,462)
Total stockholders' equity – Dolby Laboratories, Inc.	1,931,805	1,807,068
Controlling interest	8,515	8,939

Total stockholders' equity	1,940,320	1,816,007
Total liabilities and stockholders' equity	\$2,263,353	\$ 2,133,293

See accompanying notes to unaudited interim condensed consolidated financial statements

4

Table of Contents

DOLBY LABORATORIES, INC.
 INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (in thousands, except per share amounts)
 (unaudited)

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
Revenue:				
Licensing	\$253,026	\$204,855	\$713,491	\$664,786
Products	20,638	22,596	65,510	58,844
Services	3,923	4,251	13,740	14,260
Total revenue	277,587	231,702	792,741	737,890
Cost of revenue:				
Cost of licensing	6,620	1,347	19,851	8,615
Cost of products	14,098	20,027	47,114	50,848
Cost of services	3,903	3,506	11,795	9,976
Total cost of revenue	24,621	24,880	78,760	69,439
Gross margin	252,966	206,822	713,981	668,451
Operating expenses:				
Research and development	54,977	45,508	160,393	150,703
Sales and marketing	74,234	70,782	220,503	204,740
General and administrative	42,570	45,587	129,130	135,956
Restructuring charges/(credits)	(10)	—	1,245	(39)
Total operating expenses	171,771	161,877	511,271	491,360
Operating income	81,195	44,945	202,710	177,091
Other income/expense:				
Interest income	1,464	1,453	4,011	3,444
Interest expense	(26)	(69)	(88)	(115)
Other income/(expense), net	(849)	1,049	(1,542)	1,159
Total other income	589	2,433	2,381	4,488
Income before income taxes	81,784	47,378	205,091	181,579
Provision for income taxes	(18,017)	(11,522)	(42,768)	(45,254)
Net income including controlling interest	63,767	35,856	162,323	136,325
Less: net (income) attributable to controlling interest	(139)	(350)	(396)	(1,488)
Net income attributable to Dolby Laboratories, Inc.	\$63,628	\$35,506	\$161,927	\$134,837
Net Income Per Share:				
Basic	\$0.63	\$0.35	\$1.61	\$1.32
Diluted	\$0.62	\$0.34	\$1.59	\$1.29
Weighted-Average Shares Outstanding:				

Edgar Filing: Dolby Laboratories, Inc. - Form 10-Q

Basic	100,533	102,670	100,578	102,494
Diluted	102,677	104,105	101,979	104,127
Related party rent expense:				
Included in operating expenses	\$778	\$815	\$2,315	\$2,358
Included in net income attributable to controlling interest	\$179	\$1,159	\$529	\$3,463
Cash dividend declared per common share	\$0.12	\$0.10	\$0.36	\$0.30
Cash dividend paid per common share	\$0.12	\$0.10	\$0.36	\$0.30

See accompanying notes to unaudited interim condensed consolidated financial statements

Table of Contents

DOLBY LABORATORIES, INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Fiscal Quarter		Fiscal Year-To-Date	
	Ended	Ended	Ended	Ended
	July 1,	June 26,	July 1,	June 26,
	2016	2015	2016	2015
Net income including controlling interest	\$63,767	\$35,856	\$162,323	\$136,325
Other comprehensive income:				
Foreign currency translation adjustments, net of tax	(2,875)	1,146	(753)	(10,726)
Unrealized gains/(losses) on available-for-sale securities, net of tax	701	(729)	1,404	(64)
Comprehensive income	61,593	36,273	162,974	125,535
Less: comprehensive (income)/loss attributable to controlling interest	172	(626)	210	(1,103)
Comprehensive income attributable to Dolby Laboratories, Inc.	\$61,765	\$35,647	\$163,184	\$124,432

See accompanying notes to unaudited interim condensed consolidated financial statements

Table of Contents

DOLBY LABORATORIES, INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

(unaudited)

	Dolby Laboratories, Inc.						
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Dolby Laboratories, Inc.	Controlling Interest	Total
Balance at September 25, 2015	\$ 102	\$ 17,571	\$ 1,800,857	\$ (11,462)	\$ 1,807,068	\$ 8,939	\$ 1,816,007
Net income	—	—	161,927	—	161,927	396	162,323
Currency translation adjustments, net of tax of \$476	—	—	—	(147)	(147)	(606)	(753)
Unrealized gains on investments, net of tax of \$(26)	—	—	—	1,404	1,404	—	1,404
Distributions to controlling interest	—	—	—	—	—	(214)	(214)
Stock-based compensation expense	—	51,473	—	—	51,473	—	51,473
Repurchase of common stock	(2)	(84,852)	—	—	(84,854)	—	(84,854)
Cash dividends declared and paid on common stock	—	—	(36,256)	—	(36,256)	—	(36,256)
Tax (deficiency) from employee stock plans	—	(724)	—	—	(724)	—	(724)
Common stock issued under employee stock plans	2	44,066	—	—	44,068	—	44,068
Tax withholdings on vesting of restricted stock	—	(12,154)	—	—	(12,154)	—	(12,154)
Balance at July 1, 2016	\$ 102	\$ 15,380	\$ 1,926,528	\$ (10,205)	\$ 1,931,805	\$ 8,515	\$ 1,940,320

	Dolby Laboratories, Inc.						
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Dolby Laboratories, Inc.	Controlling Interest	Total
Balance at September 26, 2014	\$ 103	\$ 46,415	\$ 1,660,485	\$ 3,014	\$ 1,710,017	\$ 21,631	\$ 1,731,648
Net income	—	—	134,837	—	134,837	1,488	136,325
Currency translation adjustments, net of tax of \$641	—	—	—	(10,341)	(10,341)	(385)	(10,726)
Unrealized losses on investments, net of tax of \$(165)	—	—	—	(64)	(64)	—	(64)
Distributions to controlling interest	—	—	—	—	—	(5,628)	(5,628)
Stock-based compensation expense	—	50,822	—	—	50,822	—	50,822
Repurchase of common stock	(1)	(47,955)	—	—	(47,956)	—	(47,956)
Cash dividends declared and paid on common stock	—	—	(30,744)	—	(30,744)	—	(30,744)
Tax benefit from employee stock plans	—	1,167	—	—	1,167	—	1,167

Edgar Filing: Dolby Laboratories, Inc. - Form 10-Q

Common stock issued under employee stock plans	2	28,048	—	—	28,050	—	28,050
Tax withholdings on vesting of restricted stock	—	(12,918)	—	—	(12,918)	—	(12,918)
Exercise of class B stock options	—	7	—	—	7	—	7
Balance at June 26, 2015	\$104	\$65,586	\$1,764,578	\$ (7,391)	\$1,822,877	\$17,106	\$1,839,983

See accompanying notes to unaudited interim condensed consolidated financial statements

7

Table of Contents

DOLBY LABORATORIES, INC.
 INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (in thousands)
 (unaudited)

	Fiscal Year-To-Date Ended	
	July 1, 2016	June 26, 2015
Operating activities:		
Net income including controlling interest	\$162,323	\$136,325
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	63,829	50,767
Stock-based compensation	51,473	50,822
Amortization of premium on investments	3,288	7,224
Excess tax benefit from exercise of stock options	(1,313)	(2,532)
Provision for doubtful accounts	1,133	(30)
Deferred income taxes	(5,838)	(15,088)
Other non-cash items affecting net income	306	1,928
Changes in operating assets and liabilities:		
Accounts receivable	8,798	(9,317)
Inventories	(6,024)	5,238
Prepaid expenses and other assets	(11,075)	(6,179)
Accounts payable and other liabilities	10,808	(18,909)
Income taxes, net	(1,612)	18,290
Deferred revenue	8,052	7,158
Other non-current liabilities	(193)	420
Net cash provided by operating activities	283,955	226,117
Investing activities:		
Purchase of investments	(247,680)	(357,096)
Proceeds from sales of investment securities	242,141	220,636
Proceeds from maturities of investment securities	77,668	117,545
Purchases of PP&E	(77,079)	(119,769)
Payments for business acquisitions, net of cash acquired	—	(93,516)
Purchase of intangible assets	(118,770)	(22,716)
Change in restricted cash	(2,737)	223
Net cash used in investing activities	(126,457)	(254,693)
Financing activities:		
Proceeds from issuance of common stock	44,067	28,057
Repurchase of common stock	(84,854)	(47,956)
Payment of cash dividend	(36,256)	(30,744)
Distribution to controlling interest	(214)	(5,628)
Excess tax benefit from exercise of stock options	1,313	2,532
Shares repurchased for tax withholdings on vesting of restricted stock	(12,153)	(12,918)
Net cash used in financing activities	(88,097)	(66,657)
Effect of foreign exchange rate changes on cash and cash equivalents	(1,336)	(2,371)

Edgar Filing: Dolby Laboratories, Inc. - Form 10-Q

Net increase/(decrease) in cash and cash equivalents	68,065	(97,604)
Cash and cash equivalents at beginning of period	531,926	568,472
Cash and cash equivalents at end of period	\$599,991	\$470,868
Supplemental disclosure:		
Cash paid for income taxes, net of refunds received	\$50,235	\$39,509
Non-cash investing and financing activities:		
Change in PP&E purchased and unpaid at period-end	\$(13,911)	\$29,839
Purchase consideration payable for acquisition	\$95	\$740

See accompanying notes to unaudited interim condensed consolidated financial statements

8

Table of Contents

DOLBY LABORATORIES, INC.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Unaudited Interim Condensed Consolidated Financial Statements

We have prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with U.S. GAAP, and with SEC rules and regulations, which allow for certain information and footnote disclosures that are normally included in annual financial statements prepared in accordance with GAAP to be condensed or omitted. In our opinion, these unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements for the fiscal year ended September 25, 2015 and include all adjustments necessary for fair presentation. The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with our consolidated financial statements for the fiscal year ended September 25, 2015, which are included in our Annual Report on Form 10-K filed with the SEC.

The results for the fiscal quarter ended July 1, 2016 are not necessarily indicative of the results to be expected for any subsequent quarterly or annual financial period, including the fiscal year ending September 30, 2016.

Principles of Consolidation

The unaudited interim condensed consolidated financial statements include the accounts of Dolby Laboratories, Inc. and our wholly owned subsidiaries. In addition, we have consolidated the financial results of jointly owned affiliated companies in which our principal stockholder has a controlling interest. We report these controlling interests as a separate line in our consolidated statements of operations as net income attributable to controlling interest and in our consolidated balance sheets as a controlling interest. We eliminate all intercompany accounts and transactions upon consolidation.

Operating Segments

We operate as a single reporting segment, and thus all required financial segment information is included in our unaudited interim condensed consolidated financial statements. This determination reflects the fact that our CODM, our Chief Executive Officer, evaluates our financial information and resources, and assesses the performance of these resources on a consolidated basis.

Use of Estimates

The preparation of our financial statements in accordance with GAAP requires management to make certain estimates and assumptions that affect the amounts reported and disclosed in our unaudited interim condensed consolidated financial statements and accompanying notes. Significant items subject to such estimates and assumptions include estimated selling prices for elements sold in ME revenue arrangements; valuation allowances for accounts receivable; carrying values of inventories and certain property, plant, and equipment, goodwill and intangible assets; fair values of investments; accrued liabilities including liabilities for unrecognized tax benefits, deferred income tax assets and liabilities and stock-based compensation. Actual results could differ from our estimates.

Fiscal Year

Our fiscal year is a 52 or 53 week period ending on the last Friday in September. The fiscal periods presented herein include the 13 and 40 week periods ended July 1, 2016 and the 13 and 39 week periods ended June 26, 2015. Our fiscal year ended September 25, 2015 (fiscal 2015) consisted of 52 weeks while our fiscal year ending September 30, 2016 (fiscal 2016) will consist of 53 weeks.

Reclassifications

We have reclassified certain prior period amounts within our consolidated financial statements and accompanying notes to conform to our current period presentation. These reclassifications did not affect total revenue, operating income, operating cash flows or net income.

Table of Contents

2. Summary of Significant Accounting Policies

We continually assess any ASUs or other new accounting pronouncements issued by the FASB to determine their applicability and impact on us. Where it is determined that a new accounting pronouncement will result in a change to our financial reporting, we take the appropriate steps to ensure that such changes are properly reflected in our consolidated financial statements or notes thereto.

Recently Issued Accounting Standards

Adopted Standards

Balance Sheet Classification - Deferred Taxes. During the first quarter of fiscal 2016, we elected to early-adopt ASU 2015-17, Balance Sheet Classification of Deferred Taxes. The new standard requires classification of all deferred tax assets and liabilities as non-current, which represents a change from our historical presentation whereby certain of our deferred tax assets and liabilities were classified as current, and the remainder were classified as non-current. We elected a transition method to apply the changes from the new standard on a retrospective basis, and upon adoption, reclassified \$97.1 million of deferred tax assets from current assets to non-current assets on our consolidated balance sheet as of September 25, 2015.

With the exception of the impact from the adoption of ASU 2015-17 discussed above, there have not been any changes to our significant accounting policies from those that were described in our Form 10-K for the prior fiscal year ended September 25, 2015.

Standards Not Yet Effective

Revenue Recognition. In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This new standard will replace existing revenue recognition guidance in U.S. GAAP when it becomes effective, and may also impact the accounting for certain direct costs associated with revenues. The new standard permits the use of either the retrospective or cumulative effect transition method.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing, which clarifies guidance related to identifying performance obligations and licensing implementation guidance contained in the new revenue recognition standard, ASU 2014-09. The effective date for this ASU coincides with the effective date for ASU 2014-09.

We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures, and have yet to select a transition method or determine the effect of the standard on our ongoing financial reporting. Although permitted, we do not intend to early-adopt the new standard, but we will adopt it beginning September 30, 2018.

Consolidation. In February 2015, the FASB issued ASU No. 2015-02, Consolidation: Amendments to the Consolidation Analysis, which amends the consolidation requirements in ASC 810 and significantly changes the consolidation analysis required under U.S. GAAP. Among others, the ASU significantly amends how variable interests held by a reporting entity's related parties or de facto agents affect its consolidation conclusion. We will adopt the standard beginning October 1, 2016.

Inventory. In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, which affects reporting entities that measure inventory using first-in, first-out (FIFO) or average cost. Specifically, ASU 2015-11 requires that inventory be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The ASU is effective for us beginning September 30, 2017. Early adoption is permitted, and we are currently evaluating the timing and impact of the standard on our consolidated financial statements.

Leases. In February 2016, the FASB issued ASU 2016-02, Leases, which amends the existing accounting standards for leases. Under the new guidance, a lessee will be required to recognize a lease liability and right-of-use asset for all leases with terms in excess of twelve months. The new guidance also modifies the classification criteria and

accounting for sales-type and direct financing leases, and requires additional disclosures to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases. Consistent

Table of Contents

with current guidance, a lessee's recognition, measurement, and presentation of expenses and cash flows arising from a lease will continue to depend primarily on its classification. The ASU is effective for us beginning September 28, 2019, and must be applied using a modified retrospective approach. Early adoption is permitted, including adoption in an interim period, and we are currently evaluating the timing and impact of the standard on our consolidated financial statements.

Share-Based Compensation. In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory withholding requirements, as well as classification in the statement of cash flows. The ASU is effective for us beginning September 30, 2017. Early adoption is permitted, including adoption in an interim period, and we are currently evaluating the timing and impact of the standard on our consolidated financial statements.

3. Composition of Certain Financial Statement Captions

The following tables present detailed information from our consolidated balance sheets as of July 1, 2016 and September 25, 2015 (amounts displayed in thousands, except as otherwise noted).

Accounts Receivable

Accounts Receivable, Net	July 1, 2016	September 25, 2015
Trade accounts receivable	\$83,505	\$ 94,559
Accounts receivable from patent administration program customers	10,666	8,546
Accounts receivable, gross	94,171	103,105
Less: allowance for doubtful accounts	(2,534)	(1,542)
Total	\$91,637	\$ 101,563

Inventories

Inventories	July 1, 2016	September 25, 2015
Raw materials	\$4,849	\$ 3,246
Work in process	5,696	3,279
Finished goods	7,999	7,347
Total	\$18,544	\$ 13,872

Inventories are stated at the lower of cost or market. Inventory with a consumption period expected to exceed twelve months is recorded within other non-current assets in our consolidated balance sheets. In addition to the amounts shown in the table above, we have included \$1.6 million and \$1.4 million of raw materials inventory within other non-current assets in our consolidated balance sheets as of July 1, 2016 and September 25, 2015, respectively. Based on anticipated inventory consumption rates, and aside from existing write-downs due to excess and obsolete inventory, we do not believe that material risk of obsolescence exists prior to ultimate sale.

Prepaid Expenses And Other Current Assets

Prepaid Expenses And Other Current Assets	July 1, 2016	September 25, 2015
Prepaid expenses	\$17,860	\$ 13,680
Other current assets	8,859	7,525
Income tax receivable	10,587	10,826
Total	\$37,306	\$ 32,031

Accrued Liabilities

Accrued Liabilities	July 1, 2016	September 25, 2015
Accrued royalties	\$2,100	\$ 1,951

Edgar Filing: Dolby Laboratories, Inc. - Form 10-Q

Amounts payable to patent administration program partners	56,706	40,466
Accrued compensation and benefits	62,407	70,317
Accrued professional fees	6,169	6,523
Other accrued liabilities	47,191	50,050
Total	\$174,573	\$ 169,307

11

Table of Contents

Other accrued liabilities include the accrual for unpaid PP&E additions of \$9.1 million and \$20.5 million as of July 1, 2016 and September 25, 2015, respectively.

Other Non-Current Liabilities

Other Non-Current Liabilities	July 1, 2016	September 25, 2015
Supplemental retirement plan obligations	\$2,576	\$ 2,400
Non-current tax liabilities	62,305	62,843
Other liabilities	11,172	11,781
Total	\$76,053	\$ 77,024

4. Investments & Fair Value Measurements

We use cash holdings to purchase investment grade securities diversified among security types, industries and issuers. All investments are measured at fair value, and are recorded within cash equivalents and both short-term and long-term investments in our consolidated balance sheets. With the exception of our mutual fund investments held in our SERP and classified as trading securities, all of our investments are classified as available-for-sale securities. Our investments primarily consist of municipal debt securities, corporate bonds, U.S. agency securities and commercial paper. In addition, our cash and cash equivalents also consist of highly-liquid money market funds. Consistent with our investment policy, none of our held municipal debt investments are supported by letters of credit or standby purchase agreements. Our cash and investment portfolio consists of the following (in thousands):

	July 1, 2016				Estimated Fair Value		
	Cost	Unrealized Gains	Losses	Total	Level 1	Level 2	Level 3
Cash and cash equivalents:							
Cash	\$534,912			\$534,912			
Cash equivalents:							
Money market funds	65,004	—	—	65,004	65,004		
Corporate bonds	75	—	—	75		75	
Cash and cash equivalents	599,991	—	—	599,991	65,004	75	—
Short-term investments:							
Certificate of deposit (1)	9,950	—	(1)	9,949		9,949	
Government bonds	2,999	4	—	3,003	3,003		
Commercial paper	8,467	2	—	8,469		8,469	
Corporate bonds	74,354	39	(6)	74,387		74,387	
Municipal debt securities	22,972	9	(11)	22,970		22,970	
Short-term investments	118,742	54	(18)	118,778	3,003	115,775	—
Long-term investments:							
Certificate of deposit (1)	4,500	—	—	4,500		4,500	
U.S. agency securities	10,041	31	—	10,072	10,072		
Government bonds	13,478	129	—	13,607	13,607		
Corporate bonds	200,704	1,253	(47)	201,910		201,910	
Municipal debt securities	32,535	220	—	32,755		32,755	
Other long-term investments (2)	3,231	356	—	3,587	356		
Long-term investments	264,489	1,989	(47)	266,431	24,035	239,165	—
Total cash, cash equivalents, and investments	\$983,222	\$2,043	\$(65)	\$985,200	\$92,042	\$355,015	\$ —

Investments held in supplemental retirement plan:

Assets	2,563	2,563	2,563
Included in prepaid expenses and other current assets & other non-current assets			
Liabilities	2,563	2,563	2,563
Included in accrued liabilities & other non-current liabilities			

Contingent consideration related to acquisition:

Liabilities	95	95	95
Included in accrued liabilities			

(1) Certificates of deposit include marketable securities, while those with a maturity in excess of one year as of July 1, 2016 classified within long-term investments.

(2) Other long-term investments as of July 1, 2016 include a marketable equity security of \$0.4 million, and other investments that are not carried at fair value including an equity method investment of \$0.7 million and two cost method investments of \$2.0 million and \$0.5 million.

Table of Contents

	September 25, 2015				Estimated Fair Value		
	Cost	Unrealized Gains	Losses	Total	Level 1	Level 2	Level 3
Cash and cash equivalents:							
Cash	\$511,736			\$511,736			
Cash equivalents:							
Money market funds	19,014	—	—	19,014	19,014		
Corporate bonds	1,176	—	—	1,176		1,176	
Cash and cash equivalents	531,926	—	—	531,926	19,014	1,176	—
Short-term investments:							
Government bonds	2,000	1	—	2,001	2,001		
Commercial paper	6,478	—	—	6,478		6,478	
Corporate bonds	86,543	46	(11)	86,578		86,578	
Municipal debt securities	43,746	98	—	43,844		43,844	
Short-term investments	138,767	145	(11)	138,901	2,001	136,900	—
Long-term investments:							
U.S. agency securities	1,999	1	—	2,000	2,000		
Government bonds	30,505	19	(17)	30,507	30,507		
Corporate bonds	167,394	138	(392)	167,140		167,140	
Municipal debt securities	117,552	189	(60)	117,681		117,681	
Other long-term investments (1)	2,961	726	—	3,687	726		
Long-term investments	320,411	1,073	(469)	321,015	33,233	284,821	—
Total cash, cash equivalents, and investments	\$991,104	\$1,218	\$(480)	\$991,842	\$54,248	\$422,897	\$ —
Investments held in supplemental retirement plan:							
Assets	2,498			2,498	2,498		
Included in prepaid expenses and other current assets & other non-current assets							
Liabilities	2,498			2,498	2,498		
Included in accrued liabilities & other non-current liabilities							
Contingent consideration related to acquisition:							
Liabilities	95			95			95
Included in accrued liabilities							

Other long-term investments as of September 25, 2015 include a marketable equity security of \$0.7 million, and (1) other investments that are not carried at fair value including an equity method investment of \$0.5 million and two cost method investments of \$2.0 million and \$0.5 million.

Fair Value Hierarchy. Fair value is the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants at the measurement date. We minimize the use of unobservable inputs and use observable market data, if available, when determining fair value. We classify our inputs to measure fair value using the following three-level hierarchy:

Level 1: Quoted prices in active markets at the measurement date for identical assets and liabilities. We base the fair value of our Level 1 financial instruments, which are traded in active markets, using quoted market prices for identical

instruments.

Level 2: Prices may be based upon quoted prices in active markets or inputs not quoted on active markets but are corroborated by market data. We obtain the fair value of our Level 2 financial instruments from a professional pricing service, which may use quoted market prices for identical or comparable instruments, or model driven valuations using observable market data or inputs corroborated by observable market data. To validate the fair value determination provided by our primary pricing service, we perform quality controls over values received which include comparing our pricing service provider's assessment of the fair values of our investment securities against the fair values of our investment securities obtained from another independent source, reviewing the pricing movement in the context of overall market trends, and reviewing trading information from our investment managers. In addition, we assess the inputs and methods used in determining the fair value in order to determine the classification of securities in the fair value hierarchy.

Level 3: Unobservable inputs are used when little or no market data is available and reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

Table of Contents

Securities In Gross Unrealized Loss Position. We periodically evaluate our investments for other-than-temporary declines in fair value. The unrealized losses on our available-for-sale securities were primarily the result of unfavorable changes in interest rates subsequent to the initial purchase of these securities. The following table presents the gross unrealized losses and fair value for those available-for-sale securities that were in an unrealized loss position as of July 1, 2016 and September 25, 2015 (in thousands):

Investment Type	July 1, 2016		12 Months Or Greater		September 25, 2015	
	Less Than 12 Months		12 Months Or Greater		Less Than 12 Months (1)	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Certificate of deposit	\$8,500	\$ (1)	\$—	\$ —	\$—	\$ —
U.S. agency securities	—	—	—	—	19,005	(17)
Corporate bonds	41,844	(38)	7,999	(15)	148,034	(403)
Municipal debt securities	8,261	(9)	998	(2)	35,476	(60)
Total	\$58,605	\$ (48)	\$8,997	\$ (17)	\$202,515	\$ (480)

(1) As of September 25, 2015, no available-for-sale securities were in an unrealized loss position for 12 months or greater.

Although we had certain securities that were in an unrealized loss position as of July 1, 2016, we expect to recover the full carrying value of these securities as we do not intend to, nor do we currently anticipate a need to sell these securities prior to recovering the associated unrealized losses. As a result, we do not consider any portion of the unrealized losses at either July 1, 2016 or September 25, 2015 to represent an other-than-temporary impairment, nor do we consider any of the unrealized losses to be credit losses.

Investment Maturities. The following table summarizes the amortized cost and estimated fair value of the available-for-sale securities within our investment portfolio based on stated maturities as of July 1, 2016 and September 25, 2015, which are recorded within cash equivalents and both short and long-term investments in our consolidated balance sheets (in thousands):

Range of maturity	July 1, 2016		September 25, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within 1 year	\$183,339	\$183,375	\$158,957	\$159,090
Due in 1 to 2 years	185,070	185,835	173,571	173,577
Due in 2 to 3 years	76,689	77,508	143,879	143,752
Total	\$445,098	\$446,718	\$476,407	\$476,419

5. Property, Plant & Equipment

Property, plant and equipment are recorded at cost, with depreciation expense included in cost of products, cost of services, R&D, S&M and G&A expenses in our consolidated statements of operations. PP&E consist of the following (in thousands):

Property, Plant And Equipment	July 1, 2016	September 25, 2015
Land	\$43,373	\$ 43,537
Buildings and building improvements	269,838	248,390
Leasehold improvements	63,173	61,455
Machinery and equipment	88,059	70,143
Computer equipment and software	150,720	136,666
Furniture and fixtures	28,211	25,489

Edgar Filing: Dolby Laboratories, Inc. - Form 10-Q

Equipment provided under operating leases	24,945	7,638
Construction-in-progress	5,149	11,448
Property, plant and equipment, gross	673,468	604,766
Less: accumulated depreciation	(245,243)	(201,675)
Property, plant and equipment, net	\$428,225	\$ 403,091

14

Table of Contents

6. Goodwill & Intangible Assets

Goodwill

The following table outlines changes to the carrying amount of goodwill (in thousands):

	Goodwill
Balance at September 25, 2015	\$307,708
Translation adjustments	1,312
Balance at July 1, 2016	\$309,020

Intangible Assets

Our intangible assets are stated at their original cost less accumulated amortization, and principally consist of acquired technology, patents, trademarks, customer relationships and contracts. Intangible assets subject to amortization consist of the following (in thousands):

Intangible Assets, Net	July 1, 2016		September 25, 2015	
	Cost	Accumulated Amortization ^{Net}	Cost	Accumulated Amortization ^{Net}
Acquired patents and technology	\$292,971	\$(94,777)	\$172,787	\$(74,398)
Customer relationships	56,818	(32,681)	56,933	(28,275)
Other intangibles	22,712	(22,175)	22,564	(22,104)
Total	\$372,501	\$(149,633)	\$252,284	\$(124,777)

During both the fiscal year-to-date period ended July 1, 2016 and June 26, 2015, we purchased various patents and developed technologies that enable us to further develop our audio, imaging and potential product offerings.

Patent Portfolio Acquisition. On September 30, 2015, we completed an asset purchase of a patent portfolio that fits within our existing patent licensing programs for consideration of \$105.0 million. These assets are categorized within the "Acquired patents and technology" intangible asset class, and will be amortized over their weighted-average useful life of 9.0 years.

Other. During the first quarter of fiscal 2016, we also acquired other intangible assets for consideration of \$0.3 million, which will be amortized over their weighted-average useful life of 18.0 years. During the third quarter of fiscal 2016, we also acquired other intangible assets for consideration of \$15.0 million, which will be amortized over their weighted-average useful life of 18.0 years.

With regard to our purchase of intangible assets during the periods presented, the following table summarizes the consideration paid, the weighted-average useful lives over which the acquired assets will be amortized using the greater of either the straight-line basis or a ratio-to-revenue method, and the classification of their amortized expense in our consolidated statements of operations:

Fiscal Period	Total Purchase Consideration (1) (in millions)	Weighted-Average Useful Life (in years)
Fiscal 2015		
Q1 - Quarter ended December 26, 2014	\$6.4	18.0
Q2 - Quarter ended March 27, 2015	—	0
Q3 - Quarter ended June 26, 2015	16.3	7.0
	\$22.7	10.1
Fiscal 2016		
Q1 - Quarter ended January 1, 2016	\$105.3	9.0
Q2 - Quarter ended April 1, 2016	—	0
Q3 - Quarter ended July 1, 2016	\$15.0	18.0
	\$120.3	10.1

(1) Amortization expense on the intangible assets from patent portfolio acquisitions is included within cost of revenue in our consolidated statements of operations.

15

Table of Contents

Amortization expense for our intangible assets is included in cost of licensing, cost of products, R&D and S&M expenses in our consolidated statements of operations. Amortization expense was \$8.2 million and \$5.0 million in the third quarter of fiscal 2016 and 2015, respectively, and \$24.9 million and \$16.0 million in the fiscal year-to-date period ended July 1, 2016 and June 26, 2015, respectively. As of July 1, 2016, estimated amortization expense in future fiscal periods was as follows (in thousands):

Fiscal Year	Amortization Expense
Remainder of 2016	\$ 8,256
2017	30,471
2018	25,062
2019	24,479
2020	24,253
Thereafter	110,347
Total	\$ 222,868

7. Stockholders' Equity & Stock-Based Compensation

We provide stock-based awards as a form of compensation for employees, officers and directors. We have issued stock-based awards in the form of stock options and RSUs under our equity incentive plans, as well as shares under our ESPP.

Common Stock - Class A and Class B

Our Board of Directors has authorized two classes of common stock, Class A and Class B. At July 1, 2016, we had authorized 500,000,000 Class A shares and 500,000,000 Class B shares. At July 1, 2016, we had 54,978,917 shares of Class A common stock and 45,888,962 shares of Class B common stock issued and outstanding. Holders of our Class A and Class B common stock have identical rights, except that holders of our Class A common stock are entitled to one vote per share and holders of our Class B common stock are entitled to ten votes per share. Shares of Class B common stock can be converted to shares of Class A common stock at any time at the option of the stockholder and automatically convert upon sale or transfer, except for certain transfers specified in our amended and restated certificate of incorporation.

Stock Incentive Plans

2005 Stock Plan. In January 2005, our stockholders approved our 2005 Stock Plan, which our Board of Directors adopted in November 2004. The 2005 Stock Plan became effective on February 16, 2005, the day prior to the completion of our initial public offering. Our 2005 Stock Plan, as amended and restated, provides for the ability to grant ISOs, NQs, restricted stock, RSUs, SARs, deferred stock units, performance units, performance bonus awards and performance shares. A total of 29.0 million shares of our Class A common stock is authorized for issuance under the 2005 Stock Plan. For awards granted prior to February 2011, any shares subject to an award with a per share price less than the fair market value of our Class A common stock on the date of grant and any shares subject to an outstanding RSU award will be counted against the authorized share reserve as two shares for every one share subject to the award, and if returned to the 2005 Stock Plan, such shares will be counted as two shares for every one share returned. For those awards granted from February 2011 onward, any shares subject to an award with a per share price less than the fair market value of our Class A common stock on the date of grant and any shares subject to an outstanding RSU award will be counted against the authorized share reserve as 1.6 shares for every one share subject to the award, and if returned to the 2005 Stock Plan, such shares will be counted as 1.6 for every one share returned.

Stock Options. Stock options are generally granted at fair market value on the date of grant. Options granted to employees and officers prior to June 2008 generally vest over four years, with equal annual cliff-vesting and expire on the earlier of 10 years after the date of grant or 3 months after termination of service. Options granted to employees and officers from June 2008 onward generally vest over four years, with 25% of the shares subject to the option becoming exercisable on the one-year anniversary of the date of grant and the balance of the shares vesting in equal monthly installments over the following 36 months. These options expire on the earlier of 10 years after the date of

grant or 3 months after termination of service. All options granted vest over the requisite service period and upon the exercise of stock options, we issue new shares of Class A common stock under the 2005 Stock Plan. Our 2005 Stock Plan also allows us to grant stock awards which vest based on the satisfaction of specific performance criteria.

Performance-Based Stock Options. On December 15, 2015, we granted 419,623 PSOs to our executive officers with shares of our Class A common stock underlying such options. The contractual term for the PSOs is seven

Table of Contents

years, with vesting contingent upon market-based performance conditions, representing the achievement of specified Dolby annualized TSR targets at the end of a three-year measurement period ending December 15, 2018. If the minimum conditions are met, the PSOs earned will cliff vest on the third anniversary of the grant date, upon certification of achievement of the performance conditions by our Compensation Committee. Anywhere from 0% to 125% of the shares subject to a PSO may vest based on achievement of the performance conditions at the end of the three-year performance period.

In valuing the PSOs which will be recognized as compensation cost, we used a Monte Carlo valuation model. Aside from the use of an expected term for the PSOs commensurate with their shorter contractual term, the nature of the valuation inputs used in the Monte Carlo valuation model were consistent with those used to value our non-performance based options granted under the 2005 Plan. Compensation cost is being amortized on a straight-line basis over the requisite service period.

The following table summarizes information about all stock options issued under our 2005 Stock Plan:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (1) (in thousands)
	(in thousands)			
Options outstanding at September 25, 2015	8,835	\$ 35.85		
Grants	2,203	33.30		
Exercises	(1,102)) 31.18		
Forfeitures and cancellations	(483)) 36.25		
Options outstanding at July 1, 2016	9,453	35.72	7.2	\$ 114,121
Options vested and expected to vest at July 1, 2016	8,922	35.69	7.1	106,896
Options exercisable at July 1, 2016	4,986	\$ 34.54	6.0	64,591

(1) Aggregate intrinsic value is based on the closing price of our Class A common stock on July 1, 2016 of \$47.64 and excludes the impact of options that were not in-the-money.

Restricted Stock Units. Beginning in fiscal 2008, we began granting RSUs to certain directors, officers and employees under our 2005 Stock Plan. Awards granted to employees and officers generally vest over four years, with equal annual cliff-vesting. Awards granted to directors prior to November 2010 generally vest over three years, with equal annual cliff-vesting. Awards granted after November 2010 and prior to fiscal 2014 to new directors vest over approximately two years, with 50% vesting per year, while awards granted from November 2010 onward to ongoing directors generally vest over approximately one year. Awards granted to new directors from fiscal 2014 onward vest on the earlier of the first anniversary of the award's date of grant, or the day immediately preceding the date of the next annual meeting of stockholders that occurs after the award's date of grant. Our 2005 Stock Plan also allows us to grant RSUs that vest based on the satisfaction of specific performance criteria, although no such awards had been granted as of July 1, 2016. At each vesting date, the holder of the award is issued shares of our Class A common stock.

Compensation expense from these awards is equal to the fair market value of our Class A common stock on the date of grant and is recognized on a straight-line basis over the requisite service period.

The following table summarizes information about RSUs issued under our 2005 Stock Plan:

	Shares	Weighted-Average Grant Date Fair Value
	(in thousands)	
Non-vested at September 25, 2015	2,830	\$ 40.73
Granted	1,334	34.23
Vested	(1,043)) 36.74
Forfeitures	(165)) 38.21
Non-vested at July 1, 2016	2,956	\$ 39.35

Employee Stock Purchase Plan. Our plan allows eligible employees to have up to 10 percent of their eligible compensation withheld and used to purchase Class A common stock, subject to a maximum of \$25,000 worth of stock purchased in a calendar year or no more than 1,000 shares in an offering period, whichever is less. An offering period consists of successive six-month purchase periods, with a look back feature to our stock price at the commencement of a one-year offering period. The plan provides for a discount equal to 15 percent of the lower of the closing price of our Class A common stock on the New York Stock Exchange on the first and last day of the offering periods. The plan also includes an automatic reset feature that provides for an offering period to be reset and recommenced to a new

Table of Contents

lower-priced offering if the offering price of a new offering period is less than that of the immediately preceding offering period.

Stock Option Valuation Assumptions

We use the Black-Scholes option pricing model to determine the estimated fair value of employee stock options at the date of the grant. The Black-Scholes model includes inputs that require us to make certain estimates and assumptions regarding the expected term of the award, as well as the future risk-free interest rate, and the volatility of our stock price over the expected term of the award.

Expected Term. The expected term of an award represents the estimated period of time that options granted will remain outstanding, and is measured from the grant date to the date at which the option is either exercised or canceled. Our determination of the expected term involves an evaluation of historical terms and other factors such as the exercise and termination patterns of our employees who hold options to acquire our Class A common stock, and is based on certain assumptions made regarding the future exercise and termination behavior.

Risk-Free Interest Rate. The risk-free interest rate is based on the yield curve of United States Treasury instruments in effect on the date of grant. In determining an estimate for the risk-free interest rate, we use average interest rates based on these instruments' constant maturities with a term that approximates and corresponds with the expected term of our awards.

Expected Stock Price Volatility. The expected volatility represents the estimated volatility in the price of our Class A common stock over a time period that approximates the expected term of the awards, and is determined using a blended combination of historical and implied volatility. Historical volatility is representative of the historical trends in our stock price for periods preceding the measurement date for a period that is commensurate with the expected term. Implied volatility is based upon externally traded option contracts of our Class A common stock.

Dividend Yield. The dividend yield is based on our anticipated dividend payout over the expected term of our option awards. Dividend declarations and the establishment of future record and payment dates are subject to the Board of Directors' continuing determination that the dividend policy is in the best interests of our stockholders. The dividend policy may be changed or canceled at the discretion of the Board of Directors at any time.

The weighted-average assumptions used in the determination of the fair value of our stock options were as follows:

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
Expected term (in years)	5.24	5.21	5.24	4.79
Risk-free interest rate	1.2 %	1.5 %	1.7 %	1.5 %
Expected stock price volatility	30.1 %	29.0 %	29.8 %	29.7 %
Dividend yield	1.1 %	1.0 %	1.4 %	0.9 %

Stock-Based Compensation Expense

Stock-based compensation expense for equity awards granted to employees is determined by estimating their fair value on the date of grant, and recognizing that value as an expense on a straight-line basis over the requisite service period in which our employees earn the awards. Compensation expense related to these equity awards is recognized net of estimated forfeitures, which reduce the expense recorded in the consolidated statements of operations. The selection of applicable estimated forfeiture rates is based on an evaluation of trends in our historical forfeiture data with consideration for other potential driving factors. If in subsequent periods actual forfeitures significantly differ from our initial estimates, we will revise such estimates accordingly.

The following two tables separately present stock-based compensation expense both by award type and classification in our consolidated statements of operations (in thousands):

Table of Contents

Expense - By Award Type

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
Compensation Expense - By Type				
Stock options	\$4,980	\$5,501	\$16,344	\$17,513
Restricted stock units	10,080	10,005	32,423	30,297
Employee stock purchase plan	947	807	2,706	3,012
Total stock-based compensation	16,007	16,313	51,473	50,822
Benefit from income taxes	(4,655)	(4,774)	(15,067)	(14,815)
Total stock-based compensation, net of tax	\$11,352	\$11,539	\$36,406	\$36,007

Expense - By Income Statement Line Item Classification

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
Compensation Expense - By Classification				
Cost of products	\$220	\$241	\$719	\$711
Cost of services	113	111	356	348
Research and development	4,243	4,261	13,618	14,473
Sales and marketing	6,451	6,405	20,602	17,890
General and administrative	4,980	5,295	16,178	17,400
Total stock-based compensation	16,007	16,313	51,473	50,822
Benefit from income taxes	(4,655)	(4,774)	(15,067)	(14,815)
Total stock-based compensation, net of tax	\$11,352	\$11,539	\$36,406	\$36,007

The tax benefit that we recognize from certain exercises of ISOs and shares issued under our ESPP are excluded from the tables above. This benefit was as follows (in thousands):

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
Tax benefit - stock option exercises & shares issued under ESPP	\$358	\$121	\$481	\$308

Unrecognized Compensation Expense. At July 1, 2016, total unrecorded compensation expense associated with employee stock options expected to vest was approximately \$37.2 million, which is expected to be recognized over a weighted-average period of 2.4 years. At July 1, 2016, total unrecorded compensation expense associated with RSUs expected to vest was approximately \$77.7 million, which is expected to be recognized over a weighted-average period of 2.6 years.

Common Stock Repurchase Program

In November 2009, we announced a stock repurchase program ("program"), providing for the repurchase of up to \$250.0 million of our Class A common stock. The following table summarizes the initial amount of authorized repurchases as well as additional repurchases approved by our Board of Directors as of July 1, 2016 (in thousands):

Authorization Period	Authorization Amount
----------------------	----------------------

Edgar Filing: Dolby Laboratories, Inc. - Form 10-Q

Fiscal 2010: November 2009	\$ 250,000
Fiscal 2010: July 2010	300,000
Fiscal 2011: July 2011	250,000
Fiscal 2012: February 2012	100,000
Fiscal 2015: October 2014	200,000
Total	\$ 1,100,000

Table of Contents

Stock repurchases under the program may be made through open market transactions, negotiated purchases, or otherwise, at times and in amounts that we consider appropriate. The timing of repurchases and the number of shares repurchased depend upon a variety of factors, including price, regulatory requirements, the rate of dilution from our equity compensation plans and other market conditions. The program does not have a specified expiration date, and can be limited, suspended or terminated at our discretion at any time without prior notice. Shares repurchased under the program will be returned to the status of authorized but unissued shares of Class A common stock. As of July 1, 2016, the remaining authorization to purchase additional shares is approximately \$67.9 million.

The following table provides information regarding share repurchase activity under the program during fiscal 2016:

Quarterly Repurchase Activity	Shares Repurchased	Cost (1)	Average Price Paid Per Share (2)
		(in thousands)	
Q1 - Quarter ended January 1, 2016	1,140,700	\$ 39,449	\$ 34.57
Q2 - Quarter ended April 1, 2016	975,745	37,407	38.32
Q3 - Quarter ended July 1, 2016	176,854	7,998	45.22
Total	2,293,299	\$ 84,854	

(1) Cost of share repurchases includes the price paid per share and applicable commissions.

(2) Average price paid per share excludes commission costs.

Dividend

In October 2014, our Board of Directors initiated a recurring quarterly dividend program for our stockholders. The following table summarizes the dividend payments made under the program during fiscal 2016:

Fiscal Period	Declaration Date	Record Date	Payment Date	Cash Dividend Per Common Share	Dividend Payment
Fiscal 2016					
Q1 - Quarter ended January 1, 2016	January 25, 2016	February 8, 2016	February 17, 2016	\$ 0.12	\$12.1 million
Q2 - Quarter ended April 1, 2016	April 25, 2016	May 9, 2016	May 18, 2016	\$ 0.12	\$12.0 million
Q3 - Quarter ended July 1, 2016	July 25, 2016	August 8, 2016	August 17, 2016	\$ 0.12	\$12.1 million (1)

(1) The amount of the dividend payment is estimated based on the number of shares of our Class A and Class B common stock that we estimate will be outstanding as of the Record Date.

8. Accumulated Other Comprehensive Income

Other comprehensive income consists of two components: unrealized gains or losses on our available-for-sale marketable investment securities and the gain or loss from foreign currency translation adjustments. Until realized and reported as a component of net income, these comprehensive income items accumulate and are included within accumulated other comprehensive income, a subsection within stockholders' equity in our consolidated balance sheet. Unrealized gains and losses on our investment securities are reclassified from AOCI into earnings when realized upon sale, and are determined based on specific identification of securities sold. Gains and losses from the translation of assets and liabilities denominated in non-U.S. dollar functional currencies are included in AOCI.

Table of Contents

The following table summarizes the changes in the accumulated balances during the period, and includes information regarding the manner in which the reclassifications out of AOCI into earnings affect our consolidated statements of operations (in thousands):

	Fiscal Quarter Ended July 1, 2016			Fiscal Year-To-Date Ended July 1, 2016		
	Investment Securities	Currency Translation Adjustments	Total	Investment Securities	Currency Translation Adjustments	Total
Balance, beginning of period	\$1,053	\$ (9,395)	\$(8,342)	\$350	\$ (11,812)	\$(11,462)
Other comprehensive income/(loss) before reclassifications:						
Unrealized gains - investment securities	695		695	937		937
Foreign currency translation (losses) (1)		(2,852)	(2,852)		(623)	(623)
Income tax effect - benefit/(expense)	(6)	288)	282	99	476	575
Net of tax	689	(2,564)	(1,875)	1,036	(147)	889
Amounts reclassified from AOCI into earnings:						
Realized gains - investment securities (1)	15		15	493		493
Income tax effect - (expense) (2)	(3)		(3)	(125)		(125)
Net of tax	12	—	12	368	—	368
Net current-period other comprehensive income	701	(2,564)	(1,863)	1,404	(147)	1,257
Balance, end of period	\$1,754	\$ (11,959)	\$(10,205)	\$1,754	\$ (11,959)	\$(10,205)
	Fiscal Quarter Ended June 26, 2015			Fiscal Year-To-Date Ended June 26, 2015		
	Investment Securities	Currency Translation Adjustments	Total	Investment Securities	Currency Translation Adjustments	Total
Balance, beginning of period	\$1,170	\$ (8,702)	\$(7,532)	\$505	\$ 2,509	\$3,014
Other comprehensive income/(loss) before reclassifications:						
Unrealized gains/(losses) - investment securities	(787)		(787)	382		382
Foreign currency translation gains/(losses) (1)		1,058	1,058		(10,982)	(10,982)
Income tax effect - benefit/(expense)	162	(188)	(26)	(165)	641	476
Net of tax	(625)	870	245	217	(10,341)	(10,124)
Amounts reclassified from AOCI into earnings:						
Realized (losses) - investment securities (1)	(138)		(138)	(342)		(342)
Income tax effect - benefit (2)	34		34	61		61
Net of tax	(104)	—	(104)	(281)	—	(281)
Net current-period other comprehensive income/(loss)	(729)	870	141	(64)	(10,341)	(10,405)
Balance, end of period	\$441	\$ (7,832)	\$(7,391)	\$441	\$ (7,832)	\$(7,391)

(1) Realized gains or losses from the sale of our available-for-sale investment securities or from foreign currency translation adjustments are included within other income/expense, net in our consolidated statements of operations.

(2) The income tax benefit or expense is included within provision for income taxes in our consolidated statements of operations.

9. Earnings Per Share

Basic EPS is computed by dividing net income attributable to Dolby Laboratories, Inc. by the number of weighted-average shares of Class A and Class B common stock outstanding during the period. Through application of the treasury stock method, diluted EPS is computed in the same manner, except that the number of weighted-average shares outstanding is increased by the number of potentially dilutive shares from employee incentive plans during the

period.

Basic and diluted EPS are computed independently for each fiscal quarter and year-to-date period presented, which involves the use of different weighted-average share count figures relating to quarterly and annual periods. As a result, and after factoring the effect of rounding to the nearest cent per share, the sum of all four quarter-to-date EPS figures may not equal year-to-date EPS.

21

Table of Contents

Potentially dilutive shares represent the hypothetical number of incremental shares issuable under the assumed exercise of outstanding stock options (both vested and non-vested), vesting of outstanding RSUs, and shares issued under our employee stock purchase plan. The calculation of dilutive shares outstanding excludes out-of-the-money stock options (e.g., such options' exercise prices were greater than the average market price of our common shares for the period) because their inclusion would have been antidilutive.

The following table sets forth the computation of basic and diluted EPS attributable to Dolby Laboratories, Inc. (in thousands, except per share amounts):

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
Numerator:				
Net income attributable to Dolby Laboratories, Inc.	\$63,628	\$35,506	\$161,927	\$134,837
Denominator:				
Weighted-average shares outstanding—basic	100,533	102,670	100,578	102,494
Potential common shares from options to purchase common stock	1,372	827	839	903
Potential common shares from restricted stock units	772	608	562	730
Weighted-average shares outstanding—diluted	102,677	104,105	101,979	104,127
Net income per share attributable to Dolby Laboratories, Inc.:				
Basic	\$0.63	\$0.35	\$1.61	\$1.32
Diluted	\$0.62	\$0.34	\$1.59	\$1.29
Antidilutive awards excluded from calculation:				
Stock options	2,241	4,617	5,910	3,962
Restricted stock units	6	10	13	6

10. Income Taxes

Our income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect management's best assessment of estimated current and future taxes to be paid. We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax expense.

Unrecognized Tax Benefit

As of July 1, 2016, the total amount of gross unrecognized tax benefits was \$67.7 million, of which \$55.6 million, if recognized, would reduce our effective tax rate. As of September 25, 2015, the total amount of gross unrecognized tax benefits was \$65.2 million, of which \$53.0 million, if recognized, would reduce our effective tax rate. Our net liability for unrecognized tax benefits is classified within other non-current liabilities in our consolidated balance sheets.

Withholding Taxes

We recognize licensing revenue gross of withholding taxes, which our licensees remit directly to their local tax authorities, and for which we receive a partial foreign tax credit in our income tax provision. The foreign current tax includes this withholding tax expense while the appropriate foreign tax credit benefit is included in current federal and foreign taxes. Withholding taxes were as follows (in thousands):

Fiscal Quarter Ended	Fiscal Year-To-Date Ended
----------------------	---------------------------

Edgar Filing: Dolby Laboratories, Inc. - Form 10-Q

July 1, June 26, July 1, June 26,
2016 2015 2016 2015

Withholding taxes \$11,540 \$10,021 \$33,728 \$34,163

Effective Tax Rate

Each period, the combination of different factors can impact our effective tax rate. These factors include both recurring items such as tax rates and the relative amount of income earned in foreign jurisdictions, as well as discrete items such as changes to our uncertain tax positions, that may occur in, but are not necessarily consistent between periods.

Table of Contents

Our effective tax rate decreased from 24% in the third quarter of fiscal 2015 to 22% in the third quarter of fiscal 2016 due to increased benefits from federal R&D tax credits.

On a year-to-date basis, our effective tax rate decreased from 25% in the fiscal year-to-date period ended June 26, 2015 to 21% in the fiscal year-to-date period ended July 1, 2016. The overall decrease reflects the net benefit from our settlement of I.R.S. and California audits and increased benefits from federal R&D tax credits.

11. Restructuring

Restructuring charges recorded in our statement of operations represent costs associated with separate individual restructuring plans implemented in various fiscal periods. Costs arising from these actions, including fluctuations in related balances between fiscal periods, are based on the nature of activities under the various plans.

Fiscal 2016 Restructuring Plan. In January 2016, we implemented a plan to reorganize and consolidate certain activities and positions within our global business infrastructure. As a result, we recorded \$1.3 million in restructuring costs during the fiscal quarter ended April 1, 2016, representing severance and other related benefits offered to approximately 30 employees that were affected by this action. As of July 1, 2016, no outstanding accrual balance remained for obligations under this plan.

Accruals for restructuring charges are included within accrued liabilities in our consolidated balance sheets while restructuring charges/(credits) are included within restructuring charges/(credits) in our consolidated statements of operations.

12. Commitments & Contingencies

In the ordinary course of business, we enter into contractual agreements with third parties that include non-cancelable payment obligations, for which we are liable in future periods. These arrangements can include terms binding us to minimum payments and/or penalties if we terminate the agreement for any reason other than an event of default as described by the agreement. The following table presents a summary of our contractual obligations and commitments as of July 1, 2016 (in thousands):

	Payments Due By Fiscal Period						Total
	Remainder Of Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Thereafter	
Naming rights	\$—	\$7,619	\$7,715	\$7,811	\$7,909	\$102,980	\$134,034
Donation commitments	55	255	6,300	322	322	1,080	8,334
Operating leases	3,261	13,273	10,731	8,293	7,621	30,727	73,906
Purchase obligations	2,795	7,998	1,634	218	—	—	12,645
Total	\$6,111	\$29,145	\$26,380	\$16,644	\$15,852	\$134,787	\$228,919

Naming Rights. We are party to an agreement for naming rights and related benefits with respect to the Dolby Theatre in Hollywood, California, the location of the Academy Awards®. The term of the agreement is 20 years, over which we will make payments on a semi-annual basis until fiscal 2032. Our payment obligations are conditioned in part on the Academy Awards® being held and broadcast from the Dolby Theatre.

Donation Commitments. During fiscal 2014, we entered into an agreement to contribute and install imaging and audio products to the Museum of the Academy of Motion Picture Arts and Sciences in Los Angeles, California, and provide maintenance services for a fifteen-year period following the Museum's expected opening date in 2018, in exchange for various marketing, branding and publicity benefits. During fiscal 2016, we entered into an agreement with the Academy of Motion Television Arts and Sciences Foundation in Los Angeles, California, under which we are contributing cash, imaging and audio products which we will install, and maintenance services for a ten-year period, in exchange for various promotional benefits.

Operating Leases. Operating lease payments represent our commitments for future minimum rent made under non-cancelable leases for office space, including those payable to our principal stockholder and portions attributable

to the controlling interests in our wholly owned subsidiaries.

Purchase Obligations. Purchase obligations primarily consist of our commitments made under agreements to purchase goods and services for purposes that include IT and telecommunications, marketing and professional services, and manufacturing and other research and development activities.

Table of Contents

Indemnification Clauses. On a limited basis, our contractual agreements contain a clause under which we agree to provide indemnification to the counterparty, most commonly to licensees in connection with licensing arrangements that include our intellectual property. Additionally, and although not a contractual requirement, we have at times elected to defend our licensees from third party intellectual property infringement claims. Since the terms and conditions of our contractual indemnification clauses do not explicitly specify our obligations, we are unable to reasonably estimate the maximum potential exposure for which we could be liable. Furthermore, we have not historically made any payments in connection with any such obligation and believe there to be a remote likelihood that any potential exposure in future periods would be of a material amount. As a result, no amounts have been accrued in our consolidated financial statements with respect to the contingent aspect of these indemnities.

13. Business Combinations

Doremi Technologies, LLC.

On October 31, 2014 ("acquisition date"), we completed our acquisition of all outstanding interests of Doremi Technologies, LLC. ("Doremi"), a privately held company, and certain assets related to the business of Doremi from Doremi Labs, Inc. and Highlands Technologies SAS (the "Doremi-related assets") for cash consideration of \$98.4 million and up to an additional \$20.0 million in contingent consideration that may be earned over a four-year period following the closing of the acquisition. Upon acquisition, the fair value of the contingent consideration liability was estimated to be \$0.7 million and was determined by applying a discounted and probability-weighted approach to potential shipments of specified products over the four-year period. Based on a revision to initial estimates, the fair value of this liability was remeasured to \$0.1 million as of September 25, 2015. No further changes to our estimates have since been made, and accordingly the liability of \$0.1 million remains included within our consolidated balance sheet as of July 1, 2016.

The following table summarizes the purchase price allocation made to the net tangible and intangible assets acquired (including cash of \$8.4 million) and liabilities assumed based on their acquisition date fair values, with the excess amount recorded as goodwill, which is representative of the expected benefits and synergies from the integration of Doremi technology with ours as well as their assembled workforce.

Purchase Price Allocation

Current assets	\$17,231
Inventories	16,372
Intangible assets	45,600
Goodwill	39,672
Current liabilities	(11,653)
Non-current liabilities	(8,820)
Cash consideration paid to sellers	98,402
Add: contingent consideration	740
Total purchase consideration	\$99,142

The following table summarizes the fair values allocated to the various intangible assets acquired (in thousands), the weighted-average useful lives over which they will be amortized using the straight-line method, and the classification of their amortized expense in our consolidated statements of operations. The value of these acquired intangibles was determined based on the present value of estimated future cash flows under various valuation techniques and inputs.

Intangible Assets Acquired	Purchase Price Allocation	Weighted-Average Useful Life (Years)	Income Statement Classification: Amortization Expense
Customer relationships	\$25,600	10	Sales & Marketing
Developed technology	17,500	7.5	Cost of Sales
Trade name	1,300	1	Sales & Marketing
Backlog	1,200	1	Cost of Sales
Total	\$45,600		

Total acquisition-related costs incurred in connection with the transaction were \$6.3 million, of which \$0.4 million were recorded during the fiscal quarter ended December 26, 2014 and none thereafter. These costs were included in G&A expenses in our consolidated statements of operations. Pro forma financial information for Doremi's post-acquisition results is not deemed significant and is thus not provided.

Table of Contents

14. Legal Matters

We are involved in various legal proceedings that occasionally arise in the normal course of business. These can include claims of alleged infringement of intellectual property rights, commercial, employment and other matters. In our opinion, resolution of these proceedings is not expected to have a material adverse impact on our operating results or financial condition. Given the unpredictable nature of legal proceedings, it is possible that an unfavorable resolution of one or more such proceedings could materially affect our future operating results or financial condition in a particular period, including as a result of required changes to our licensing terms, monetary penalties and other potential consequences. However, based on the information known by us as of the date of this filing and the rules and regulations applicable to the preparation of our consolidated financial statements, any such amounts are either immaterial, or it is not possible to provide an estimated amount of any such potential losses.

25

Table of Contents**ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with our unaudited interim condensed consolidated financial statements and the related notes that appear elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements reflecting our current expectations and are subject to risks and uncertainties, including, but not limited to statements regarding: operating results and underlying measures; demand and acceptance for our technologies and products; market growth opportunities and trends; our plans, strategies and expected opportunities; future competition; our stock repurchase plan; and our dividend policy. Use of words such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “continue” or similar expressions indicates a forward-looking statement. Actual results may differ materially from those discussed in these forward-looking statements due to a number of factors, including the risks set forth in Part II, Item 1A, “Risk Factors.” Such forward-looking statements are based on management’s reasonable current assumptions and expectations. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform our prior statements to new developments or actual results.

OVERVIEW

Dolby Laboratories creates audio, imaging, and voice technologies that transform entertainment and communications at the cinema, at home, at work and on mobile devices. Founded in 1965, our core strengths stem from expertise in digital signal processing and compression technologies that have transformed the ability of artists to convey entertainment experiences to their audiences through recorded media. Such technologies led to the development of our noise-reduction systems for analog tape recordings, and have since evolved into multiple offerings that enable more immersive sound for cinema, digital television transmissions and devices, OTT video services, DVD and Blu-ray discs, gaming consoles, and mobile devices. Today, we derive the majority of our revenue from licensing our audio technologies. We also provide products and services that enable content creators and distributors to produce, encode, transmit and playback content for superior consumer experiences. We continue to develop new applications, most recently for voice conferencing, as well as imaging solutions that enable HDR picture quality in televisions and cinemas.

Revenue Generation

The following table presents a summary of the composition of our revenues for all periods presented:

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
Revenue				
Licensing	91%	88%	90%	90%
Products	8%	10%	8%	8%
Services	1%	2%	2%	2%
Total	100%	100%	100%	100%

We license our technologies in approximately 50 countries, and our licensees distribute products that incorporate our technologies throughout the world. As shown in the table below, we generate a significant portion of our revenue from outside the United States. Geographic data for our licensing revenue is based on the location of our licensees’ headquarters. Products revenue is based on the destination to which we ship our products, while services revenue is based on the location where services are performed.

Fiscal
Year-To-Date
Ended

Edgar Filing: Dolby Laboratories, Inc. - Form 10-Q

Revenue By Geographic Location	July 1, June 26,	
	2016	2015
United States	33%	29%
International	67%	71%

We have active licensing arrangements with over 540 electronics product OEMs and software developer licensees. As of July 1, 2016, we had approximately 6,300 issued patents relating to technologies from which we derive a significant portion of our licensing revenue. We have approximately 1,030 trademark registrations throughout

Table of Contents

the world for a variety of wordmarks, logos, and slogans. These trademarks are an integral part of our technology licensing program as licensees typically place them on their products which incorporate our technologies to inform consumers that they have met our quality specifications.

Licensing

The following table presents the composition of our licensing business and revenues for all periods presented:

Market	Fiscal Quarter Ended		Fiscal Year-To-Date Ended		Main Offerings Incorporating Our Technologies
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015	
Broadcast	39%	46%	44%	43%	STBs & televisions
PC	19%	18%	17%	17%	DVD software players & Windows operating systems
Mobile	18%	13%	13%	13%	Smartphones, tablets & other mobile devices
CE	13%	11%	14%	14%	AVRs, Blu-ray Disc devices, DMAs, DVDs, HTIBs & soundbars
Other	11%	12%	12%	13%	Auto DVD, Dolby Cinema, Dolby Voice & gaming consoles
Total	100%	100%	100%	100%	

We have various licensing models: a two-tier model, an integrated licensing model, a patent licensing model, and most recently, collaboration arrangements.

Two-Tier Licensing Model. Most of our consumer entertainment licensing business consists of a two-tier licensing model whereby our decoding technologies, included in reference software and firmware code, are first provided under license to semiconductor manufacturers whom we refer to as “implementation licensees.” Implementation licensees incorporate our technologies in ICs which they sell to OEMs of consumer entertainment products, whom we refer to as “system licensees.” System licensees separately obtain licenses from us that allow them to make and sell end-user products using ICs that incorporate our technologies.

Implementation licensees pay us a one-time, up-front fee per license. In exchange, the licensee receives a licensing package which includes information useful in implementing our technologies into their chipsets. Once implemented, the licensee sends us a sample chipset for quality control evaluation, and after we validate the design, the licensee may sell the chipset to our network of system licensees.

System licensees provide us with prototypes of products, or self-test results of products that incorporate our technologies. Upon our confirmation that our technologies are optimally and consistently incorporated, the system licensee may buy ICs under a license for the same Dolby technology from our network of implementation licensees, and may further sell approved products to retailers, distributors, and consumers. For the use of our technologies, our system licensees pay an initial licensing fee as well as royalties, which represent the majority of the revenue recognized from these arrangements. The amount of royalties we collect from a system licensee on a particular product depends on a number of factors including the mix of Dolby technologies used, the nature of the implementations, and the volume of products incorporating our technologies that are shipped by the system licensee.

Integrated Licensing Model. We also license our technologies to software operating system vendors and ISVs, and to certain other OEMs that act as combined implementation and system licensees. These licensees incorporate our technologies in their software used on PCs, in mobile applications, or in ICs they manufacture and incorporate into their products. As with the two-tier licensing model, the combined implementation and system licensee pays us an initial licensing fee in addition to royalties as determined by the mix of Dolby technologies used, the nature of the implementations, and the volume of products incorporating our technologies that are shipped, and is subject to the same quality control evaluation process.

Patent Licensing Model. We license our patents directly to manufacturers that use our intellectual property in their products. We also license our patents indirectly through patent pools which are arrangements between multiple patent owners to jointly offer and license pooled patents to licensees. By aggregating and offering pooled intellectual property, patent pools deliver efficiencies by substantially reducing transactional costs for both IP owners and licensees. Finally, we generate service fees for managing patent pools on behalf of third party patent owners through

our wholly-owned subsidiary, Via Licensing Corporation. The Via Licensing patent pools enable product manufacturers to efficiently and now transparently secure patent

Table of Contents

licenses for audio coding, interactive television, digital radio and wireless technologies. Currently, most of our revenue earned from patent licensing relate to the licensing of audio encoding technologies.

Collaboration Arrangements. We currently have collaboration arrangements with respect to Dolby Cinema and Dolby Voice.

Dolby Cinema: We partner with cinema exhibitors to create a branded premium cinema with Dolby Vision featuring brighter, higher color contrast imagery, Dolby Atmos audio technology, and inspired theater design at new and pre-existing theaters. We receive royalties based on a portion of box-office receipts from the installed theaters.

Dolby Voice: We enter into arrangements with audio and video conferencing providers where, in return for licensing our intellectual property and know-how, we earn revenue based on access to our services as well as on sales of the Dolby Voice Conference Phone (see "Products" below).

Settlements & Back Payments From Licensees: Licensing revenue recognized in any given quarter may include back payments and/or settlements with licensees. Within the Results of Operations section, settlements and back payments are collectively referred to as "recoveries." Such recoveries have become a recurring element of our business which we cannot predict with certainty.

Products

We design and manufacture audio and imaging products for cinema, television, broadcast, and entertainment industries. Distributed in over 70 countries, these products are used in content creation, distribution, and playback to enhance image and sound quality, and improve transmission and playback. We also designed and market the Dolby Conference Phone which enhances and optimizes the conference call experience when using Dolby Voice.

The following table presents the composition of our products revenue for all periods presented:

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
Market	2016	2015	2016	2015
Cinema	98%	90%	98%	89%
Broadcast & Other	2%	10%	2%	11%
Total	100%	100%	100%	100%

Services

We offer various services to support theatrical and television production for cinema exhibition, broadcast, and home entertainment, including equipment training and maintenance, mixing room alignment, equalization, as well as audio, color and light image calibration.

Table of Contents

EXECUTIVE SUMMARY

We are focused on expanding our leadership in audio solutions for entertainment content, and delivering new audio visual experiences. The following are highlights of our third quarter of fiscal 2016 as well as challenges in key areas:

CORE AUDIO LICENSING

Broadcast

Highlights: We continue to focus on growing our presence in emerging markets where both the potential for increasing TV and STB shipments is significant, and the transition to digital broadcast is still underway, particularly in Africa and Asia. Our strategy is to work with country-specific operators and standards bodies to encourage adoption of our technologies. During the third quarter of fiscal 2016, for example, China Telecom and China Unicom incorporated Dolby Audio functionality into their 4K IP set-top boxes.

Challenges: To achieve growth and further adoption in emerging markets where conversion to digital television is still underway, our success will be impacted by a number of factors such as regional fragmentation of operators and regulators, and the pace of decision-making and implementation. Further, in some emerging growth countries such as China, we face significant challenges enforcing our contractual and intellectual property rights. The failure of our licensees to accurately report the shipment of products incorporating our technologies may adversely impact future revenue.

Personal Computers

Highlights: Our technologies enhance playback in both Mac and Windows operating systems including, via native support in their respective Safari and Microsoft Edge browsers. Dolby's presence in the browsers enables us to reach more users and provide new types of content, including streaming video entertainment.

Challenges: Demand in this sector has been subject to significant fluctuations. In recent years, unit demand for PCs has been in secular decline along with PCs with optical disc functionality as consumer choices have shifted towards other devices such as tablets and mobile phones.

Consumer Electronics

Highlights: We continue to see opportunities in new and existing use cases such as DMAs as well as Dolby Atmos-enabled devices for the home. Dolby Atmos is now included in AVRs, soundbars, speakers, smartphones, tablets and set-top boxes with further product launches in the near future. Complementing these hardware offerings is a growing array of content via Blu-ray discs and over-the-top services, the latter being adopted by a number of TV operators globally. We will continue to work with content developers and distributors to expand the range of entertainment selections that incorporate the Dolby Atmos format.

Challenges: We must continue to present compelling reasons for consumers to demand our audio technologies wherever they consume and enjoy premium content. To the extent that OEMs do not incorporate our technologies in current and developing products, our future revenue could be impacted.

Mobile

Highlights: We continue to drive further adoption of our technologies across all the major mobile ecosystems, which include Apple, Android, Windows and Amazon. Collectively, these platforms enable the delivery of enhanced entertainment experiences by accessing content from a multitude of OTT services. During the third quarter of fiscal 2016, Dolby Audio was included in the latest release of Apple's iOS.

Challenges: Growth in this market is dependent on several factors, including our success in collaborating with manufacturers of mobile devices to incorporate our technologies, the development of various ecosystems, which includes the availability of content in Dolby formats, and the performance of the mobile device market as a whole. The rate of new product development in this sector continues to be rapid and can result in dramatic swings in consumer trends as well as design changes that may exclude our technologies.

Table of Contents

NEW GROWTH INITIATIVES

Dolby Cinema™

Opportunity: In fiscal 2015, and in partnership with established movie theater exhibitors, we launched Dolby Cinema, a branded premium cinema with Dolby Vision featuring brighter, higher color contrast imagery, Dolby Atmos audio technology, and inspired theater design. This quarter, and in partnership with Wanda, we opened four Dolby Cinema locations in China, the fastest growing cinema market in the world. In addition, Wanda has announced a target of 100 Dolby Cinema screens in the next two years. Also this quarter, we announced the opening of the Dolby Cinema at Jackie Chan Cinema's Beijing Wukesong site, the top-grossing movie site in China from 2011 to 2015, and the plans of Sparkle Roll, which owns Jackie Chan Cinema, to open ten additional Dolby Cinema sites in China within the next two years. Previously announced exhibitors who feature Dolby Cinema include AMC in the U.S., Cineplexx in Austria, and Vue (previously JT Biscopen) in the Netherlands. So far, these exhibitors have collectively committed to 220 Dolby Cinema screens worldwide, of which just over 30 have launched to date. Dolby Cinema has also attracted strong support from the creative community as every major studio has announced their support for Dolby Cinema. So far, 50 Dolby Vision theatrical titles have been announced or released including recent titles such as 'Star Trek Beyond' and 'The Legend of Tarzan'.

Challenges: Although the branded premium sector of the cinema industry is currently growing, Dolby Cinema is a new offering, and is in competition with other existing solutions. Our success with this initiative depends on our ability to differentiate our offering, deploy new sites in accordance with plans, provide a compelling experience, and attract and retain a viewing audience.

Dolby Vision™

Opportunity: Dolby Vision is a high dynamic range imaging technology that offers more realistic distinctions in color, brighter highlights, and improved shadow details for cinema and digital TV. This playback technology focuses on the ability of each pixel to contribute to the overall image, and is not dependent on the number of pixels. LG, the second largest TV manufacturer in the world, now includes Dolby Vision globally on their full lineup of 2016 OLED and Super UHD LCD TVs while Vizio, the second largest TV manufacturer in the US, now includes Dolby Vision on their R, P, and M series. In addition, the first Dolby Vision TVs from Skyworth are now shipping in China.

Complementing our progress with TV OEMs, SoC providers MStar, MediaTek, Sigma Designs, Realtek and HiSilicon are in the process of integrating Dolby Vision technology in their chipsets, which is significant as these partners collectively provide SoC for a majority of the current TV market.

We are also seeing increasing amounts of content available in Dolby Vision. Amazon started streaming in this quarter, joining Netflix and Vudu. Also this quarter, Lionsgate announced that they will create Dolby Vision content for the home, which complements previously announced titles from Universal Pictures, Sony Pictures, Warner Bros. Home Entertainment Inc. and MGM. To date, there are over 50 Dolby Vision titles available for the home with over 100 projected by the end of the calendar year.

Challenges: To successfully establish and grow Dolby Vision, we will need to continue to expand the array of consumer devices that incorporate Dolby Vision, expand the pipeline of Dolby Vision entertainment available from content creators, and encourage consumer adoption in the face of competing products and technologies.

Table of Contents

Dolby Voice®

Opportunity: Dolby Voice is an audio conferencing solution that emulates the in-person meeting experience with superior spatial perception, voice clarity, and background noise suppression, and is available via the desktop, on mobile devices, and using the Dolby Conference Phone. This quarter, we announced and launched Dolby Voice with a new partner, Highfive, which makes cloud-based collaboration and video conferencing easy to install and use. This is our third partnership following the initial launch with BT®, and PGI, both leading providers of audio conferencing services.

Challenges: Our success in this market will depend on the number of service providers and enterprise customers we are able to attract, and ultimately, on the volume of usage and Dolby Conference Phones that we are able to sell.

PRODUCTS

Highlights: In our core cinema markets, we offer servers and audio processors to enable the playback of content in cinemas. Our product revenue base expanded last year with the inclusion of shipments from Doremi, a leading developer and manufacturer of digital cinema servers that we acquired in the first quarter of fiscal 2015. Product sales have also increased due to shipments of Dolby Atmos which continues to enjoy increasing adoption by studios, content creators, post-production facilities and exhibitors. As of the end of our current fiscal quarter, there were nearly 2,000 Dolby Atmos-enabled screens installed or committed to be installed, and 490 Dolby Atmos theatrical titles announced or released.

Challenges: Demand for our cinema products is dependent upon industry and economic cycles along with our ability to develop and introduce new technologies, further our relationships with content creators, and promote new consumer audio and imaging experiences. To the extent that we do not make progress in these areas, and are unsuccessful in resisting pricing pressures and prevailing over competing technologies, our revenues may be adversely affected.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

For a description of the critical accounting policies that affect our more significant judgments and estimates used in the preparation of our consolidated financial statements, refer to Item 7 on Management Discussion and Analysis in our Fiscal 2015 Annual Report on Form 10-K filed with the SEC.

Table of Contents

RESULTS OF OPERATIONS

For each line item included on our consolidated statements of operations described and analyzed below, the significant factors identified as the leading drivers contributing to the overall fluctuation are presented in descending order according to the quantitative magnitude of their impact on the overall change (from an absolute value perspective). Note that recovery payments received from licensees either in the form of back payments or settlements are collectively referred to as "recoveries."

Our fiscal quarterly and annual reporting periods generally consist of 13 weeks and 52 weeks, respectively. However, our fiscal year-to-date period ended July 1, 2016 consisted of 40 weeks and our fiscal year ending September 30, 2016 consists of 53 weeks. The occurrence of an additional week during the current fiscal year-to-date period results in proportionately higher operating expenses related to compensation, depreciation and amortization that are not entirely offset by incremental revenue that may have been earned during the additional week.

Revenue and Gross Margin

Licensing

Licensing revenue consists of fees earned from licensing our technologies to customers who incorporate them into their products and services to enable and enhance audio, imaging and voice capabilities. The technologies that we license are either internally developed, acquired, or licensed from third parties. Our cost of licensing consists mainly of amortization of purchased intangible assets and intangible assets acquired in business combinations as well as third party royalty obligations paid to license intellectual property that we then sublicense to our customers.

	Fiscal Quarter Ended				Fiscal Year-To-Date Ended			
	July 1, 2016	June 26, 2015	Change \$	Change %	July 1, 2016	June 26, 2015	Change \$	Change %
Licensing								
Revenue	\$253,026	\$204,855	\$48,171	24%	\$713,491	\$664,786	\$48,705	7%
Percentage of total revenue	91%	88%			90%	90%		
Cost of licensing	6,620	1,347	5,273	391%	19,851	8,615	11,236	130%
Gross margin	246,406	203,508	42,898	21%	693,640	656,171	37,469	6%
Gross margin percentage	97%	99%			97%	99%		

Quarter-To-Date: Q3'16 vs. Q3'15

Factor	Revenue	Gross Margin
Mobile	<ul style="list-style-type: none"> â Increase due to higher penetration into mobile platforms along with timing of revenue 	
CE	<ul style="list-style-type: none"> â Increase due to timing of revenue under contractual arrangements, higher units of DMAs and higher recoveries, partially offset by lower units of HTIBs, Blu-rays and DVD players 	<ul style="list-style-type: none"> â Increase in cost of licensing primarily due to amortization on newly-acquired intangible assets
PC	<ul style="list-style-type: none"> â Increase due to timing of revenue under contractual arrangements, partially offset by lower recoveries 	
Broadcast	<ul style="list-style-type: none"> â Higher TV units and increased licensing revenue for professional products 	
Other	<ul style="list-style-type: none"> â Higher revenue from Automotive, Via Licensing patent pools and new revenue from Dolby Cinema 	

Year-To-Date: Q3'16 vs. Q3'15

Factor	Revenue	Gross Margin
Broadcast	<ul style="list-style-type: none"> â Increase in recoveries and higher volumes from TVs and STBs 	<ul style="list-style-type: none"> â Increase in cost of licensing primarily due to amortization on newly-acquired
PC	<ul style="list-style-type: none"> â 	

Edgar Filing: Dolby Laboratories, Inc. - Form 10-Q

	Increase due to timing of revenue under contractual arrangements, intangible assets partially offset by declines in PC market volumes
CE	Increase due to timing of revenue under contractual arrangements, higher units of DMAs and revenue from Via Licensing patent pools, partially offset by lower units of DVD players and HTIBs
Mobile	Increase due to higher penetration into mobile platforms along with timing of revenue
Other	Higher revenue from Automotive, Via Licensing patent pools and new revenue from Dolby Cinema, partially offset by lower revenue from Dolby Voice

32

Table of Contents

Products

Products revenue is generated from the sale of audio, imaging and voice products for the cinema, television broadcast, and communications industries. Cost of products consists of materials, labor and manufacturing overhead, amortization of certain intangible assets as well as third party royalty obligations paid to license intellectual property.

	Fiscal Quarter Ended		Change		Fiscal Year-To-Date Ended		Change	
	July 1, 2016	June 26, 2015	\$	%	July 1, 2016	June 26, 2015	\$	%
Products								
Revenue	\$20,638	\$22,596	\$(1,958)	(9)%	\$65,510	\$58,844	\$6,666	11%
Percentage of total revenue	8%	10%			8%	8%		
Cost of products	14,098	20,027	(5,929)	(30)%	47,114	50,848	(3,734)	(7)%
Gross margin	6,540	2,569	3,971	155%	18,396	7,996	10,400	130%
Gross margin percentage	32%	11%			28%	14%		

Quarter-To-Date: Q3'16 vs. Q3'15

Factor Revenue

Cinemaâ Lower units of digital cinema video products and 3D glasses, partially offset by higher revenue from extended warranties

Gross Margin

Lower charges from excess & obsolete inventory and manufacturing variances

Year-To-Date: Q3'16 vs. Q3'15

Factor Revenue

Cinemaâ Higher warranty revenue, higher units of 3D glasses and Atmos digital cinema audio products

Gross Margin

Improved results on warranty programs combined with lower manufacturing variances and lower charges from excess & obsolete inventory

Services

Services revenue consists of fees for equipment training and maintenance, mixing room alignment, equalization, as well as audio, color and light image calibration. Cost of services consists of personnel and personnel-related costs for providing our professional services, software maintenance and support, external consultants, and other direct expenses incurred on behalf of customers.

	Fiscal Quarter Ended		Change		Fiscal Year-To-Date Ended		Change	
	July 1, 2016	June 26, 2015	\$	%	July 1, 2016	June 26, 2015	\$	%
Services								
Revenue	\$3,923	\$4,251	\$(328)	(8)%	\$13,740	\$14,260	\$(520)	(4)%
Percentage of total revenue	1%	2%			2%	2%		
Cost of services	3,903	3,506	397	11%	11,795	9,976	1,819	18%
Gross margin	20	745	(725)	(97)%	1,945	4,284	(2,339)	(55)%
Gross margin percentage	1%	18%			14%	30%		

Quarter-To-Date: Q3'16 vs. Q3'15

Factor

Configuration & Post-Production â Lower film mastering and other activities

Gross Margin

Lower utilization of fixed costs due to lower film mastering activities

Year-To-Date: Q3'16 vs. Q3'15

Factor

Revenue

Gross Margin

Configuration &
Post-Production

Lower film mastering and other
activities

Lower utilization of fixed costs due to lower film
mastering activities

33

Table of Contents

Operating Expenses

Research & Development

R&D expenses consist primarily of employee compensation and benefits expenses, stock-based compensation, consulting and contract labor costs, depreciation and amortization, facilities costs, costs for outside materials and services, and information technology expenses.

	Fiscal Quarter Ended		Change		Fiscal Year-To-Date Ended		Change	
	July 1, 2016	June 26, 2015	\$	%	July 1, 2016	June 26, 2015	\$	%
Research and development	\$54,977	\$45,508	\$9,469	21%	\$160,393	\$150,703	\$9,690	6%
Percentage of total revenue	20%	20%			20%	20%		

Quarter-To-Date: Q3'16 vs. Q3'15

Category	Key Drivers
Compensation & Benefits	á Higher headcount and merit increases across the employee base aimed at existing or new R&D projects
Product Development	á Higher prototype costs
Facilities	á Higher costs associated with our new worldwide headquarters and additional laboratories
Technology & Communications	á Higher expenses associated with software licensing arrangements

Year-To-Date: Q3'16 vs. Q3'15

Category	Key Drivers
Compensation & Benefits	á Higher headcount and merit increases across the employee base aimed at existing or new R&D projects
Facilities	á Higher costs associated with our new worldwide headquarters and additional laboratories
Product Development	â Lower prototype costs
Depreciation & Amortization	á Higher depreciation expense primarily from assets placed into service

Sales & Marketing

S&M expenses consist primarily of employee compensation and benefits expenses, stock-based compensation, marketing and promotional expenses for events such as trade shows and conferences, marketing campaigns, travel-related expenses, consulting fees, facilities costs, depreciation and amortization, information technology expenses, and legal costs associated with the protection of our intellectual property.

	Fiscal Quarter Ended		Change		Fiscal Year-To-Date Ended		Change	
	July 1, 2016	June 26, 2015	\$	%	July 1, 2016	June 26, 2015	\$	%
Sales and marketing	\$74,234	\$70,782	\$3,452	5%	\$220,503	\$204,740	\$15,763	8%
Percentage of total revenue	27%	31%			28%	28%		

Quarter-To-Date: Q3'16 vs. Q3'15

Category	Key Drivers
Compensation & Benefits	á Higher headcount and merit increases across the existing employee base

Facilities

á Higher costs associated with our new worldwide headquarters

Legal, Professional & Consulting Fees â Lower costs associated with intellectual property related activities

34

Table of Contents

Year-To-Date: Q3'16 vs. Q3'15

Category	Key Drivers
Compensation & Benefits	â Higher headcount and merit increases across the existing employee base, partially offset by lower variable compensation costs
Facilities	â Higher costs associated with our new worldwide headquarters
Stock-Based Compensation	â Higher headcount and an increase in award grants relative to the prior fiscal comparative period
Marketing Programs	â Higher costs associated with marketing efforts supporting new initiatives
Legal, Professional & Consulting Fees	â Lower costs associated with intellectual property related activities

General & Administrative

G&A expenses consist primarily of employee compensation and benefits expenses, stock-based compensation, depreciation, facilities and information technology costs, as well as professional fees and other costs associated with external consulting and contract labor.

	Fiscal Quarter Ended		Change		Fiscal Year-To-Date Ended		Change	
	July 1, 2016	June 26, 2015	\$	%	July 1, 2016	June 26, 2015	\$	%
General and administrative	\$42,570	\$45,587	\$(3,017)	(7)%	\$129,130	\$135,956	\$(6,826)	(5)%
Percentage of total revenue	15%	20%			16%	18%		

Quarter-To-Date: Q3'16 vs. Q3'15

Category	Key Drivers
Facilities	â Lower proportionate costs associated with our new worldwide headquarters
Legal, Professional & Consulting Fees	â Higher costs associated with patent filings and other various legal activities
Technology & Communications	â Lower costs associated with IT-related projects

Year-To-Date: Q3'16 vs. Q3'15

Category	Key Drivers
Facilities	â Lower proportionate costs associated with our new worldwide headquarters
Legal, Professional & Consulting Fees	â Higher costs associated with patent filings and other various legal activities

Restructuring

Restructuring charges recorded in our statement of operations represent costs associated with separate individual restructuring plans implemented in various fiscal periods. The extent of our costs arising as a result of these actions, including fluctuations in related balances between fiscal periods, is based on the nature of activities under the various plans.

Restructuring charges recorded in the fiscal year-to-date period ended July 1, 2016 were incurred in relation to our fiscal 2016 restructuring plan implemented and completed during the second quarter of fiscal 2016, and represent costs to reorganize and consolidate certain activities and positions within our global business infrastructure. These charges primarily related to severance and other related benefits provided to employees that were affected as a result of this action.

Note that our statement of operations for the fiscal year-to-date period ended June 26, 2015 reflects a credit coinciding with the completion of activity under our fiscal 2014 restructuring plan. For additional information on this restructuring plan, refer to Note 11 "Restructuring" to our unaudited interim condensed consolidated financial

statements.

35

Table of Contents

Other Income/Expense

Other income/(expense) primarily consists of interest income earned on cash and investments and the net gains/(losses) from foreign currency transactions, derivative instruments, and sales of marketable securities from our investment portfolio.

	Fiscal Quarter Ended				Fiscal Year-To-Date Ended			
	July 1, 2016	June 26, 2015	Change		July 1, 2016	June 26, 2015	Change	
Other Income/Expense			\$	%			\$	%
Interest income	\$1,464	\$1,453	\$11	1%	\$4,011	\$3,444	\$567	16%
Interest expense	(26)	(69)	43	(62)%	(88)	(115)	27	(23)%
Other income/(expense), net	(849)	1,049	(1,898)	(181)%	(1,542)	1,159	(2,701)	(233)%
Total	\$589	\$2,433	\$(1,844)	(76)%	\$2,381	\$4,488	\$(2,107)	(47)%

Quarter-To-Date: Q3'16 vs. Q3'15

Category Key Drivers

Other Income/(Expense) Decrease in other income as the prior comparative period included the receipt of a non-recurring governmental grant and increase in other expense primarily from higher currency translation losses

Year-To-Date: Q3'16 vs. Q3'15

Category Key Drivers

Other Income/(Expense) Decrease in other income as the prior comparative period included the receipt of a non-recurring governmental grant and increase in other expense primarily from higher currency translation losses

Interest Income Increase due to higher yields on our investment balances relative to the prior fiscal comparative period

Income Taxes

Our effective tax rate is based on a projection of our annual fiscal year results, and is affected each quarter-end by several factors. These include changes in our projected fiscal year results, recurring items such as tax rates and relative income earned in foreign jurisdictions, as well as discrete items such as changes to our uncertain tax positions that may occur in, but are not necessarily consistent between periods. For additional information related to effective tax rates, see Note 10 "Income Taxes" to our consolidated financial statements.

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
Provision for income taxes	\$(18,017)	\$(11,522)	\$(42,768)	\$(45,254)
Effective tax rate	22%	24%	21%	25%

Quarter-To-Date: Q3'16 vs. Q3'15

Factor Impact On Effective Tax Rate

Federal R&D Credits â Increased benefit from federal R&D credits

Year-To-Date: Q3'16 vs. Q3'15

Factor Impact On Effective Tax Rate

Tax Contingencies âIncreased benefit due to the impact of the settlement of a multi-year California tax audit
Federal R&D Credits âIncreased benefit from federal R&D credits

Table of Contents**LIQUIDITY, CAPITAL RESOURCES, AND FINANCIAL CONDITION**

Our principal sources of liquidity are cash, cash equivalents, and investments, as well as cash flows from operations. We believe that these sources will be sufficient to satisfy our currently anticipated cash requirements through at least the next twelve months. As of July 1, 2016, we had cash and cash equivalents of \$600.0 million, which consisted of cash and highly-liquid money market funds. In addition, we had short and long-term investments of \$385.2 million, which consisted primarily of municipal debt securities, commercial paper, corporate bonds, and U.S. agency securities.

Our policy is to indefinitely reinvest a portion of our undistributed earnings in certain foreign subsidiaries to support the operations and growth of these subsidiaries. Of our total cash, cash equivalents, and investments held as of July 1, 2016, approximately \$635 million, or 64%, was held by our foreign subsidiaries. This represented a \$89 million increase from the \$546 million that was held by our foreign subsidiaries as of September 25, 2015. If these undistributed earnings held by foreign subsidiaries are repatriated to the U.S., they may be subject to U.S. federal income taxes and foreign withholding taxes, less the applicable foreign tax credits.

	July 1, 2016	September 25, 2015
	(in thousands)	
Cash and cash equivalents	\$599,991	\$531,926
Short-term investments	118,778	138,901
Long-term investments	266,431	321,015
Accounts receivable, net	91,637	101,563
Accounts payable and accrued liabilities	189,335	190,017
Working capital (1)	659,852	611,548

(1) Working capital consists of total current assets less total current liabilities.

Capital Expenditures and Uses of Capital

Our capital expenditures consist of purchases of land, building, building fixtures, laboratory equipment, office equipment, computer hardware and software, leasehold improvements, and production and test equipment. We continue to invest in sales and marketing, and R&D that contribute to the overall growth of our business and technological innovation.

Business Combinations. During fiscal 2015, we completed the business combination of Doremi and the Doremi-related assets for total purchase consideration of \$98.4 million, net of cash acquired. For additional details, see Note 13 "Business Combinations" to our interim condensed consolidated financial statements.

Asset Acquisition. During the first quarter of fiscal 2016, we completed an asset purchase of a patent portfolio that fits within our existing patent licensing programs for total consideration of \$105.0 million.

We retain sufficient cash holdings to support our operations and we also purchase investment grade securities diversified among security types, industries, and issuers. We have used cash generated from our operations to fund a variety of activities related to our business in addition to our ongoing operations, including business expansion and growth, acquisitions, and repurchases of our Class A common stock. We have historically generated significant cash from operations, however these cash flows and the value of our investment portfolio could be affected by various risks and uncertainties, as described in Part II, Item 1A "Risk Factors."

Shareholder Return

Since fiscal 2010, we have returned cash to stockholders through repurchases of Class A common stock under our repurchase program, a special one-time dividend, and our quarterly dividend program initiated in fiscal 2015. Refer to Note 7 "Stockholders' Equity & Stock-Based Compensation" of our interim condensed consolidated financial statements for a summary of dividend payments made under the program during fiscal 2016 and additional information regarding our stock repurchase program.

Stock Repurchase Program. Our stock repurchase program was initiated in fiscal 2009, and in October 2014, we announced that our Board of Directors approved an increase to the size of our stock repurchase program by an additional \$200.0 million.

Table of Contents

Quarterly Dividend Program. During the first quarter of fiscal 2015, we initiated a recurring quarterly cash dividend program for our stockholders. Under the program, current quarterly dividends of \$0.12 per share are paid on our Class A and Class B common stock to eligible stockholders of record for each respective dividend record date.

Cash Flows Analysis

For the following comparative analysis performed for each of the sections of the statement of cash flows, the significant factors identified as the leading drivers contributing to the fluctuation are presented in descending order according to the magnitude of their impact relative to the overall change (amounts displayed in thousands, except as otherwise noted).

Operating Activities

Fiscal	
Year-To-Date	
Ended	
July 1,	June 26,
2016	2015

Net cash provided by operating activities	\$283,955	\$226,117
---	-----------	-----------

Net cash provided by operating activities increased \$57.8 million in the fiscal year-to-date period ended July 1, 2016 as compared to the fiscal year-to-date period ended June 26, 2015, primarily due to the following:

Factor	Impact On Cash Flows
--------	----------------------

Net Income	á Increase in total revenue which exceeded the increase in operating expenses
------------	---

Investing Activities

Fiscal Year-To-Date	
Ended	
July 1,	June 26,
2016	2015

Net cash used in investing activities	\$(126,457)	\$(254,693)
---------------------------------------	-------------	-------------

Capital expenditures	(77,079)	(119,769)
----------------------	-----------	------------

Net cash used in investing activities was \$128.2 million lower in the fiscal year-to-date period ended July 1, 2016 as compared to the fiscal year-to-date period ended June 26, 2015, primarily due to the following:

Factor	Impact On Cash Flows
--------	----------------------

Purchase Of Investments	á Lower cash outflows for the purchase of marketable investment securities
-------------------------	--

Acquisition Of Intangible Assets	â Significant outflows in fiscal 2016 for the purchase of a patent portfolio (refer to Note 6 for additional information)
----------------------------------	---

Business Combinations	â Lower outflows as the prior comparable period included our acquisition of Doremi in fiscal 2015
-----------------------	---

Capital Expenditures	â Lower expenditures for PP&E
----------------------	-------------------------------

Proceeds From Investments	â Lower inflows from the sale & maturity of marketable investment securities
---------------------------	--

Financing Activities

Fiscal Year-To-Date	
Ended	
July 1,	June 26,
2016	2015

Net cash used in financing activities	\$(88,097)	\$(66,657)
---------------------------------------	------------	------------

Repurchase of common stock	(84,854)	(47,956)
----------------------------	-----------	-----------

Net cash used in financing activities was \$21.4 million higher in the fiscal year-to-date period ended July 1, 2016 as compared to the fiscal year-to-date period ended June 26, 2015, primarily due to the following:

Factor	Impact On Cash Flows
--------	----------------------

Share Repurchases	â Increased outflows resulting from a higher volume of common stock repurchases
-------------------	---

Edgar Filing: Dolby Laboratories, Inc. - Form 10-Q

Common Stock Issuance	Higher cash inflows from increased employee stock option exercises and shares issued under our ESPP
Dividend Payments	Higher outflows for the payment of our quarterly cash dividend to common stockholders primarily as a result of a \$0.02 per share increase compared to the prior fiscal year
Partnership Distribution	Lower distributions to our controlling interest for accumulated commercial property leasing fees in the current fiscal year-to-date period

38

Table of Contents

Off-Balance Sheet Arrangements and Contractual Obligations

Our liquidity is not dependent upon the use of off-balance sheet financing arrangements, and we have not entered into any arrangements that are expected to have a material effect on liquidity or the availability of capital resources. Since the end of our most recent fiscal year ended September 25, 2015, there have been no material changes in either our off-balance sheet financing arrangements or contractual obligations outside the ordinary course of business. For additional details regarding our contractual obligations, see Note 12 “Commitments & Contingencies” to our unaudited interim condensed consolidated financial statements.

Indemnification Clauses

We are party to certain contractual agreements under which we have agreed to provide indemnification of varying scope and duration to the other party relating to our licensed intellectual property. Historically, we have not made any payments for these indemnification obligations and no amounts have been accrued in our consolidated financial statements with respect to these obligations. Since the terms and conditions of the indemnification clauses do not explicitly specify our obligations, we are unable to reasonably estimate the maximum potential exposure for which we could be liable. For additional details regarding indemnification clauses within our contractual agreements, see Note 12 “Commitments & Contingencies” to our consolidated financial statements.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity

As of July 1, 2016, we had cash and cash equivalents of \$600.0 million, which consisted of cash and highly liquid money market funds. In addition, we had both short and long-term investments of \$385.2 million, which consisted primarily of municipal debt securities, corporate bonds, commercial paper and U.S. agency securities. Our investment policy is focused on the preservation of capital and support for our liquidity requirements. Under the policy, we invest in highly rated securities with a minimum credit rating of A- while limiting the amount of credit exposure to any one issuer other than the U.S. government. At July 1, 2016, the weighted-average credit quality of our investment portfolio was AA-, with a weighted-average maturity of approximately thirteen months. We do not invest in financial instruments for trading or speculative purposes, nor do we use leveraged financial instruments. We utilize external investment managers who adhere to the guidelines of our investment policy.

The investments within our fixed-income portfolio are subject to fluctuations in interest rates, which could affect our financial position, and to a lesser extent, results of operations. Based on our investment portfolio balance as of July 1, 2016, hypothetical changes in interest rates of 1% and 0.5% would have an impact on the carrying value of our portfolio of approximately \$4.4 million and \$2.2 million, respectively.

Foreign Currency Exchange Risk

We maintain business operations in foreign countries, most significantly in the United Kingdom, Australia, China, Germany, Poland and the Netherlands. Additionally, a growing portion of our business is conducted outside of the U.S. through subsidiaries with functional currencies other than the U.S. dollar, most notably:

- Australian Dollar
- British Pound
- Chinese Yuan
- Euro
- Indian Rupee
- Japanese Yen
- Korean Won
- Polish Zloty
- Russian Ruble
- Swedish Krona

As a result, we face exposure to adverse movements in currency exchange rates as the financial results of our international operations are translated from local currency into U.S. dollars upon consolidation. The majority of our revenue generated from international markets is denominated in U.S. dollars, while the operating expenses of our foreign subsidiaries are predominantly denominated in local currencies. Therefore, our operating expenses will increase when the U.S. dollar weakens against the local currency and decrease when the U.S. dollar strengthens against the local currency. Additionally, foreign exchange rate fluctuations on transactions denominated in currencies other than the functional currency result in gains or losses that are reflected in our consolidated statements of operations. Our foreign operations are subject to the same risks present when conducting business internationally, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, foreign exchange rate volatility and other regulations and restrictions.

In an effort to reduce the risk that our earnings will be adversely affected by foreign currency exchange rate fluctuations, we enter into foreign currency forward contracts to hedge against assets and liabilities for which we have foreign currency exchange rate exposure. These derivative instruments are carried at fair value with changes in the fair value recorded to other income, net, in our consolidated statements of operations. While not designated as hedging instruments, these foreign currency forward contracts are used to reduce the exchange rate risk associated primarily with intercompany receivables and payables. These contracts do not subject us to material balance sheet risk due to exchange rate movements as gains and losses on these derivatives are intended to offset gains and losses on the related

receivables and payables for which we have foreign currency exchange rate exposure. As of July 1, 2016 and September 25, 2015, the outstanding derivative instruments had maturities of 33 days or less and the total notional amounts of outstanding contracts were \$13.3 million and \$22.3 million, respectively. The fair values of these contracts were nominal as of July 1, 2016 and September 25, 2015, and were included within prepaid expenses and other current assets and within accrued liabilities in our consolidated balance sheets. For additional

Table of Contents

information related to our foreign currency forward contracts, see Note 2 "Summary of Significant Accounting Policies" to our consolidated financial statements.

A sensitivity analysis was performed on all of our foreign currency forward contracts as of July 1, 2016. This sensitivity analysis was based on a modeling technique that measures the hypothetical market value resulting from a 10% shift in the value of exchange rates relative to the U.S. dollar. For these forward contracts, duration modeling was used where hypothetical changes are made to the spot rates of the currency. A 10% increase in the value of the U.S. dollar would lead to an increase in the fair value of our financial instruments by \$0.3 million. Conversely, a 10% decrease in the value of the U.S. dollar would result in a decrease in the fair value of these financial instruments by \$0.3 million.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (“Exchange Act”), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Subject to the limitations noted above, our management, with the participation of our CEO and CFO, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the fiscal period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the CEO and CFO have concluded that, as of such date, our disclosure controls and procedures were effective to meet the objective for which they were designed and operate at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended July 1, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in various legal proceedings from time to time arising from the normal course of business activities, including claims of alleged infringement of intellectual property rights, commercial, employment, and other matters. In our opinion, resolution of these pending matters is not expected to have a material adverse impact on our operating results or financial condition. Given the unpredictable nature of legal proceedings, it is possible that an unfavorable resolution of one or more such proceedings could materially affect our future operating results or financial condition in a particular period; however, based on the information known by us as of the date of this filing and the rules and regulations applicable to the preparation of our consolidated financial statements, any such amounts are either immaterial or it is not possible to provide an estimated amount of any such potential losses.

ITEM 1A. RISK FACTORS

The following risk factors and other information included in this Quarterly Report on Form 10-Q should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not currently known to us or that we currently deem less significant may also affect our business operations or financial results. If any of the following risks actually occur, our business, operating results and financial condition could be materially adversely affected.

REVENUE GENERATION

Markets We Target

Dependence on Sales by Licensees. We depend on OEMs and other licensees to incorporate our technologies into their products. Our license agreements generally do not have minimum purchase commitments, are typically non-exclusive, and frequently do not require incorporation or use of our technologies. Our revenue will decline if our licensees choose not to incorporate our technologies in their products or they sell fewer products incorporating our technologies.

Impact of PC Sales. Revenue from our PC market depends on several factors, including underlying PC unit shipment growth, the extent to which our technologies are included on computers, through operating systems or otherwise, and the terms of any royalties or other payments we receive. We face challenges in the PC market, including:

• Purchasing trends away from traditional PCs and toward computing devices without optical disc drives, such as ultrabooks and tablets;

• Because PC OEMs are required to pay us a higher per-unit royalty for Windows 8 and Windows 10 PCs that include optical disc playback functionality than Windows 8 or Windows 10 PCs that do not include such functionality, the continued decreasing inclusion of optical disc drives in Windows 8 or Windows 10 PCs will result in lower per-unit royalties;

• PC software that includes our technologies on an unauthorized and infringing basis, for which we receive no royalty payments; and

• Continued decreasing inclusion of independent software vendor media applications by PC OEMs.

Declines in Optical Disc Media. For many years, movies have been distributed, purchased, and consumed through optical disc media, such as DVD and Blu-ray Disc. However, the rapid advancement of online and mobile content delivery has resulted in a trend toward movie downloading and streaming services. We expect the shift away from optical disc media to online and mobile media content consumption to continue, resulting in decreased revenue from DVD and Blu-ray Disc players.

Mobile Industry Risks. Successful penetration of the mobile device market is important to our future growth. The mobile device market, particularly smartphones and tablets, is characterized by rapidly changing market conditions, frequent product introductions and intense competition based on features and price. Our DD and DD+ technologies are not mandated as an industry standard for mobile devices. We must continually convince mobile device OEMs and end users of mobile devices of the value of our technologies. With shorter product lifecycles, it is easier for mobile

device OEMs to add or remove our technologies from mobile devices than it was for PC OEMs.

In order to increase the value of our technologies in the mobile market, we have worked with online and mobile media content service providers to encode their content with our technologies, which could affect OEM and software

Table of Contents

vendor demand for our decoding technologies. However, the online and mobile media content services markets are also characterized by intense competition, evolving industry standards and business and distribution models, disruptive software and hardware technology developments, frequent product and service introductions and short life cycles, and price sensitivity on the part of consumers, all of which may result in downward pressure on pricing or the removal of our technologies by these providers.

Cinema Industry Risks. Our cinema product sales are subject to fluctuations based on events and conditions in the cinema industry, such as the construction of new screens or upgrade of existing screens. In addition, in the first quarter of fiscal 2015, we launched Dolby Cinema, a branded premium cinema offering for exhibitors and movie audiences that combines Dolby Vision laser projection and Dolby Atmos sound. In the second quarter of fiscal 2016, we announced a collaboration with Wanda Cinema Line to open 100 Dolby Cinema locations in China over the next five years (subsequently, Wanda has announced targeting opening such locations within the next two years). More recently, we announced the opening of the Dolby Cinema at Jackie Chan Cinema's Beijing Wukesong site, the top-grossing movie site in China from 2011 to 2015, and the plans of Sparkle Roll, which owns Jackie Chan Cinema, to open ten additional Dolby Cinema sites in China within the next two years. Although we have invested, and expect to continue to invest, a substantial amount of time and resources developing Dolby Cinema and building our partnerships in connection with the launch of Dolby Cinema locations, this is a new market for us and we may not recognize a meaningful amount of revenue from these efforts in the near future, or at all, if Dolby Cinema is not ultimately successful. The royalties we receive from Dolby Cinema exhibitors are based on a portion of box-office receipts from the installed theaters, and the timing of such theater installations is dependent upon a number of factors beyond our control. In addition, the success of our Dolby Cinema offering will be tied to the pipeline and success of motion pictures available at Dolby Cinema locations generally. The success of Dolby Cinema depends in large part on our ability to differentiate our offering, deploy new sites in accordance with plans, provide a compelling experience, and attract and retain a viewing audience.

In addition, a decrease in our ability to develop and introduce new cinema products and services successfully could affect licensing of our consumer technologies, because the strength of our brand and our ability to use professional product developments to introduce new consumer technologies would be impaired. A number of factors can affect the number of movies that are produced, including strikes and work stoppages within the cinema industry and budgetary constraints and changes in cinema industry business models.

Maturity of Digital Cinema Market. The industry transition to digital cinema is essentially complete, and the demand for new digital cinema screens has dropped significantly, leading to lower sales volumes of our cinema products. Future cinema product growth depends on a number of factors, including new theater construction, the introduction of new technologies, such as Dolby Atmos and Dolby Vision, and entering into a replacement cycle where previously purchased cinema products are upgraded or replaced. We face a number of challenges relating to the maturity of the digital cinema market, including:

• Exhibitors may choose competing products with different features or lower prices; and

• Pricing and other competitive pressures have caused us to implement pricing strategies which have adversely affected gross margins of our cinema products.

Customers and Distributors

Loss of Key Licensee or Customer. A small number of our licensees or customers may represent a significant percentage of our licensing, products, or services revenue. Although we generally have agreements with these licensees or customers, these agreements typically do not require any minimum purchases or minimum royalty fees and do not prohibit licensees from using competing technologies or customers from purchasing products and services from competitors. Because many of our markets are rapidly evolving, customer demand for our technologies and products can shift quickly. Because of our increased presence in the mobile market where our DD and DD+ technologies are not mandated as industry standards, the risk that a large licensee may reduce or eliminate its use of our technologies has increased.

Reliance on Semiconductor Manufacturers. Our licensing revenue from system licensees depends in large part upon the availability of ICs that implement our technologies. IC manufacturers incorporate our technologies into these ICs, which are then incorporated in consumer entertainment products. We do not manufacture these ICs, but rather depend on IC manufacturers to develop, produce, and then sell them to system licensees in accordance with their agreements. We do not control the IC manufacturers' decisions whether or not to incorporate our technologies into their ICs, and we do not control their product development or commercialization efforts.

Table of Contents

Consumer Spending Weakness. Weakness in general economic conditions may suppress consumer demand in our markets. Many of the products in which our technologies are incorporated are discretionary goods, such as PCs, televisions, STBs, Blu-ray Disc players, video game consoles, AVRs, mobile devices, in-car entertainment systems, and home-theater systems. Weakness in general economic conditions may also lead to licensees and customers becoming delinquent on their obligations to us or being unable to pay, resulting in a higher level of write-offs. Economic conditions may increase underreporting and non-reporting of royalty-bearing revenue by our licensees as well as increase the unauthorized use of our technologies.

Reliance on Distributors. We rely significantly on a global network of independent, regional distributors to market and distribute our cinema and broadcast products. Our distributor arrangements are non-exclusive and our distributors are not obligated to buy our products and can represent competing products, and they may be unwilling or unable to dedicate the resources necessary to promote our portfolio of products. Our distributors could retain product channel inventory levels that exceed future anticipated sales, which could affect future sales to those distributors. In addition, failure of our distributors to adhere to our policies designed to promote compliance with global anticorruption laws, export controls, and local laws, could subject us to criminal or civil penalties and stockholder litigation.

Marketing and Branding

Importance of Brand Strength. Maintaining and strengthening the Dolby brand is critical to maintaining and expanding our licensing, products, and services business, as well as our ability to offer technologies for new markets, including Dolby Voice for the communications market, Dolby Cinema, Dolby Vision and other imaging offerings for the consumer market, and others. Our continued success depends on our reputation for providing high quality technologies, products, and services across a wide range of entertainment markets, including the consumer entertainment, PC, broadcast, and gaming markets. If we fail to promote and maintain the Dolby brand successfully in licensing, products or services, our business will suffer. Furthermore, we believe that the strength of our brand may affect the likelihood that our technologies are adopted as industry standards in various markets and for various applications. Our ability to maintain and strengthen our brand will depend heavily on our ability to develop innovative technologies for the entertainment industry, to enter into new markets successfully, and to provide high quality products and services in these new markets.

Industry Standards

The entertainment industry depends upon industry standards to ensure compatibility across delivery platforms and a wide variety of consumer entertainment products. We make significant efforts to design our products and technologies to address capability, quality, and cost considerations so that they either meet, or more importantly, are adopted as industry standards across the broad range of entertainment industry markets in which we participate, as well as the markets in which we hope to compete in the future. To have our products and technologies adopted as industry standards, we must convince a broad spectrum of standards-setting organizations throughout the world, as well as our major customers and licensees who are members of such organizations, to adopt them as such. The market for broadcast technologies has traditionally been heavily based on industry standards, often mandated by governments choosing from among alternative standards, and we expect this to be the case in the future.

Difficulty Becoming Incorporated in an Industry Standard. Standards-setting organizations establish technology standards for use in a wide range of consumer entertainment products. It can be difficult for companies to have their technologies adopted as an industry standard, as multiple companies, including ones that typically compete against one another, are involved in the development of new technology standards for use in entertainment-oriented products.

Participants May Choose Among Alternative Technologies within Standards. Even when a standards-setting organization incorporates our technologies in an industry standard for a particular market, our technologies may not be the sole technologies adopted for that market. Our operating results depend upon participants in that market choosing to adopt our technologies instead of competitive technologies that also may be acceptable under such standard. For example, the continued growth of our revenue from the broadcast market will depend upon both the continued global adoption of digital television generally and the choice to use our technologies where it is one of several accepted industry standards.

Table of Contents

Being Part of a Standard May Limit Our Licensing Practices. When a standards-setting organization mandates our technologies, we generally must agree to license such technologies on a fair, reasonable, and non-discriminatory basis, which could limit our control over the use of these technologies. In these situations, we must often limit the royalty rates we charge for these technologies and we may be unable to limit to whom we license such technologies or to restrict many terms of the license. We have in the past, and may in the future, be subject to claims that our licensing of industry standard technologies may not conform to the requirements of the standards-setting organization. Allegations such as these could be asserted in private actions seeking monetary damages and injunctive relief, or in regulatory actions. Claimants in such cases could seek to restrict or change our licensing practices or our ability to license our technologies.

Royalty Reporting

Our operating results fluctuate based on the risks set forth in this section, as well as on:

• Timing of royalty reports from our licensees and meeting revenue recognition criteria;

• Royalty reports including positive or negative corrective adjustments;

• Retroactive royalties that cover extended periods of time; and

Timing of revenue recognition under licensing agreements and other contractual arrangements, including recognition of unusually large amounts of revenue in any given quarter because not all of our revenue recognition criteria were met in prior periods.

Inaccurate Licensee Royalty Reporting. We generate licensing revenue primarily from OEMs who license our technologies and incorporate those technologies in their products. Our license agreements generally obligate our licensees to pay us a specified royalty for every product they ship that incorporates our technologies, and we rely on our licensees to report their shipments accurately. However, we have difficulty independently determining whether our licensees are reporting shipments accurately, particularly with respect to software incorporating our technologies because unauthorized copies of such software can be made relatively easily. A third party may disagree with our interpretation of the terms of a license agreement or, as a result of an audit, a third party could challenge the accuracy of our calculation. We are regularly involved in discussions with third party technology licensees regarding license terms. Most of our license agreements permit us to audit our licensees' records and we routinely exercise these rights, but audits are generally expensive, time-consuming, and potentially detrimental to our ongoing business relationships with our licensees. In the past, licensees have understated or failed to report the number of products incorporating our technologies that they shipped, and we have not been able to collect and recognize revenue to which we were entitled. We expect that we will continue to experience understatement and non-reporting of royalties by our licensees.

Royalties We Owe Others. In some cases, the products we sell and the technologies we license to our customers include intellectual property that we have licensed from third parties. Our agreements with these third parties generally require us to pay them royalties for that use, and give the third parties the right to audit our calculation of those royalties. A third party may disagree with our interpretation of the terms of a license agreement or, as a result of an audit, a third party could challenge the accuracy of our calculation. We are regularly involved in discussions with third party technology licensors regarding license terms. A successful challenge by a third party could result in the termination of a license agreement or an increase in the amount of royalties we have to pay to the third party.

TECHNOLOGY TRENDS AND DEVELOPMENTS

Technology Innovation. Our revenue growth will depend upon our success in new and existing markets for our technologies, such as digital broadcast, mobile devices, online and mobile media distribution, consumer imaging and communications. The markets for our technologies and products are defined by:

• Rapid technological change;

• New and improved technology and frequent product introductions;

• Changing consumer and licensee demands;

• Evolving industry standards; and

• Technology and product obsolescence.

Our future success depends on our ability to enhance our technologies and products and to develop new technologies and products that address the market needs in a timely manner. Technology development is a complex, uncertain process requiring high levels of innovation, highly-skilled engineering and development personnel, and the accurate anticipation of technological and market trends. We may not be able to identify, develop, acquire, market, or

Table of Contents

support new or enhanced technologies or products on a timely basis, if at all.

Experience with New Markets and Business Models. Our future growth will depend, in part, upon our expansion into areas beyond our core audio licensing business. Over the past few years, we have introduced Dolby Voice technology for the communications market, Dolby Vision for the home and cinema markets, and our branded-theater experience, Dolby Cinema. In connection with entering into these new markets, we face new sources of competition, new business models, and new customer relationships. In order to be successful in these markets, we will need to cultivate new industry relationships to bring our products, services, and technologies to market. Our inexperience in one or more of these markets could limit our ability to successfully execute on our growth strategy.

INTELLECTUAL PROPERTY

Our business is dependent upon protecting our patents, trademarks, trade secrets, copyrights, and other intellectual property rights. Effective intellectual property rights protection, however, may not be available under the laws of every country in which our products and services and those of our licensees are distributed. The efforts we have taken to protect our proprietary rights may not be sufficient or effective. We also seek to maintain select intellectual property as trade secrets, and third parties or our employees could intentionally or accidentally compromise the intellectual property that we maintain as trade secrets. In addition, protecting our intellectual property rights is costly and time consuming. We have taken steps in the past to enforce our intellectual property rights and expect to do so in the future. However, it may not be practicable or cost effective for us to enforce our intellectual property rights fully, particularly in some countries or where the initiation of a claim might harm our business relationships.

We generally seek patent protection for our innovations. However, our patent program faces a number of challenges, including:

- Possibility that innovations may not be protectable;
- Failure to protect innovations that later turn out to be important;
- Insufficient patent protection to prevent third parties from designing around our patent claims;
- Our pending patent applications may not be approved; and
- Possibility that an issued patent may later be found to be invalid or unenforceable.

Patent Royalties and Expiration. Many of the technologies that we license to our system licensees are covered by patents, and the licensing revenue that we receive from those licenses depends in large part upon the life of such patents. In general, our agreements with our licensees require them to pay us a full royalty with respect to a particular technology only until the last patent covering that technology expires in a particular country. As of July 1, 2016, we had approximately 6,300 issued patents in addition to approximately 4,000 pending patent applications in more than 80 jurisdictions throughout the world. Our currently issued patents expire at various times through September 2040. We seek to mitigate this risk in a variety of ways. We regularly look for opportunities to expand our patent portfolio through organic development and acquisitions. We develop proprietary technologies to replace licensing revenue from technologies covered by expiring patents with licensing revenue supported by patents with a longer remaining life. And we develop and license our technologies in a manner designed to minimize the chance that a system licensee would develop competing technologies that do not include any Dolby intellectual property.

In particular, some of our patents relating to DD technologies, from which we derive a significant, but declining portion of our licensing revenue, have expired and others will expire over the next several years. The primary products that incorporate DD include DVD players (but not Blu-ray players) and some TVs, STBs, and soundbars. We have transitioned a number of our DD licensees, and continue to make progress in transitioning other DD licensees, to DD+ technologies, an extension of our DD technologies, whose patents generally expire later than the DD patents. To be successful, we must continue to transition licensees to DD+, and discourage licensees of DD+ to transition back to DD as our original patents covering this technology expire.

Unauthorized Use of Our Intellectual Property. We have often experienced, and expect to continue to experience, problems with non-licensee OEMs and software vendors, particularly in China and certain emerging economies, incorporating our technologies and trademarks into their products without our authorization and without paying us any licensing fees. Manufacturers of integrated circuits, or ICs, containing our technologies occasionally sell these ICs to

third parties who are not our system licensees. These sales, and the failure of such manufacturers to report the sales, facilitate the unauthorized use of our intellectual property. As emerging economies transition from analog to digital content, such as the transition from analog to digital broadcast, we expect to experience increased

Table of Contents

problems with this form of piracy.

Intellectual Property Litigation. Companies in the technology and entertainment industries frequently engage in litigation based on allegations of infringement or other violations of intellectual property rights. We have faced such claims in the past and we expect to face similar claims in the future. Any intellectual property claims, with or without merit, could be time-consuming, expensive to litigate or settle, and could divert management resources and attention. In the past, we have settled claims relating to infringement allegations and agreed to make payments in connection with such settlements. An adverse determination in any intellectual property claim could require that we pay damages or stop using technologies found to be in violation of a third party's rights and could prevent us from offering our products and services to others. In order to avoid these restrictions, we may have to seek a license for the technology, which may not be available on reasonable terms or at all. Licensors could also require us to pay significant royalties. As a result, we may be required to develop alternative non-infringing technologies, which could require significant effort and expense. If we cannot license or develop technologies for any aspects of our business found to be infringing, we may be forced to limit our product and service offerings and may be unable to compete effectively. In some instances, we have contractually agreed to provide indemnifications to licensees relating to our intellectual property. Additionally, at times we have chosen to defend our licensees from third party intellectual property infringement claims even where such defense was not contractually required, and we may choose to take on such defense in the future.

Licensee Disputes. At times, we are engaged in disputes regarding the licensing of our intellectual property rights, including matters related to our royalty rates and other terms of our licensing arrangements. These types of disputes can be asserted by our customers or prospective customers or by other third parties as part of negotiations with us or in private actions seeking monetary damages or injunctive relief, or in regulatory actions. In the past, licensees have threatened to initiate litigation against us based on potential antitrust claims or regarding our licensing royalty rate practices. Damages and requests for injunctive relief asserted in claims like these could be significant, and could be disruptive to our business.

U.S. and Foreign Patent Rights. Our licensing business depends in part on the uniform and consistent treatment of patent rights in the U.S. and abroad. Changes to the patent laws and regulations in the U.S. and abroad may limit our ability to obtain, license, and enforce our rights. Additionally, court and administrative rulings may interpret existing patent laws and regulations in ways that hurt our ability to obtain, license, and enforce our patents. We face challenges protecting our intellectual property in foreign jurisdictions, including:

Our ability to enforce our contractual and intellectual property rights, especially in countries that do not recognize and enforce intellectual property rights to the same extent as the U.S., Japan, Korea, and European countries do, which increases the risk of unauthorized use of our technologies;

Limited or no patent protection for our DD technologies in countries such as China, Taiwan, and India, which may require us to obtain patent rights for new and existing technologies in order to grow or maintain our revenue; and
Because of limitations in the legal systems in many countries, our ability to obtain and enforce patents in many countries is uncertain, and we must strengthen and develop relationships with entertainment industry participants worldwide to increase our ability to enforce our intellectual property and contractual rights without relying solely on the legal systems in the countries in which we operate.

OPERATIONS

Reliance on Key Suppliers. Our reliance on suppliers for some of the key materials and components we use in manufacturing our products involves risks, including limited control over the price, timely delivery, and quality of such components. We generally have no formal agreements in place with our suppliers for the continued supply of materials and components. Although we have identified alternate suppliers for most of our key materials and components, any required changes in our suppliers could cause delays in our operations and increase our production costs. In addition, our suppliers may not be able to meet our production demands as to volume, quality, or timeliness. Moreover, we rely on sole source suppliers for some of the components that we use to manufacture our products, including specific charged coupled devices, light emitting diodes, and digital signal processors. These sole source

suppliers may become unable or unwilling to deliver these components to us at an acceptable cost or at all, which could force us to redesign those specific products. Our inability to obtain timely delivery of key components of acceptable quality, any significant increases in the prices of components, or the redesign of our products could result in production delays, increased costs, and reductions in shipments of our products.

Table of Contents

Product Quality. Our products, and products that incorporate our technologies, are complex and sometimes contain undetected software or hardware errors, particularly when first introduced or when new versions are released. In addition, we have limited control over manufacturing performed by contract manufacturers, which could result in quality problems. Furthermore, our products and technologies are sometimes combined with or incorporated into products from other vendors, sometimes making it difficult to identify the source of a problem. Any negative publicity or impact relating to these product problems could affect the perception of our brand and market acceptance of our products or technologies. These errors could result in a loss of or delay in market acceptance of our products or cause delays in delivering them and meeting customer demands, any of which could reduce our revenue and raise significant customer relations issues. In addition, if our products or technologies contain errors we could be required to replace or reengineer them, which would increase our costs. Moreover, if any such errors cause unintended consequences, we could incur substantial costs in defending and settling product liability claims. Although we generally attempt to contractually limit our liability, if these contract provisions are not enforced, or are unenforceable for any reason, or if liabilities arise that are not effectively limited, we could incur substantial costs in defending and settling product liability claims.

Production Processes and Production. Production difficulties or inefficiencies can interrupt production, resulting in our inability to deliver products on time in a cost effective manner, which could harm our competitive position. We have a single production facility and increasingly use contract manufacturers for a significant portion of our production capacity. Our reliance on contract manufacturers for the manufacture of our products involves risks, including limited control over timely delivery and quality of such products. If production of our products is interrupted, we may not be able to manufacture products on a timely basis. A shortage of manufacturing capacity for our products could reduce our operating results and damage our customer relationships. We may be unable to quickly adapt our manufacturing capacity to rapidly changing market conditions and a contract manufacturer may encounter similar difficulties. Likewise, we may be unable to quickly respond to fluctuations in customer demand or contract manufacturer interruptions. At times we underutilize our manufacturing facilities as a result of reduced demand for some of our products.

Data Security. We rely on information technology systems in the conduct of our business, including systems designed and managed by third parties. Many of these systems contain sensitive and confidential information, including our trade secrets and proprietary business information, personal data, and information of or pertaining to our customers, suppliers and business partners. The secure maintenance of this information is critical to our operations and business strategy. Increasingly, companies are subject to a wide variety of attacks on their networks and systems on an ongoing basis. Our information technology and infrastructure may be vulnerable to penetration or attacks by computer programmers and hackers, software bugs or other technical malfunctions, or other disruptions.

While we have taken a number of steps to protect our information technology systems, the number and sophistication of malicious attacks that companies have experienced from third parties has increased over the past few years. In addition, because techniques used by computer programmers and hackers (many of whom are highly sophisticated and well-funded) to access or sabotage networks and computer systems change frequently and often are not recognized until after they are used, we may be unable to anticipate or immediately detect these techniques. This could delay our response or the effectiveness of our response and impede our operations and ability to limit our exposure to third-party claims and potential liability. Attacks on our systems are sometimes successful, and, in some instances, we might be unaware of an incident or its magnitude and effects. We also may suffer data security breaches and the unauthorized access to, misuse or acquisition of, personal data or other sensitive and confidential information as the result of intentional or inadvertent breaches by our employees or service providers. Any data security breach, whether external or internal in origin, could compromise our networks and systems, creating system disruptions or slowdowns and exploiting security vulnerabilities of our products. Any such breach can result in the information stored on our networks and systems being improperly accessed, publicly disclosed, lost, or stolen, which could subject us to liability to our customers, suppliers, business partners and others. We seek to detect and investigate such attempts and incidents and to prevent their recurrence where practicable through changes to our internal processes and tools, but in some cases preventive and remedial action might not be successful. In addition, despite the implementation of

network security measures, our networks also may be vulnerable to computer viruses, break-ins, denial of service attacks, and similar other disruptions.

Disruptions to our information technology systems, due to outages, security breaches or other causes, can have severe consequences to our business, including financial loss and reputational damage.

Recent Political Developments in the United Kingdom. On June 23, 2016, a referendum was held on the U.K.'s membership in the European Union, the outcome of which was a vote in favor of leaving the European Union. The

Table of Contents

U.K.'s vote to leave the European Union creates an uncertain political and economic environment in the U.K. and potentially across other European Union member states, which may last for a number of months or years. As a result, there is a risk of instability for both the U.K. and the European Union, which could adversely affect our results, financial condition and prospects.

Further, it is uncertain what the effect of the referendum will be on immigration and employment rules, including the right of European Union nationals to remain in the U.K., or the ability of companies with operations in the U.K. to hire or retain European Union nationals (or conversely, the right of U.K. nationals to remain in European Union member states, or the ability of companies with operations in the European Union to hire or retain U.K. nationals). The political and economic instability created by the United Kingdom's vote to leave the European Union has caused and may continue to cause significant volatility in global financial markets and the value of the Pound Sterling currency or other currencies, including the Euro. Depending on the terms reached regarding any exit from the European Union, it is possible that there may be adverse practical and/or operational implications on our business. The outcome of the referendum has also created uncertainty with regard to the regulation of data protection in the U.K. In particular, it is unclear whether the United Kingdom will enact the pending European General Data Protection Regulation, and how data transfers to and from the United Kingdom will be regulated.

COMPETITION

The markets for our technologies are highly competitive, and we face competitive threats and pricing pressure in our markets. Consumers may perceive the quality of the visual and audio experiences produced by some of our competitors' technologies to be equivalent or superior to the sight and sound experiences produced by our technologies. Some of our current or future competitors may have significantly greater financial, technical, marketing, and other resources than we do, or may have more experience or advantages in the markets in which they compete. These competitors may also be able to offer integrated systems in markets for entertainment technologies on a royalty-free basis or at a lower price than our technologies, including audio, imaging, and other technologies, which could make competing technologies that we develop less attractive.

Pricing Pressures. The markets for the consumer entertainment products in which our technologies are incorporated are intensely competitive and price sensitive. We expect to face increased royalty pricing pressure for our technologies as we seek to drive the adoption of our technologies into online content and portable devices, such as tablets and smartphones. Retail prices for consumer entertainment products that include our sound technologies, such as DVD and Blu-ray players and home theater systems, have decreased significantly, and we expect prices to decrease for the foreseeable future. In response, OEMs have sought to reduce their product costs, which can result in downward pressure on the licensing fees we charge.

Customers as Competitors. We face competitive risks in situations where our customers are also current or potential competitors. For example, Sony and Technicolor are significant licensee customers, but are also competitors with respect to some of our consumer, broadcast, and cinema technologies. Our customers may choose to use competing technologies they have developed or in which they have an interest rather than use our technologies. The existence of important customer relationships may influence which strategic opportunities we pursue, as we may forgo some opportunities in the interests of preserving a critical customer relationship.

Competition from Other Audio Formats and Imaging Solutions. We believe that the success we have had licensing our audio technologies to system licensees is due, in part, to the strength of our brand and the perception that our technologies provide a high quality solution for multichannel audio. However, both free and proprietary sound technologies are becoming increasingly prevalent, and we expect competitors to continue to enter this field with other offerings. Furthermore, to the extent that customers perceive our competitors' products as providing the same advantages as our technologies at a lower or comparable price, there is a risk that these customers may treat sound encoding technologies as commodities, resulting in loss of status of our technologies, decline in their use, and significant pricing pressure. In addition, we introduced our HDR imaging technology, Dolby Vision, within the last two years, and we expect to face intense competition from existing and more well-established competitors. Moreover, there can be no assurance that consumers will adopt Dolby Vision in the near future, or at all.

Competition for Employees. In order to be successful, we must attract, develop, and retain employees, including employees to work on our growth initiatives where our current employees may lack experience with the business models and markets we are pursuing. Competition for experienced employees in our markets can be intense. In order to attract and retain employees, we must provide a competitive compensation package, including cash and equity compensation. Our equity awards include stock options and restricted stock units. The future value of

Table of Contents

these awards is uncertain, and depends on our stock price performance over time. In order for our compensation packages to be viewed as competitive, prospective employees must perceive our equity awards to be a valuable benefit.

STRATEGIC ACTIVITIES

Importance of Relationships with Entertainment Industry. To be successful, we must maintain and grow our relationships with a broad range of entertainment industry participants, including:

- Content creators, such as film directors, studios, music producers and mobile and online content producers;
- Content distributors, such as film exhibitors, broadcasters, operators, and OTT video service providers and video game publishers; and
- Device manufacturers.

Relationships have historically played an important role in the entertainment markets that we serve. For example, sales of our products and services are particularly dependent upon our relationships with major film studios and broadcasters, and licensing of our technologies is particularly dependent upon our relationships with system licensees and IC manufacturers. If we fail to maintain and strengthen these relationships, these entertainment industry participants may be less likely to purchase and use our technologies, products, and services, or create content incorporating our technologies.

Consequences of M&A Activity. We evaluate a wide array of possible strategic transactions, including acquisitions. We consider these types of transactions in connection with, among other things, our efforts to strengthen our core audio and cinema businesses and expand beyond sound technologies. Although we cannot predict whether or not we will complete any such acquisitions or other transactions in the future, any of these transactions could be significant in relation to our market capitalization, financial condition, or results of operations. The process of integrating an acquired company, business, or technology may create unforeseen difficulties and expenditures. Foreign acquisitions involve unique risks in addition to those mentioned above, including those related to integration of operations across different geographies, cultures, and languages; currency risks; and risks associated with the economic, political, and regulatory environment in specific countries. Future acquisitions could result in potentially dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses, and write-offs of goodwill. Future acquisitions may also require us to obtain additional equity or debt financing, which may not be available on favorable terms or at all. Also, the anticipated benefits of our acquisitions may not materialize.

We face various risks in integrating acquired businesses, including:

- Diversion of management time and focus from operating our business to acquisition integration challenges;
- Cultural and logistical challenges associated with integrating employees from acquired businesses into our organization;
- Retaining employees, suppliers and customers from businesses we acquire;
 - The need to implement or improve internal controls, procedures, and policies appropriate for a public company at businesses that prior to the acquisition may have lacked effective controls, procedures, and policies;
- Possible write-offs or impairment charges resulting from acquisitions;
- Unanticipated or unknown liabilities relating to acquired businesses; and
- The need to integrate acquired businesses' accounting, management information, manufacturing, human resources, and other administrative systems to permit effective management.

LEGAL AND REGULATORY COMPLIANCE

International Business and Compliance. We are dependent on international sales for a substantial amount of our total revenue. We are subject to a number of risks related to conducting business internationally, including:

- U.S. and foreign government trade restrictions, including those which may impose restrictions on importation of programming, technology, or components to or from the U.S.;
-

Compliance with applicable international laws and regulations, including antitrust laws, that may differ or conflict with laws in other countries where we conduct business, or are otherwise not harmonized with one another;
Foreign government taxes, regulations, and permit requirements, including foreign taxes that we may not

Table of Contents

be able to offset against taxes imposed upon us in the U.S., and other laws limiting our ability to repatriate funds to the U.S.;

• Changes in diplomatic and trade relationships;

• Difficulty in establishing, staffing, and managing foreign operations;

• Adverse fluctuations in foreign currency exchange rates and interest rates, including risks related to any interest rate swap or other hedging activities we undertake;

• Political or social instability, natural disasters, war or events of terrorism; and

• The strength of international economies.

Certain foreign governments, particularly in China, have advanced arguments under their competition laws that exert downward pressure on royalties for intellectual property. The regulatory enforcement activities in such jurisdictions can be unpredictable, in some cases because these jurisdictions have only recently implemented competition laws. For instance, in March 2014, the National Development and Reform Commission of China (“NDRC”) initiated a review of our business practices under the Chinese competition laws and requested information relating to our business practices in China. In early May 2015, the NDRC confirmed that the matters under review have been resolved on mutually agreeable terms. The implementation of these terms remains ongoing. Additionally, in December 2013, the Korean Fair Trade Commission (“KFTC”) initiated a review of the Company under Korean competition law. The KFTC requested information relating to our business practices in Korea and we cooperated during its review. As a result of this review, in July 2015, the KFTC issued an order and we agreed to modify certain terms in our standard licensing agreements going forward without admitting to any liability or wrongdoing.

In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by U.S. regulations applicable to us such as the FCPA and U.S. export controls. Although we implement policies and procedures designed to ensure compliance with the FCPA and U.S. export controls, there can be no assurance that all of our employees, distributors, dealers, and agents will not take actions in violation of our policies or these regulations.

Costs of Environmental Laws and Regulation. Our operations use substances regulated under federal, state, local, and international laws governing the environment, including those governing the discharge of pollutants into the air and water, the management, disposal, and labeling of hazardous substances and wastes, and the cleanup of contaminated sites. In addition, future environmental laws and regulations have the potential to affect our operations, increase our costs, decrease our revenue, or change the way we design or manufacture our products. We face increasing complexity in our product design as we adjust to requirements relating to the materials composition of our products. For some products, substituting particular components containing regulated hazardous substances is more difficult or costly, and additional redesign efforts could result in production delays. We could incur costs, fines, and civil or criminal sanctions, third party property damage or personal injury claims, or could be required to incur substantial investigation or remediation costs, if we were to violate or become liable under environmental laws.

Conflict Minerals. The SEC has adopted rules regarding disclosure of the use of conflict minerals (commonly referred to as tantalum, tin, tungsten, and gold), which are sourced from the Democratic Republic of the Congo and surrounding countries. This requirement could affect the sourcing, availability and pricing of materials used in our products as well as the companies we use to manufacture our products. In circumstances where sources of conflict minerals from the Democratic Republic of the Congo or surrounding countries are not validated as conflict free, Dolby may take actions to change materials, designs or manufacturers to reduce the possibility that Dolby's contracts to manufacture products that contain conflict minerals finance or benefit local armed groups in the region. The implementation of these rules could adversely affect the sourcing, supply and pricing of materials used in our products. As there may be only a limited number of suppliers that can certify to us that they are offering “conflict free” conflict minerals, we cannot be sure that we will be able to obtain necessary conflict minerals from such suppliers in sufficient quantities or at competitive prices. These actions could also add engineering and other costs in connection with the manufacturing of our products.

We may not be able to sufficiently verify the origins for the minerals used in our products. Our reputation may suffer if we determine that our products contain conflict minerals that are not determined to be conflict free or if we are

unable to sufficiently verify the origins for all conflict minerals used in our products. In addition, some customers may require that all of our products are certified to be conflict free and if we cannot satisfy these customers, they may choose a competitor's products.

Tax Rates and Liabilities. Changes in the valuation of our deferred tax assets and liabilities, the geographic mix of our revenue, or changes in tax laws or their interpretation could affect our future effective tax rates. We file income tax returns in the U.S. and in several U.S. state and foreign jurisdictions, and must use judgment in

Table of Contents

determining our worldwide provision for income taxes. For example, the following could affect our income taxes:

- Earnings being lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates;
- Changes in the valuation of our deferred tax assets and liabilities;
- Fluctuations in tax exempt interest income;
- Transfer pricing adjustments;
- Tax effects of nondeductible compensation;
- Tax costs related to intercompany realignments;
- Any obligations or decisions to repatriate earnings from abroad earlier than anticipated;
- Changes in accounting principles; or
- Changes in tax laws and regulations in the countries in which we operate, including U.S. legislative changes to the taxation of earnings of our foreign subsidiaries.

A number of international legislative and regulatory bodies have proposed draft legislation and begun investigations on the tax practices of multinational companies. One of these efforts has been led by the OECD, an international association of 34 countries including the United States, which has finalized recommendations to revise many corporate taxes, transfer pricing, and tax treaty provisions in member countries. In addition, the European Union and its European Commission has begun to review and opine on the appropriateness of agreements between various member countries and companies that might be in violation of European Union competition rules against unjustified state aid. While none of these bodies has identified Dolby as a potential target of its actions, it is possible that these efforts may in the future impact our income tax liabilities.

We are subject to the periodic examination of our income tax returns by tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes, but an adverse decision by tax authorities could significantly impact our financial results. Additionally, due to the evolving nature of tax rules combined with the large number of jurisdictions in which we operate, it is possible that our estimates of our tax liability and the realizability of our deferred tax assets could change in the future, which may result in additional tax liabilities.

STOCK-RELATED ISSUES

Controlling Stockholder. At July 1, 2016, the Dolby family and their affiliates owned 2,915,765 shares of our Class A common stock and 45,787,075 shares of our Class B common stock. As of July 1, 2016, the Dolby family and their affiliates had voting power of 99.8% of our outstanding Class B common stock, which combined with their shares of our Class A common stock, represented 89.7% of the combined voting power of our outstanding Class A and Class B common stock. Under our certificate of incorporation, holders of Class B common stock are entitled to ten votes per share while holders of Class A common stock are entitled to one vote per share. Generally, shares of Class B common stock automatically convert into shares of Class A common stock upon transfer of such Class B common stock, other than transfers to certain specified persons and entities, including the spouse and descendants of Ray Dolby and the spouses and domestic partners of such descendants.

Because of this dual class structure, the Dolby family and their affiliates will, for the foreseeable future, have significant influence over our management and affairs, and will be able to control virtually all matters requiring stockholder approval, including the election of directors and significant corporate transactions such as mergers or other sales of our company or assets, even if they come to own considerably less than 50% of the total number of outstanding shares of our Class A and Class B common stock.

Moreover, these persons may take actions in their own interests that our other stockholders do not view as beneficial. Absent a transfer of Class B common stock that would trigger an automatic conversion as described above, there is no threshold or time deadline at which the shares of Class B common stock will automatically convert into shares of Class A common stock.

Insider Sales of Common Stock. If our founder's family, officers, directors or employees sell, or indicate an intention to sell, substantial amounts of our Class A common stock in the public market, including shares of Class A common stock issuable upon conversion of shares of Class B common stock, the trading price of our Class A common stock could decline.

Stock Repurchase Program. Our stock repurchase program may reduce the public float of shares available for trading on a daily basis. Such purchases may be limited, suspended, or terminated at any time without prior notice.

Table of Contents

There can be no assurance that we will buy additional shares of our Class A common stock under our stock repurchase program or that any future repurchases will have a positive impact on our stock price or earnings per share. Important factors that could cause us to discontinue or decrease our share repurchases include, among others, unfavorable market conditions, the market price of our Class A common stock, the nature of other investment or strategic opportunities presented to us, the rate of dilution of our equity compensation programs, our ability to make appropriate, timely, and beneficial decisions as to when, how, and whether to purchase shares under the stock repurchase program, and the availability of funds necessary to continue purchasing stock. If we curtail our repurchase program, our stock price may be negatively affected.

Table of Contents

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Our Board of Directors announced a \$250.0 million stock repurchase program on November 3, 2009. The program, which has no expiration date, approved the repurchase of shares of our Class A common stock, \$0.001 par value per share. The authorized maximum was subsequently increased by \$300.0 million, \$250.0 million, \$100.0 million, and \$200.0 million as announced on July 27, 2010, August 4, 2011, February 8, 2012, and October 23, 2014, respectively. Stock repurchases under this program may be made through open market transactions, negotiated purchases, or otherwise, at times and in such amounts as we consider appropriate. The following table provides information regarding our share repurchases made under program during the third quarter of fiscal 2016:

Repurchase Activity	Total Shares Repurchased	Average Price Paid Per Share (1)	Total Shares Purchased As Part Of Publicly Announced Programs	Remaining Authorized Share Repurchases (2)
April 2, 2016 - April 29, 2016	—	\$—	—	\$75.9 million
April 30, 2016 - May 27, 2016	176,854	45.22	176,854	\$67.9 million
May 28, 2016 - July 1, 2016	—	—	—	\$67.9 million
Total	176,854		176,854	

(1) Average price paid per share excludes commission costs.

(2) Amounts represent the approximate dollar value of the maximum remaining number of shares that may yet be purchased under the stock repurchase program, and excludes commission costs.

Table of Contents

ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporated By Reference Herein			Provided Herewith
		Form	File Number	Date	
10.1*	Separation Agreement and Release dated as of July 12, 2016, by and between Michael Bergeron and Dolby Laboratories, Inc.				X
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act				X
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act				X
32.1+	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act				X
101.INS	XBRL Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	XBRL Extension Definition				X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				X

* Denotes a management contract or compensatory plan or arrangement.

+ Furnished herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 2, 2016

DOLBY LABORATORIES, INC.

By: /s/ LEWIS CHEW

Lewis Chew

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)