Dolby Laboratories, Inc.
Form 10-Q
January 30, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended December 26, 2014

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.)	
100 Potrero Avenue San Francisco, CA	94103-4813	(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 ý 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 ý 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 ý	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 ý

On January 23, 2015, the registrant had 51,511,456 shares of Class A common stock, par value $0.001 per share, and 51,081,217 shares of Class B common stock, par value $0.001 per share, outstanding.

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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)

	December 26, 2014 (unaudited)	September 26, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$409,115	$568,472
Restricted cash	2,040	2,142
Short-term investments	211,443	231,208
Accounts receivable, net of allowance for doubtful accounts of $1,203 and $1,615	117,240	86,168
Inventories	28,291	8,536
Deferred taxes	86,937	86,445
Prepaid expenses and other current assets	37,092	22,880
Total current assets	892,158	1,005,851
Long-term investments	318,448	296,335
Property, plant and equipment, net	330,249	289,755
Intangible assets, net	108,220	63,700
Goodwill	315,791	277,574
Deferred taxes	48,212	41,746
Other non-current assets	9,341	9,051
Total assets	$2,022,419	$1,984,012
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$9,973	$15,898
Accrued liabilities	159,360	158,376
Income taxes payable	1,754	2,600
Deferred revenue	21,236	12,496
Total current liabilities	192,323	189,370
Long-term deferred revenue	23,203	19,279
Other non-current liabilities	55,793	43,715
Total liabilities	271,319	252,364
Stockholders’ equity:		
Class A, $0.001 par value, one vote per share, 500,000,000 shares authorized: 51,482,817 shares issued and outstanding at December 26, 2014 and 50,658,627 at September 26, 2014	52	51
Class B, $0.001 par value, ten votes per share, 500,000,000 shares authorized: 51,081,624 shares issued and outstanding at December 26, 2014 and 51,610,239 at September 26, 2014	51	52
Additional paid-in capital	45,479	46,415
Retained earnings	1,691,614	1,660,485

Accumulated other comprehensive income	(2,188)	3,014
Total stockholders' equity – Dolby Laboratories, Inc.	1,735,008	1,710,017
Controlling interest	16,092	21,631
Total stockholders' equity	1,751,100	1,731,648
Total liabilities and stockholders' equity	$2,022,419	$1,984,012

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Fiscal Quarter Ended	
	December 26, 2014	December 27, 2013
Revenue:	(unaudited)	(unaudited)
Licensing	$216,598	$205,660
Products	13,263	18,104
Services	4,377	7,513
Total revenue	234,238	231,277
Cost of revenue:		
Cost of licensing	3,481	4,001
Cost of products	12,584	13,788
Cost of services	3,345	3,593
Total cost of revenue	19,410	21,382
Gross margin	214,828	209,895
Operating expenses:		
Research and development	48,594	44,463
Sales and marketing	68,018	60,379
General and administrative	44,716	41,908
Restructuring charges/(credits)	(39)	3,215
Total operating expenses	161,289	149,965
Operating income	53,539	59,930
Other income/expense:		
Interest income	900	654
Interest expense	(15)	(112)
Other income/(expense), net	(108)	229
Total other income/expense	777	771
Income before income taxes	54,316	60,701
Provision for income taxes	(12,379)	(15,455)
Net income including controlling interest	41,937	45,246
Less: net (income) attributable to controlling interest	(580)	(731)
Net income attributable to Dolby Laboratories, Inc.	$41,357	$44,515
Net Income Per Share:		
Basic	$0.40	$0.44
Diluted	$0.40	$0.43
Weighted-Average Shares Outstanding:		
Basic	102,303	101,750

Diluted	104,275	103,192
Related party rent expense:		
Included in operating expenses	$788	$346
Included in net income attributable to controlling interest	$1,153	$1,255
Cash dividend declared per common share	$0.10	$—

See accompanying notes to unaudited interim condensed consolidated financial statements

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DOLBY LABORATORIES, INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Fiscal Quarter Ended	
	December 26, 2014 (unaudited)	December 27, 2013 (unaudited)
Net income including controlling interest	$41,937	$45,246
Other comprehensive income:		
Foreign currency translation adjustments, net of tax	(5,553)	(390)
Unrealized gains/(losses) on available-for-sale securities, net of tax	(177)	105
Comprehensive income	36,207	44,961
Less: comprehensive (income) attributable to controlling interest	(52)	(875)
Comprehensive income attributable to Dolby Laboratories, Inc.	$36,155	$44,086

See accompanying notes to unaudited interim condensed consolidated financial statements

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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	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	—	—	41,357	—	41,357	580	41,937
Currency translation adjustments, net of tax of $528	—	—	—	(5,025)	(5,025)	(528)	(5,553)
Unrealized gains on investments, net of tax of $180	—	—	—	(177)	(177)	—	(177)
Distributions to controlling interest	—	—	—	—	—	(5,591)	(5,591)
Stock-based compensation expense	—	17,842	—	—	17,842	—	17,842
Repurchase of common stock	(1)	(16,952)	—	—	(16,953)	—	(16,953)
Cash dividends declared and paid on common stock	—	—	(10,228)	—	(10,228)	—	(10,228)
Tax benefit from employee stock plans	—	1,509	—	—	1,509	—	1,509
Common stock issued under employee stock plans	1	7,510	—	—	7,511	—	7,511
Tax withholdings on vesting of restricted stock	—	(10,846)	—	—	(10,846)	—	(10,846)
Exercise of Class B stock options	—	1	—	—	1	—	1
Balance at December 26, 2014	$ 103	$ 45,479	$ 1,691,614	$ (2,188)	$ 1,735,008	$ 16,092	$ 1,751,100

	Dolby Laboratories, Inc.						
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Dolby Laboratories, Inc.	Controlling Interest	Total
Balance at September 27, 2013	$ 102	$ 18,812	$ 1,454,382	$ 7,814	$ 1,481,110	$ 18,916	$ 1,500,026
Net income	—	—	44,515	—	44,515	731	45,246
Currency translation adjustments, net of tax of $(61)	—	—	—	(534)	(534)	144	(390)
Unrealized losses on investments, net of tax of $(58)	—	—	—	105	105	—	105
Stock-based compensation expense	—	15,054	—	—	15,054	—	15,054
Repurchase of common stock	—	(11,660)	—	—	(11,660)	—	(11,660)
Tax deficiency from employee stock plans	—	(11)	—	—	(11)	—	(11)
	1	8,088	—	—	8,089	—	8,089

Common stock issued under employee stock plans							
Tax withholdings on vesting of restricted stock	—	(6,727)	—	—	(6,727)	—	(6,727)
Exercise of Class B stock options	—	38	—	—	38	—	38
Balance at December 27, 2013	$103	$ 23,594	$1,498,897	$ 7,385	$ 1,529,979	$ 19,791	$1,549,770

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Fiscal Quarter Ended	
	December 26, 2014	December 27, 2013
Operating activities:	(unaudited)	(unaudited)
Net income including controlling interest	$41,937	$45,246
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,524	12,409
Stock-based compensation	17,842	15,054
Amortization of premium on investments	2,391	2,266
Excess tax benefit from exercise of stock options	(1,944)	(1,010)
Provision for doubtful accounts	(376)	374
Deferred income taxes	(6,310)	(1,322)
Other non-cash items affecting net income	653	105
Changes in operating assets and liabilities:		
Accounts receivable	(22,442)	21,148
Inventories	(2,997)	2,225
Prepaid expenses and other assets	(4,473)	(1,631)
Accounts payable and other liabilities	(46,801)	(16,696)
Income taxes, net	3,692	4,795
Deferred revenue	4,452	(5,897)
Other non-current liabilities	1,297	216
Net cash provided by operating activities	3,445	77,282
Investing activities:		
Purchase of investments	(110,508)	(102,717)
Proceeds from sales of investment securities	63,454	27,426
Proceeds from maturities of investment securities	42,700	46,739
Purchases of property, plant and equipment	(21,661)	(8,967)
Payments for business acquisitions, net of cash acquired	(93,516)	—
Purchase of intangible assets	(6,416)	—
Proceeds from sale of property, plant and equipment and assets held for sale	3	42
Change in restricted cash	102	(174)
Net cash used in investing activities	(125,842)	(37,651)
Financing activities:		
Proceeds from issuance of common stock	7,512	8,127
Repurchase of common stock	(16,953)	(11,660)
Payment of cash dividend	(10,228)	—
Distribution to controlling interest	(5,591)	—
Excess tax benefit from the exercise of stock options	1,944	1,010
Shares repurchased for tax withholdings on vesting of restricted stock	(10,846)	(6,727)
Net cash used in financing activities	(34,162)	(9,250)
Effect of foreign exchange rate changes on cash and cash equivalents	(2,798)	(138)

Net increase/(decrease) in cash and cash equivalents	(159,357)	30,243
Cash and cash equivalents at beginning of period	568,472	454,397
Cash and cash equivalents at end of period	$409,115	$484,640
Supplemental disclosure:		
Cash paid for income taxes, net of refunds received	$13,739	$11,593
Cash paid for interest	$3	$1
Non-cash investing and financing activities:		
Capital expenditures incurred, not yet paid	$33,260	$8,770
Receivable for working capital adjustment from acquisition	$4,220	$—
Purchase consideration payable for acquisition	$740	$—

See accompanying notes to unaudited interim condensed consolidated financial statements

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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 accounting principles generally accepted in the United States (“GAAP”), and with Securities and Exchange Commission (“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 26, 2014 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 26, 2014, which are included in our Annual Report on Form 10-K filed with the SEC.

The results for the fiscal quarter ended December 26, 2014 are not necessarily indicative of the results to be expected for any subsequent quarterly or annual financial period, including the fiscal year ending September 25, 2015.

Principles of Consolidation

The unaudited interim condensed consolidated financial statements include the accounts of Dolby Laboratories 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 chief operating decision-maker ("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 multiple-element 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 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 week periods ended December 26, 2014 and December 27, 2013. Our fiscal year ending September 25, 2015 (fiscal 2015) and our fiscal year ended September 26, 2014 (fiscal 2014) both consist of 52 weeks.

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2. Summary of Significant Accounting Policies

We continually assess any Accounting Standards Updates ("ASUs") or other new accounting pronouncements issued by the Financial Accounting Standards Board ("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

All recently pronounced accounting standards applicable to, and adopted by Dolby have been previously disclosed as part of a quarterly or annual filing from prior periods. Accounting pronouncements that were adopted and disclosed in prior periods have not had a significant impact on our unaudited interim condensed consolidated financial statements or notes thereto, and have not resulted in a change to our significant accounting policies. Furthermore, 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 26, 2014.

Standards Not Yet Effective

Revenue Recognition. On May 28, 2014, the FASB issued ASU No. 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 most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for us on October 1, 2017 and early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that this standard will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method or determined the effect of the standard on our ongoing financial reporting.

3. Composition of Certain Financial Statement Captions

The following tables present detailed information from our consolidated balance sheets as of December 26, 2014 and September 26, 2014 (amounts displayed in thousands, except as otherwise noted).

Accounts Receivable

Accounts Receivable, Net	December 26, 2014	September 26, 2014
Trade accounts receivable	$109,825	$78,189
Accounts receivable from patent administration program partners	8,618	9,594
Accounts Receivable, Gross	118,443	87,783
Less: allowance for doubtful accounts	(1,203)	(1,615)
Total	$117,240	$86,168

Inventories

Inventories	December 26, 2014	September 26, 2014
Raw materials	$9,960	$1,013
Work in process	5,087	47
Finished goods	13,244	7,476
Total	$28,291	$8,536

Inventories are stated at the lower of cost (first-in, first-out) or market. Inventory with a consumption period expected to exceed twelve months is recorded within other non-current assets in our consolidated balance sheets. We have included $1.8 million and $1.7 million of raw materials inventory within other non-current assets in our consolidated balance sheets as of December 26, 2014 and September 26, 2014, respectively. Based on anticipated inventory consumption rates, and aside from existing write-downs due to excess inventory, we do not believe that material risk of obsolescence exists prior to ultimate sale.

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Prepaid Expenses And Other Current Assets

Prepaid Expenses And Other Current Assets	December 26, 2014	September 26, 2014
Prepaid expenses	$13,774	$11,665
Other current assets	13,367	7,152
Income tax receivable	9,951	4,063
Total	$37,092	$22,880

Other current assets as of December 26, 2014 include the $0.9 million carrying value of a parcel of land that we intend to sell within the next twelve months. As of September 26, 2014, the carrying value of this parcel of land was $1.0 million.

Accrued Liabilities

Accrued Liabilities	December 26, 2014	September 26, 2014
Accrued royalties	$2,568	$2,526
Amounts payable to patent administration program partners	41,998	43,438
Accrued compensation and benefits	45,483	71,677
Accrued professional fees	4,439	6,162
Other accrued liabilities	64,872	34,573
Total	$159,360	$158,376

Other accrued liabilities include the accrual for unpaid property, plant and equipment additions of $33.3 million and $8.7 million as of December 26, 2014 and September 26, 2014, respectively.

Other Non-Current Liabilities

Other Non-Current Liabilities	December 26, 2014	September 26, 2014
Supplemental retirement plan obligations	$2,372	$2,409
Non-current tax liabilities	39,690	30,715
Other liabilities	13,731	10,591
Total	$55,793	$43,715

4. Investments & Fair Value Measurements

Investment Strategy. Under our investment management strategy, we use cash holdings to purchase investment grade securities that are diversified among security types, industries and issuers. Each of the investments within our investment portfolio is measured at fair value, and is recorded within cash equivalents, short-term investments, and long-term investments in our consolidated balance sheets.

With the exception of our mutual fund investments held in our supplemental retirement plan which are classified as trading securities, all of our investments are classified as available-for-sale securities. Our investments primarily consist of municipal debt securities, corporate and government bonds (domestic and international), United States agency securities and commercial paper. In addition to the security types noted above, our cash and cash equivalents also consist of highly-liquid money market funds. Consistent with our investment policy, none of the municipal debt investments that we hold are supported by letters of credit or standby purchase agreements.

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Our cash and investment portfolio, which is recorded as cash equivalents and both short and long-term investments, consists of the following (in thousands):

	December 26, 2014						
	Cost	Unrealized		Total	Estimated Fair Value		
		Gains	Losses		Level 1	Level 2	Level 3
Cash and cash equivalents:							
Cash	$406,849			$406,849			
Cash equivalents:							
Money market funds	2,266	—	—	2,266	2,266		
Cash and cash equivalents	409,115	—	—	409,115	2,266	—	—
Short-term investments:							
Government bonds	3,509	4	—	3,513	3,513		
Commercial paper	8,996	1	(1)	8,996		8,996	
Corporate bonds	88,447	57	(56)	88,448		88,448	
Municipal debt securities	110,310	176	—	110,486		110,486	
Short-term investments	211,262	238	(57)	211,443	3,513	207,930	—
Long-term investments:							
U.S. agency securities	4,999	—	(1)	4,998	4,998		
Government bonds	13,733	—	(40)	13,693	13,693		
Corporate bonds	140,883	95	(263)	140,715		140,715	
Municipal debt securities	157,419	217	(144)	157,492		157,492	
Other long-term investments (2)	500	1,050	—	1,550	1,050		
Long-term investments	317,534	1,362	(448)	318,448	19,741	298,207	—
Total cash, cash equivalents, and investments (1)	$937,911	$1,600	$(505)	$939,006	$25,520	$506,137	$—
Investments held in supplemental retirement plan:							
Assets	2,554	—	—	2,554	2,554		
Included in prepaid expenses and other current assets & other non-current assets							
Liabilities	2,554	—	—	2,554	2,554		
Included in accrued liabilities & other non-current liabilities							
Contingent consideration related to acquisition:							
Liabilities	740	—	—	740			740
Included in accrued liabilities							

(1) Total cash, cash equivalents, and investments exclude $2.0 million of restricted cash as of December 26, 2014.

(2) Other long-term investments as of December 26, 2014 include a cost method investment of $0.5 million that was made during fiscal 2014 in addition to a $1.1 million fair value write-up adjustment made during the first quarter of fiscal 2015 for a marketable equity security.

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	September 26, 2014						
	Cost	Unrealized		Total	Estimated Fair Value		
		Gains	Losses		Level 1	Level 2	Level 3
Cash and cash equivalents:							
Cash	$564,745			$564,745			
Cash equivalents:							
Money market funds	1,727	—	—	1,727	1,727		
Commercial paper	2,000	—	—	2,000		2,000	
Cash and cash equivalents	568,472	—	—	568,472	1,727	2,000	—
Short-term investments:							
U.S. agency securities	35,443	5	(3)	35,445	35,445		
Commercial paper	21,788	—	—	21,788		21,788	
Corporate bonds	56,106	81	(10)	56,177		56,177	
Municipal debt securities	117,606	197	(5)	117,798		117,798	
Short-term investments	230,943	283	(18)	231,208	35,445	195,763	—
Long-term investments:							
U.S. agency securities	31,980	19	(6)	31,993	31,993		
Corporate bonds	117,063	226	(80)	117,209		117,209	
Municipal debt securities	146,337	326	(30)	146,633		146,633	
Other long-term investments (2)	500	—	—	500			
Long-term investments	295,880	571	(116)	296,335	31,993	263,842	—
Total cash, cash equivalents, and investments (1)	$1,095,295	$854	$(134)	$1,096,015	$69,165	$461,605	$—
Investments held in supplemental retirement plan:							
Assets	2,507	—	—	2,507	2,507		
Included in prepaid expenses and other current assets & other non-current assets							
Liabilities	2,507	—	—	2,507	2,507		
Included in accrued liabilities & other non-current liabilities							

(1) Total cash, cash equivalents, and investments exclude $2.1 million of restricted cash as of September 26, 2014.

(2) Other long-term investments as of September 26, 2014 include a cost method investment of $0.5 million that was made during fiscal 2014.

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. We have not historically owned any Level 3 financial assets or liabilities, as was the case at September 26, 2014. As of December 26, 2014, the estimated fair value of our contingent consideration liability related to the Doremi acquisition was classified as a level 3 investment. For additional information on the contingent consideration liability, refer to Note 13 "Acquisitions" to our consolidated financial statements.

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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 as a 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 December 26, 2014 and September 26, 2014 (in thousands):

	December 26, 2014		September 26, 2014	
Investment Type	Fair Value	Gross Unrealized Losses (1)	Fair Value	Gross Unrealized Losses (1)
U.S. agency securities	$18,692	$(41)	$31,930	$(9)
Commercial paper	3,996	(1)	—	—
Corporate bonds	177,838	(319)	78,166	(90)
Municipal debt securities	76,981	(144)	55,979	(35)
Total	$277,507	$(505)	$166,075	$(134)

(1) Our available-for-sale securities in an unrealized loss position were in such position for less than twelve months as of both December 26, 2014 and September 26, 2014.

Although we had certain securities that were in an unrealized loss position as of December 26, 2014, 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 December 26, 2014 or September 26, 2014 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 December 26, 2014 and September 26, 2014, which are recorded within cash equivalents and both short and long-term investments in our consolidated balance sheets (in thousands):

	December 26, 2014		September 26, 2014	
Range of maturity	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within 1 year	$211,262	$211,443	$232,944	$233,208
Due in 1 to 2 years	176,989	177,073	179,177	179,536
Due in 2 to 3 years	140,023	139,803	116,204	116,299
Total	$528,274	$528,319	$528,325	$529,043

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5. Property, Plant & Equipment

Property, plant and equipment are recorded at cost, with depreciation expense included in cost of products, cost of services, research & development expenses, sales & marketing expenses and general & administrative expenses in our consolidated statements of operations. Property, plant and equipment consist of the following (in thousands):

Property, Plant And Equipment	December 26, 2014	September 26, 2014
Land	$49,697	$45,842
Buildings and building improvements	175,055	61,712
Leasehold improvements	56,251	56,665
Machinery and equipment	49,323	47,639
Computer systems and software	112,437	108,225
Furniture and fixtures	13,441	13,540
Construction-in-progress	54,453	127,569
Property, Plant And Equipment, Gross	510,657	461,192
Less: accumulated depreciation	(180,408)	(171,437)
Property, Plant And Equipment, Net	$330,249	$289,755

Purchase Of 1275 Market Commercial Office Building In San Francisco, CA. During fiscal 2012, we purchased commercial office property in San Francisco, California for approximately $109.8 million. Based on a fair value analysis, we allocated $35.5 million of the property's purchase price to the land and $74.3 million to the building. Following the purchase, we began a process of making substantial improvements to the building in order to prepare it for its intended use as our new worldwide headquarters. While we are still in the process of making these improvements, the first phase of construction was completed and we occupied a portion of the building during the first quarter of fiscal 2015. As of September 26, 2014, construction-in-progress included both the book value of the building and costs for ongoing construction while as of December 26, 2014, construction-in-progress included only costs for ongoing construction.

6. Goodwill & Intangible Assets

Goodwill

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

	Goodwill
Balance at September 26, 2014	$277,574
Acquired goodwill (preliminary) (1)	40,600
Translation adjustments	(2,383)
Balance at December 26, 2014	$315,791

(1) Total acquired goodwill recorded during the first quarter of fiscal 2015 consists of $39.9 million from the acquisition of Doremi Labs and $0.7 million related to an immaterial acquisition completed during the quarter.

Intangible Assets

Intangible assets subject to amortization consist of the following (in thousands):

	December 26, 2014			September 26, 2014		
Intangible Assets, Net	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Acquired patents and technology	$140,830	$(64,708)	$76,122	$99,262	$(61,678)	$37,584
Customer relationships	53,723	(23,894)	29,829	30,717	(22,739)	7,978
Other intangibles	23,470	(21,201)	2,269	38,694	(20,556)	18,138
Total	$218,023	$(109,803)	$108,220	$168,673	$(104,973)	$63,700

During the first quarter of fiscal 2015, we purchased various patents and developed technology for total cash consideration of approximately $6.4 million. These intangible assets have a weighted-average useful life of 18 years.

These acquisitions facilitate our research & development efforts, technologies and potential product offerings. Amortization expense for our intangible assets is included in cost of licensing, cost of products, research & development and sales & marketing expenses in our consolidated statements of operations. As of December 26,

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2014, expected amortization expense in future fiscal periods was as follows (in thousands):

Fiscal Year	Amortization Expense
Remainder Of 2015	$14,979
2016	17,253
2017	14,250
2018	8,870
2019	8,198
Thereafter	44,670
Total	$108,220

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 restricted stock units ("RSUs") under our equity incentive plans, as well as shares under our Employee Stock Purchase Plan (“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 December 26, 2014, we had authorized 500,000,000 Class A shares and 500,000,000 Class B shares. At December 26, 2014, we had 51,482,817 shares of Class A common stock and 51,081,624 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

2000 Stock Incentive Plan. Effective October 2000, we adopted the 2000 Stock Incentive Plan. The 2000 Stock Incentive Plan, as amended, provides for the issuance of incentive and non-qualified stock options to our employees, directors, and consultants to purchase up to 15.1 million shares of Class B common stock. Under the terms of this plan, options became exercisable as established by the Board of Directors (ratably over four years), and expire ten years after the date of the grant. Options issued under the plan were made at their grant-date fair market value. Subsequent to fiscal 2005, no further options were granted under this plan. The 2000 Stock Incentive Plan terminated on October 1, 2010 and no shares of our common stock remained available for future issuance under that plan other than pursuant to outstanding options. As of December 26, 2014, there were options outstanding to purchase 372 shares of Class B common stock, all of which were vested and exercisable, with a remaining weighted-average contractual life of 0.1 years.

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 incentive stock options ("ISOs"), nonstatutory stock options ("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 shares for every one share returned.

As of December 26, 2014, there were options outstanding to purchase 9.8 million shares of Class A common stock, of which 3.8 million were vested and exercisable. The options outstanding have a remaining weighted-average contractual life of 7.9 years.

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 and new shares of Class B common stock under the 2000 Stock Incentive Plan. Our 2005 Stock Plan also allows us to grant stock awards which vest based on the satisfaction of specific performance criteria.

The following table summarizes information about stock options issued under our 2000 Stock Incentive Plan and 2005 Stock Plan:

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (1) (in thousands)
Options outstanding at September 26, 2014	7,611	$ 32.96		
Grants	2,326	42.91		
Exercises	(122)	28.70		
Forfeitures and cancellations	(49)	33.57		
Options outstanding at December 26, 2014	9,766	35.30	7.9	$86,537
Options vested and expected to vest at December 26, 2014	9,519	35.28	7.9	85,285
Options exercisable at December 26, 2014	3,826	$ 30.96	6.2	51,138

(1) Aggregate intrinsic value is based on the closing price of our common stock on December 26, 2014 of $44.17 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 which vest based on the satisfaction of specific performance criteria, although no such awards have been granted as of December 26, 2014. 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 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 (in thousands)	Weighted-Average Grant Date Fair Value
Non-vested at September 26, 2014	2,903	$35.79
Granted	1,047	42.89
Vested	(686)	35.80
Forfeitures	(36)	33.59
Non-vested at December 26, 2014	3,228	$38.12

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 closing price of our common stock on the New York Stock Exchange on the last day of the purchase period and for overlapping one-year offering periods. The plan also includes an automatic reset feature that provides for an offering period to be reset and recommenced to a new lower-priced offering if the offering price of a new offering period is less than that of the immediately preceding offering period.

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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 volatility of our stock price over this 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 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 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 since our initial public offering. Implied volatility is based upon externally traded option contracts of our common stock.

Dividend Yield. The dividend yield is based on our anticipated quarterly dividend payout over the expected term of our option awards.

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

	Fiscal Quarter Ended	
	December 26, 2014	December 27, 2013
Expected term (in years)	4.58	4.57
Risk-free interest rate	1.5%	1.4%
Expected stock price volatility	29.7%	31.9%
Dividend yield	0.9%	—%

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):

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Compensation Expense - By Award Type

	Fiscal Quarter Ended	
	December 26, 2014	December 27, 2013
Compensation Expense - By Type		
Stock options	$6,283	$3,870
Restricted stock units	10,215	10,257
Employee stock purchase plan	1,344	927
Total stock-based compensation	17,842	15,054
Benefit from income taxes	(5,151)	(4,396)
Total stock-based compensation, net of tax	$12,691	$10,658

Compensation Expense - By Income Statement Line Item Classification

	Fiscal Quarter Ended	
	December 26, 2014	December 27, 2013
Compensation Expense - By Classification		
Cost of products	$246	$190
Cost of services	122	87
Research and development	5,274	4,307
Sales and marketing	5,909	5,025
General and administrative	6,291	5,445
Total stock-based compensation	17,842	15,054
Benefit from income taxes	(5,151)	(4,396)
Total stock-based compensation, net of tax	$12,691	$10,658

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	
	December 26, 2014	December 27, 2013
Tax benefit - stock option exercises & shares issued under ESPP	$168	$175

Unrecognized Compensation Expense. At December 26, 2014, total unrecorded compensation expense associated with employee stock options expected to vest was approximately $39.8 million, which is expected to be recognized over a weighted-average period of 2.4 years. At December 26, 2014, total unrecorded compensation expense associated with RSUs expected to vest was approximately $103.1 million, which is expected to be recognized over a weighted-average period of 3.1 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 December 26, 2014 (in thousands):

Authorization Period	Authorization Amount
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

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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 December 26, 2014, the remaining authorization to purchase additional shares is approximately $243.1 million.

The following table provides information regarding share repurchase activity under the program during fiscal 2015:

Quarterly Repurchase Activity	Shares Repurchased	Cost (1)	Average Price Paid Per Share (2)
		(in thousands)	
Q1 - Quarter ended December 26, 2014	389,500	$16,953	$43.51

(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 its stockholders. The first dividend payment of $10.2 million pertaining to fiscal 2014 representing $0.10 per share of Class A and Class B Common Stock, was paid on November 20, 2014 to stockholders of record as of the close of business on November 3, 2014. We announced another $0.10 per share quarterly dividend payment on January 21, 2015, payable on February 10, 2015 to stockholders of record as of the close of business on February 2, 2015.

8. Accumulated Other Comprehensive Income

Other comprehensive income ("OCI") 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 ("AOCI"), 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.

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 December 26, 2014			Fiscal Quarter Ended December 27, 2013		
	Unrealized Gain/Loss - Investments	Currency Translation Adjustments	Total	Unrealized Gain/Loss - Investments	Currency Translation Adjustments	Total
Balance, Beginning Of Period	$505	$2,509	$3,014	$203	$ 7,611	$7,814
Other Comprehensive Income Before Reclassifications:						
Unrealized Gains/(Losses) - Investment Securities	(385)		(385)	235		235
Foreign Currency Translation (Losses) (1)		(5,553)	(5,553)		(473)	(473)
Income Tax Effect - Benefit/(Expense)	180	528	708	(84)	(61)	(145)
Net Of Tax	(205)	(5,025)	(5,230)	151	(534)	(383)

Amounts Reclassified From AOCI Into Earnings:						
Realized (Gains)/Losses - Investment Securities (1)	28		28	(72)		(72)
Income Tax Effect - Expense (2)	—		—	26		26
Net Of Tax	(177)	(5,025)	(5,202)	105	(534)	(429)
Balance, End Of Period	$328	$(2,516)	$(2,188)	$308	$ 7,077	$7,385

(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 earnings per share ("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. Potentially dilutive shares include the hypothetical number of shares issued under the assumed exercise of outstanding stock options, vesting of outstanding restricted stock units, and shares issued under our employee stock purchase plan.

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	
	December 26, 2014	December 27, 2013
Numerator:		
Net income attributable to Dolby Laboratories, Inc.	$41,357	$44,515
Denominator:		
Weighted-average shares outstanding—basic	102,303	101,750
Potential common shares from options to purchase common stock	992	328
Potential common shares from restricted stock units	980	1,114
Weighted-average shares outstanding—diluted	104,275	103,192
Net income per share attributable to Dolby Laboratories, Inc.:		
Basic	$0.40	$0.44
Diluted	$0.40	$0.43
Antidilutive awards excluded from calculation:		
Stock options	2,683	6,791
Restricted stock units	159	1,038

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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 December 26, 2014, the total amount of gross unrecognized tax benefits was $40.3 million, of which $29.9 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 related 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	
	December 26, 2014	December 27, 2013
Withholding Taxes	$12,200	$10,425

Effective Tax Rate

Each period, the combination of multiple 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 that may occur in, but are not necessarily consistent between periods.

Our effective tax rate decreased from 25% in the first quarter of fiscal 2014 to 23% in the first quarter of fiscal 2015, which reflects a discrete benefit from federal R&D tax credits that were retroactively reinstated for the 2014 calendar year only. The overall decrease in the rate was partially offset by the fact that our estimated fiscal 2015 tax provision included reduced benefits from U.S. manufacturing tax incentives as a higher proportion of overall earnings were attributable to foreign jurisdictions.

11. Restructuring

Fiscal 2014 Restructuring Plan. In October 2013, we implemented a plan to reorganize and consolidate certain activities and positions within our global business infrastructure. As a result, we recorded $3.3 million in restructuring costs during fiscal 2014, representing severance and other related benefits offered to approximately 50 employees that were affected as a result of this action. The table presented below summarizes the changes in our accrued liability under this restructuring plan during the fiscal quarter ended December 26, 2014 (in thousands) as the first quarter of fiscal 2015 marked the completion of activity under the Fiscal 2014 Restructuring Plan.

	Severance and associated costs
Balance at September 26, 2014	$146
Restructuring charges/(credits)	(39)
Cash payments	(10)
Non-cash and other adjustments	(97)
Balance at December 26, 2014	$—

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.

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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 December 26, 2014 (in thousands):

	Payments Due By Fiscal Period						
	Remainder Of Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Thereafter	Total
Naming rights	$3,716	$7,525	$7,619	$7,715	$7,811	$110,888	$145,274
Donation commitments	—	—	6,045	67	67	805	6,984
Operating leases	10,714	11,474	9,731	8,404	7,422	36,181	83,926
Purchase obligations	7,275	2,183	451	—	—	—	9,909
Total	$21,705	$21,182	$23,846	$16,186	$15,300	$147,874	$246,093

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 a non-cancelable obligation to donate 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 Academy's expected opening date in 2017.

Operating Leases. Operating lease payments represent our commitments for future minimum rent made under non-cancellable 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.

Indemnification Clauses. On a limited basis, our contractual agreements will contain a clause under which we have agreed 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. Acquisitions

Doremi Labs.

On October 31, 2014 ("acquisition date"), we completed our acquisition of all outstanding interests of Doremi Labs ("Doremi"), a privately held company. Doremi is a leading developer and manufacturer of digital cinema servers and the acquisition is expected to accelerate the delivery and deployment of innovative solutions to exhibitors. Doremi's operating results from the acquisition date through December 26, 2014 are included in our consolidated financial statements for the first quarter of fiscal 2015, however these results did not have a material impact on our total consolidated revenues or net income for the period.

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We acquired Doremi for cash consideration of $92.5 million, adjusted for specified negotiated terms including excess working capital, 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. We estimated the fair value of contingent consideration by applying a discounted and probability-weighted approach to potential shipments of specified products during the four years following the acquisition date. As of December 26, 2014, we have recorded $0.7 million as a contingent consideration liability that, along with cash paid to the sellers of $98.4 million in the first quarter of fiscal 2015, comprised the preliminary purchase price of $99.1 million.

We have accounted for the transaction under the acquisition method of accounting for business combinations. Additionally, we have estimated the fair values of the net tangible and intangible assets acquired, and liabilities assumed as of the acquisition date, with any amounts paid in excess of the net assets recorded as goodwill. The purchase price allocation is preliminary, and subject to further change during the measurement period until the working capital adjustment is finalized.

The following table summarizes the acquisition date fair values allocated to the net assets acquired, including cash of $8.4 million and liabilities assumed. Included in current assets is a separately recognized receivable of $4.2 million related to the preliminary estimated working capital adjustment to the purchase price as of December 26, 2014 (in thousands):

Recognized Identifiable Assets Acquired and Liabilities Assumed	Purchase Price Allocation (Preliminary)
Current assets	$21,088
Inventories	16,485
Intangible assets	41,000
Goodwill	39,884
Current liabilities	(10,898)
Non-current liabilities	(8,417)
Purchase consideration	$99,142

Goodwill is representative of our expectation of the benefits and synergies from the integration of Doremi technology with our existing technology and the assembled workforce of the Doremi, which does not qualify for separate recognition as an intangible asset.

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:

Intangible Assets Acquired	Purchase Price Allocation	Weighted-Average Useful Life (Years)	Income Statement Classification: Amortization Expense
Customer relationships	$22,400	10	Sales & Marketing
Developed technology	16,200	7.5	Cost of Sales
Trade name	1,300	1	Sales & Marketing
Backlog	1,100	1	Cost of Sales
Total	$41,000		

The fair values of the intangible assets at the acquisition date were measured primarily based on significant inputs that are not observable in the market and thus represent a Level 3 measurement as defined in ASC 820. The value of acquired intangibles was determined based on the present value of estimated future cash flows using the following valuation techniques and inputs:

- Customer relationships and backlog - Primarily the excess earnings method using inputs such as probability-weighted revenue attributable to existing customer relationships, customer attrition, estimated expenses, effective income tax rate, and discount rate.
- Developed technology and Trade name - Primarily the relief-from-royalty method using inputs such as estimated revenues attributable to the digital cinema server technology, estimated net royalty rate, maintenance R&D expenses, effective income tax rate, and discount rate.

Acquisition-related costs of $0.4 million and $0.8 million were incurred during the first quarter of fiscal 2015 and first quarter of fiscal 2014, respectively, and were included in general and administrative expenses in the consolidated statements of operations. Total acquisition-related costs of $5.9 million were incurred during fiscal 2014.

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14. Legal Matters

In December 2013, the Korean Fair Trade Commission (“KFTC”) initiated a review of the Company under Korean competition law. In March 2014, the National Development and Reform Commission of China (“NDRC”) initiated a review under the Chinese competition laws. The KFTC and NDRC have requested information relating to our business practices in Korea and China, respectively. We are cooperating with the KFTC and NDRC as they conduct their reviews.

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; 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 amount is either immaterial, or it is not possible to provide an estimated amount of any such potential loss.

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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; and future competition. Use of words such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," "continue" or similar expressions indicates a forward-looking statement. 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 multichannel sound for cinema, digital television transmissions and devices, and DVD and Blu-ray discs and devices. More recently, our technologies have played a prominent role in the development of the next generation of audio technologies for the cinema, home entertainment, mobile and gaming experiences. 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, and are focused on further developing our technologies for new applications, most recently for enhancing voice conferencing communications and imaging.

On October 31, 2014, we completed our acquisition of Doremi Labs, a privately held company. Doremi is a leading developer and manufacturer of digital cinema servers and the acquisition is expected to accelerate the delivery and deployment of innovative solutions to exhibitors. Doremi's operating results from the acquisition date through December 26, 2014 are included in our consolidated financial statements for the first quarter of fiscal 2015, however these results did not have a material impact on our total consolidated revenues or net income for the period. Refer to Note 13 "Acquisitions" to our unaudited interim condensed consolidated financial statements contained under Item 1 of Part I of this Form 10-Q for additional information regarding the acquisition.

Revenue Generation

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

Revenue	Fiscal Quarter Ended December 26, 2014	Fiscal Quarter Ended December 27, 2013
Licensing	92%	89%
Products	6%	8%
Services	2%	3%
Total	100%	100%

We license our technologies in over 40 countries, and our licensees distribute products that incorporate our technologies throughout the world. We sell our products and services in over 80 countries. 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.

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Revenue By Geographic Location	Fiscal Quarter Ended December 26, 2014	December 27, 2013
United States	26%	25%
International	74%	75%

Licensing

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

Market	Fiscal Quarter Ended December 26, 2014	December 27, 2013	Main Products Incorporating Our Technologies
Broadcast	41%	36%	Televisions & STBs
PC	16%	21%	Windows operating systems & DVD software players
Consumer Electronics	15%	19%	DVD and Blu-ray Disc devices, AVRs, & HTIBs
Mobile	16%	15%	Smartphones, tablets & other mobile devices
Other	12%	9%	Video game consoles, automobile entertainment & audio conferencing
Total	100%	100%	

We have three primary licensing models: a two-tier model, an integrated licensing model, and a patent licensing model.

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 a semiconductor manufacturer. The manufacturer then incorporates our technologies in integrated circuits (“ICs”). Licensed semiconductor manufacturers, whom we refer to as “implementation licensees,” sell their ICs to original equipment manufacturers (“OEMs”) of consumer entertainment products, which we refer to as “system licensees.” System licensees separately obtain licenses from us that allow them to make and sell finished end-user products that incorporate our technologies in ICs purchased from our implementation licensees.

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 will send us a sample chipset for quality control evaluation and after we validate the design, the licensee is permitted to sell the chipset for use solely by our system licensees.

System licensees are required to provide us with prototypes of products that incorporate our technologies for which they are licensed for quality control evaluation, or under certain circumstances, with self-test results for our review. If the prototype or test results are approved, the licensee is permitted to buy ICs from any Dolby implementation licensee with a license for the same Dolby technology, and to 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 independent software vendors ("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. 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. 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 secure patent licenses for audio coding, interactive television, digital radio and wireless technologies.

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Settlements & Back Payments From Licensees. Due to ongoing collection efforts, licensing revenue recognized in any given quarter may include back payments and/or settlements with licensees. Such collections have become a recurring part of our business which we cannot predict with certainty.

We have active licensing arrangements with over 570 electronics product OEMs and software developer licensees, with corporate headquarters located in over 40 countries.

As of December 26, 2014, we had approximately 4,500 issued patents relating to technologies from which we derive a significant portion of our licensing revenue. We have approximately 930 trademark registrations throughout 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.

Products

We design and manufacture audio and imaging products for the film production, 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 design, manufacture and market products for the voice conferencing industry.

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

	Fiscal Quarter Ended	
Market	December 26, 2014	December 27, 2013
Cinema	87%	86%
Broadcast	10%	10%
Other	3%	4%
Total	100%	100%

Services

We offer a broad array of services to support theatrical and television production for cinema exhibition, broadcast, and home entertainment. The nature of these support services include current and next generation formats for Digital Cinema, Mastering and Distribution services. Our engineers assist in the integration and support of our technologies and products to create and reproduce both audio and imaging content. The specific areas in which their assistance is provided can involve equipment calibration, mixing room alignment, equalization, as well as color and light image calibration. Our engineers also provide equipment training, system and venue design consultation, as well as on-site technical expertise to cinema operators, film festivals, movie premieres, and trade shows throughout the world. These support services include movie premieres and special events at the Dolby Theatre® in Hollywood, California. We maintain a global presence in key creative markets and offer state of the art screening room facilities with Dolby Atmos, Dolby 3D, and high quality image projection for rent.

OPPORTUNITIES, CHALLENGES, AND RISKS

We are focused on several key objectives including:

Developing New Growth Drivers

We continue to invest significant resources to develop technologies and successfully bring solutions to market.

Dolby Voice

With outstanding fidelity, spatial perception, and background noise suppression, Dolby Voice is an audio conferencing solution that enables virtual meetings to sound and feel more like in-person meetings. Launched in the first quarter of fiscal 2014 in global partnership with BT, a leading provider of audio and imaging conferencing systems, deployment of Dolby Voice continues with numerous companies in trial with the solution, and others in the implementation process. We created a Dolby Voice mobile application to extend the in-person experience to mobile devices, and we recently announced the Dolby Voice conference phone which became available in the first quarter of fiscal 2015. With these additions, we further extend the overall quality of the experience we can offer through Dolby Voice. Ultimately, our success in this market will depend on our ability to differentiate this service on its technical

merits, and encourage customer adoption.

Dolby Vision

In the second quarter of fiscal 2014, we introduced our high dynamic range ("HDR") imaging technology, Dolby Vision, which offers more realistic distinctions in color, brighter highlights and improved shadow details. The technology focuses on the image quality each pixel represents and is not entirely dependent on the number of pixels. Recently, Warner Bros. Entertainment Inc. announced plans to release movie titles mastered in Dolby Vision. We are also participating in the Ultra High-Definition ("UHD") alliance aimed at establishing standards to support innovation in video technologies, including HDR.

Dolby Cinema

In the first quarter of fiscal 2015, we launched Dolby Cinema, a branded premium cinema offering for exhibitors and movie audiences that combines spectacular image and sound technologies with inspired design. Dolby Cinema locations are expected to be collaborative efforts with established cinema exhibitors that will be equipped with Dolby Vision and Dolby Atmos, some or all of which will be provided by us. The collaborations will include revenue-sharing arrangements with the exhibitors.

Increasing The Adoption Of Our Technologies

Many devices now designed for enhanced capture and playback present a challenge for content creators and device manufacturers seeking consistent audio and image quality, especially amid bandwidth constraints. We believe this challenge provides opportunities for us to provide solutions designed to optimize the audio and visual experience across the broadcast and mobile markets.

Broadcast Market

Broadcast services that operate under bandwidth constraints, such as terrestrial broadcast or Internet protocol television (“IPTV”) services, benefit from Dolby technologies. These technologies enable the delivery of high quality audio content at reduced bit rates, thereby conserving bandwidth. We derive significant revenue from licensing our technologies to OEMs of televisions and set-top boxes since a high percentage of global sales of TV and STBs are shipped with our technologies, especially in North America and Europe. As emerging markets convert to digital television, particularly in China and India, we are well positioned to benefit from this transition. Our growth in these markets is dependent, in part, upon continued adoption of our technologies. To this end, we continue to develop, maintain and strengthen relationships across the broad spectrum of entertainment industry participants, professional organizations, and global standards-setting bodies. To the extent that we are unable to succeed in these efforts, incorporation of our technologies into these products will be impacted and future revenues will be adversely affected.

Mobile Market

Our mobile market is largely driven by sales of smartphones, tablets and other mobile devices that use our technologies. Growth in this market is dependent on several factors, including the performance of the mobile device market as a whole, our success in collaborating with manufacturers of mobile devices to incorporate our technologies, and the development of various ecosystems, which includes the availability of content in Dolby formats. Currently, Dolby audio technologies are featured on various smartphones and tablets in the Android, Windows 8 and Amazon ecosystems. However, the rate of new product development in this sector continues to be rapid and can result in dramatic swings in consumer trends and design changes that may exclude our technologies. By working with existing and additional partners to further enhance the content, distribution and playback on all ecosystems, we hope to drive further growth across these markets.

Expanding The Dolby Atmos Ecosystem

Dolby Atmos, the immersive, object-based sound technology originally developed for the cinema environment, is now available for the living room. Using Dolby Atmos-enabled hardware to customize soundtracks over a speaker array, we can deliver full Dolby Atmos playback by using either Blu-ray Disc media or streaming content services. To this end, several manufacturers have announced Dolby Atmos-compatible AV receivers and pre-processors as well as speaker add-on modules, and a home theater-in-a-box offering. In addition, we have worked with major studios to release feature titles via streaming services and Blu-ray Disc, and will continue to work with content developers and distributors to expand entertainment selections using the Dolby Atmos format. This technology can also be extended

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to the mobile market, and the recent release of the Amazon Fire HDX 8.9 tablet marks the first mobile device to offer the Dolby Atmos sound experience. Expanding this ecosystem depends on several factors including market acceptance of Dolby Atmos for immersive audio entertainment in content creation, distribution and playback across various channels and devices.

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 2014 Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”).

RESULTS OF OPERATIONS

For each line item included on our consolidated statement of operations, the significant factors identified as the leading drivers contributing to the fluctuation are presented in descending order according to the magnitude of their impact on the overall change.

Revenue and Gross Margin

Licensing

Licensing revenue consists of fees earned from licensing our technologies to customers who incorporate them into their products 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			
Licensing	December 26, 2014	December 27, 2013	$	%
Revenue	$216,598	$205,660	$10,938	5%
Percentage Of Total Revenue	92%	89%		
Cost Of Licensing	3,481	4,001	(520)	(13)%
Gross Margin	213,117	201,659	11,458	6%
Gross Margin Percentage	98%	98%		

Q1'15 vs. Q1'14

Factor		Revenue		Gross Margin
Broadcast	á	Increase due to higher attach rates in STB and TV shipments that incorporate our technologies		
CE	â	Decrease in net back payments, and lower shipment volumes of Blu-ray, DVD, AVRs and other products that incorporate our technologies		
Other	á	Increase in revenues from our gaming market largely attributable to higher revenues from PlayStation 4 and Xbox One game consoles		
	á	Increase in revenues attributed to Dolby Voice arising from contractual payments earned relating to milestones achieved	ßà	No significant fluctuations
PC	â	Lower average selling prices from a product mix with fewer optical disc-based technologies as well as lower direct licensing and OEM revenues		
Mobile	á	Net increase in revenues due to timing from higher HEAAC royalty streams from a licensee as well as higher shipments of mobile products that incorporate our technologies		

Products

Products revenue is generated from the sale of audio and imaging products for the film production, cinema, and television broadcast industries. Cost of products consists primarily of the cost of materials related to products sold, applied labor and manufacturing overhead, and, to a lesser extent, amortization of certain intangible assets. Our cost of products also includes third party royalty obligations paid to license intellectual property that we include in our products.

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Products	Fiscal Quarter Ended December 26, 2014	December 27, 2013	$	%
Revenue	$13,263	$18,104	$(4,841)	(27)%
Percentage Of Total Revenue	6%	8%		
Cost Of Products	12,584	13,788	(1,204)	(9)%
Gross Margin	679	4,316	(3,637)	(84)%
Gross Margin Percentage	5%	24%		

Q1'15 vs. Q1'14

Factor		Revenue		Gross Margin
Digital Cinema - Audio	â	Lower shipments of digital cinema audio processors	ßà	No significant fluctuations
3D Cinema	â	Lower shipments of 3D glasses and 3D projector kits	â	Less favorable product mix and lower average selling prices on 3D projector kits
Digital Cinema - Video	ßà	Marginally lower since the decline in Dolby revenues was partially offset by inclusion of Doremi product sales for two months	â	Higher write-downs of excess and obsolete inventory and amortization on newly-acquired intangible assets (refer to footnote 13 for additional information)

Services

Services revenues consists of fees for consulting, commissioning and training services in support of film production and television broadcast, as well as maintenance and support for our products. Cost of services primarily consists of personnel and personnel-related costs for employees performing our professional services, the cost of outside consultants, and other direct expenses incurred on behalf of customers.

Services	Fiscal Quarter Ended December 26, 2014	December 27, 2013	$	%
Revenue	$4,377	$7,513	$(3,136)	(42)%
Percentage Of Total Revenue	2%	3%		
Cost Of Services	3,345	3,593	(248)	(7)%
Gross Margin	1,032	3,920	(2,888)	(74)%
Gross Margin Percentage	24%	52%		

Q1'15 vs. Q1'14

Factor		Revenue		Gross Margin
Configuration & Post-Production	â	Lower revenues from digital mastering services as the first quarter of fiscal 2014 included the recognition of previously deferred revenue of $1.8M	â	The first quarter of fiscal 2014 included the recognition of previously deferred revenue with no associated COGS while the current fiscal quarter included no such transaction
Other	á	Increase in revenue from support and maintenance services	á	Lower labor and other related costs

Operating Expenses

Research & Development

Research and 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			
	December 26, 2014	December 27, 2013	$	%
Research and Development	$48,594	$44,463	$4,131	9%
Percentage of total revenue	21%	19%		

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Q1'15 vs. Q1'14

Category		Key Drivers
Compensation & Benefits	á	Higher employee headcount including personnel from the acquisition of Doremi LLC (refer to footnote 13 for additional information), related expenses, merit increases and higher variable compensation costs
Professional & Consulting Fees	â	Lower one-time costs related primarily to the funding of various research projects and initiatives that were included in the prior year quarter and which did not recur in the current quarter
Stock-Based Compensation	á	Higher employee headcount
Depreciation & Amortization	á	Higher depreciation expense primarily from assets placed into service

Sales & Marketing

Sales and Marketing ("S&M") expenses consist primarily of employee compensation and benefits expenses, stock-based compensation, marketing and promotional expenses particularly for events such as trade shows and conferences, travel-related expenses for our sales and marketing personnel, consulting fees, facilities costs, depreciation and amortization, and information technology expenses.

	Fiscal Quarter Ended			
	December 26, 2014	December 27, 2013	$	%
Sales and Marketing	$68,018	$60,379	$7,639	13%
Percentage of total revenue	29%	26%		

Q1'15 vs. Q1'14

Category		Key Drivers
Compensation & Benefits	á	Merit increases across the existing employee base and higher variable compensation costs
Stock-Based Compensation	á	Higher employee headcount
Depreciation & Amortization	á	Higher depreciation expense primarily from amortization on newly-acquired intangible assets (refer to footnote 13 for additional information) recorded and from assets placed into service

General & Administrative

General and 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			
	December 26, 2014	December 27, 2013	$	%
General and Administrative	$44,716	$41,908	$2,808	7%
Percentage of total revenue	19%	18%		

Q1'15 vs. Q1'14

Category		Key Drivers
Depreciation & Amortization	á	Higher depreciation expense primarily from assets placed into service including the partial occupation of our new worldwide headquarters
Stock-Based Compensation	á	Higher employee headcount

Legal, Professional & Consulting Fees	á	Costs incurred in connection with our acquisition of Doremi Labs and an increase in costs associated with patent filings and other legal activities
Compensation & Benefits	á	Higher employee headcount, in addition to the impact of merit increases across the existing employee base and higher variable compensation costs

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Restructuring

	Fiscal Quarter Ended			
	December 26, 2014	December 27, 2013	$	%
Restructuring	$(39)	$3,215	$(3,254)	(101)%
Percentage of total revenue	—%	1%		

Restructuring charges recorded in the fiscal periods presented above represent amounts recorded in relation to separate restructuring plans implemented in each of these fiscal years. The extent of restructuring charges recorded and fluctuations in a given fiscal year as compared to other fiscal years are attributed to differences in the nature of activities under the various plans.

There were no material restructuring charges incurred during the first quarter of fiscal 2015 as the restructuring credit recorded in the current fiscal quarter pertains to the Fiscal 2014 Restructuring Plan. Restructuring charges incurred in relation to our Fiscal 2014 Restructuring Plan 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. For additional information on this restructuring plan, refer to Note 11 “Restructuring” to our unaudited interim condensed consolidated financial statements.

Other Income/Expense

Other income/(expense) primarily consists of interest income earned on cash, cash equivalents, 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			
Other Income/Expense	December 26, 2014	December 27, 2013	$	%
Interest Income	$900	$654	$246	38%
Interest Expense	(15)	(112)	97	(87)%
Other Income/(Expense), Net	(108)	229	(337)	(147)%
Total	$777	$771	$6	1%

Q1'15 vs. Q1'14

Category		Key Drivers
Other Expense	â	Higher losses attributes to foreign exchange rate fluctuations due to currency volatility
Interest Income	á	Increase in interest income earned due to higher overall investment balances and higher yields during the current fiscal quarter-to-date 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 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 unaudited interim condensed consolidated financial statements.

	Fiscal Quarter Ended	
	December 26, 2014	December 27, 2013
Provision for income taxes	$(12,379)	$(15,455)
Effective tax rate	23%	25%

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Q1'15 vs. Q1'14

Factor		Impact On Effective Tax Rate
Federal R&D Credits	â	Increase in discrete benefits from federal R&D credits that were retroactively reinstated for the 2014 calendar year
U.S. Manufacturing Tax Incentives	á	Decrease attributed to reduced benefits from U.S. manufacturing tax incentives as a higher proportion of overall earnings were attributable to foreign jurisdictions

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 December 26, 2014, we had cash and cash equivalents of $409.1 million, which consisted of cash and highly-liquid money market funds. In addition, we had short and long-term investments of $529.9 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 December 26, 2014, approximately $397 million, or 42%, was held by our foreign subsidiaries. This represented a $20 million decrease from the $417 million that was held by our foreign subsidiaries as of September 26, 2014. 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.

	December 26, 2014	September 26, 2014
	(in thousands)	
Cash and cash equivalents	$409,115	$568,472
Short-term investments	211,443	231,208
Long-term investments	318,448	296,335
Accounts receivable, net	117,240	86,168
Accounts payable and accrued liabilities	169,333	174,274
Working capital (1)	699,835	816,481

(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 research and development that contribute to the overall growth of our business and technological innovation. In fiscal 2012, we purchased an approximately 354,000 square foot property in San Francisco, California for $109.8 million, using existing cash. In the first quarter of fiscal 2015, the first phase of construction was completed and we occupied a portion of the building. We are still making substantial improvements to the building for its intended use as our new worldwide headquarters.

During the first quarter of fiscal 2015, we completed the acquisition of Doremi Labs for total purchase consideration of $98.4 million, net of cash acquired. For additional details, see Note 13 “Acquisitions” to our consolidated financial statements.

In October 2014, our Board of Directors initiated a recurring quarterly dividend program for its stockholders. The first dividend payment of $10.2 million pertaining to fiscal 2014 representing $0.10 per share of Class A and Class B Common Stock, was paid on November 20, 2014 to stockholders of record as of the close of business on November 3, 2014. We announced another $0.10 per share quarterly dividend payment on January 21, 2015, payable on February 10, 2015 to stockholders of record as of the close of business on February 2, 2015.

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 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 I, Item 1A "Risk Factors."

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Indemnification Clauses

We are party to certain contractual agreements under which we have agreed to provide indemnifications 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.

Cash Flows

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

Operating Activities

	Fiscal Quarter Ended	
	December 26, 2014	December 27, 2013
Net cash provided by operating activities	$3,445	$77,282

Net cash provided by operating activities decreased $73.8 million from the first quarter of fiscal 2014 as compared to the first quarter of fiscal 2015, primarily due to the following:

Factor		Impact On Cash Flows
Changes in operating assets and liabilities	â	Increase in accounts receivable primarily due to timing differences and a large decrease in accounts payable and accrual liabilities due to timing of payments during the quarter

Investing Activities

	Fiscal Quarter Ended	
	December 26, 2014	December 27, 2013
Net cash used in investing activities	$(125,842)	$(37,651)
Capital expenditures	(21,661)	(8,967)

Net cash used in investing activities was higher by $88.2 million in the first quarter of fiscal 2015 compared to the first quarter of fiscal 2014, primarily due to the following:

Factor		Impact On Cash Flows
Business Combination & Other Asset Acquisitions	â	Significant cash outflows during the first quarter of fiscal 2015 for and related to the acquisition of Doremi Labs which closed in the current quarter (see footnote 13) as well as payments made to acquire other intangible assets while the prior comparable period did not include any similar transactions
Proceeds from sales of investments	á	Higher cash inflows from sales of marketable securities in the first quarter of fiscal 2015 relative to the prior comparable period
Capital Expenditures	â	Higher cash outflows for PP&E primarily related to improvements being made to our new worldwide headquarters at 1275 Market Street

Financing Activities

	Fiscal Quarter Ended	
	December 26, 2014	December 27, 2013
Net cash used in financing activities	$(34,162)	$(9,250)
Repurchase of common stock	(16,953)	(11,660)

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Net cash used in financing activities was $24.9 million higher in the first quarter of fiscal 2015 as compared to the first quarter of fiscal 2014, primarily due to the following:

Factor	Impact On Cash Flows	
Dividend Payment	â	Payment of a $10.2M dividend to common stockholders in the first quarter of fiscal 2015
Partnership Distribution	â	Payment of a $5.6M distribution to our controlling interest for accumulated commercial property leasing fees in the first quarter of fiscal 2015 with no similar activity in the prior comparable period
Share Repurchases	â	Higher cash outflows from increased common stock repurchases during the first quarter of fiscal 2015 relative to the first quarter of fiscal 2014

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 26, 2014, 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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity

As of December 26, 2014, we had cash and cash equivalents of $409.1 million, which consisted of cash and highly liquid money market funds. In addition, we had both short and long-term investments of $529.9 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 December 26, 2014, the weighted-average credit quality of our investment portfolio was AA-, with a weighted-average maturity of approximately fifteen 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 December 26, 2014, hypothetical changes in interest rates of 1% and 0.5% would have an impact on the carrying value of our portfolio of approximately $6.1 million and $3.1 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
- 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 December 26, 2014 and

September 26, 2014, the outstanding derivative instruments had maturities of 31 days or less and the total notional amounts of outstanding contracts were $33.3 million and $22.9 million, respectively. The fair values of these contracts were nominal as of December 26, 2014 and September 26, 2014, and were included within prepaid expenses and other current assets and within accrued liabilities in our consolidated balance sheets. For

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additional 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 December 26, 2014. 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 a decrease in the fair value of our financial instruments by $0.5 million. Conversely, a 10% decrease in the value of the U.S. dollar would result in an increase in the fair value of these financial instruments by $0.5 million.

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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 Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("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 December 26, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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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 amount is either immaterial or it is not possible to provide an estimated amount of any such potential loss.

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 original equipment manufacturers (“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 personal computer ("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;
- 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 more recently, 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 Dolby Digital and Dolby Digital Plus 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 the current mobile market, we see some smartphone manufacturers are reducing feature sets in order to achieve profitability, even in high-end devices. In April 2014, we indicated that our Dolby Digital Plus technology was one of several third party features that Samsung elected not to include in their recently released Galaxy line of

smartphones and tablets, which will negatively impact our mobile market share and revenue in FY15.
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

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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. The completion of our acquisition of Doremi Labs could cause disruptions in our cinema business. For example, our cinema customers may delay, reduce or even cease making purchases of our cinema products from us until they determine whether the acquisition will affect our cinema products and services. 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, our successful integration of Doremi Labs, 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 Dolby Digital and Dolby Digital Plus technologies are not mandated as industry standards, the risk that a large licensee may reduce or eliminate its use of our technologies has increased. For example, in April 2014, we indicated that our Dolby Digital Plus technology was one of several third party features that Samsung elected not to include in their recently released Galaxy line of smartphones and tablets.

Reliance on Semiconductor Manufacturers. Our licensing revenue from system licensees depends in large part upon the availability of integrated circuits (“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.

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, set-top boxes, Blu-ray Disc players, video game consoles, audio/video receivers ("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 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.

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.

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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 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 two 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. As we enter into these new markets, we will 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.

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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 December 26, 2014, we had approximately 4,500 issued patents in addition to approximately 2,900 pending patent applications in more than 70 jurisdictions throughout the world. Our currently issued patents expire at various times through April 2039.
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 Dolby Digital 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 where Dolby Digital is widely used include DVD players (but not Blu-ray players), TVs, and set top boxes. We have transitioned a number of our Dolby Digital licensees, and continue to make progress in transitioning other Dolby Digital licensees, to Dolby Digital Plus technologies, an extension of our Dolby Digital technologies, whose patents generally expire later than the Dolby Digital patents. We derive the majority of our licensing revenue from Dolby Digital Plus. To be successful, we must continue to transition licensees to Dolby Digital Plus, and discourage licensees of Dolby Digital Plus to transition back to Dolby Digital 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 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 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 Dolby Digital 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.

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

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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.

Cybersecurity. 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 confidential information, including personal information, trade secrets and other intellectual property. While we have taken a number of steps to protect these systems, the number and sophistication of malicious attacks that companies have experienced from third parties has increased over the past few years. Attacks on our systems are sometimes successful, and, in some instances, we might be unaware of an incident or its magnitude and effects. 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. Disruptions to these systems, due to outages, breaches or other causes, can have severe consequences to our business, including financial loss and reputational damage.

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 audio experience produced by some of our competitors' technologies to be equivalent or superior to the audio experience 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 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. We believe that the success we have had licensing our 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

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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.

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 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 over-the-top ("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 acquisition 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
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The need to integrate acquired businesses' accounting, management information, manufacturing, human resources, and other administrative systems to permit effective management.

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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 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.

In Note 14 "Legal Matters," we describe reviews by government regulators in Korea and China pursuant to their competition laws. Certain foreign governments, particularly in China, have advanced arguments under their competition laws that exert downward pressure on royalties for intellectual property. Because these jurisdictions have only recently implemented competition laws, their enforcement activities are unpredictable. 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 Foreign Corrupt Practices Act ("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 Securities and Exchange Commission ("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 conflict minerals in our products are found to be sourced from the Democratic Republic of the Congo or surrounding countries, Dolby may take further 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 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;
- Expiration of or lapses in the research and development ("R&D") tax credit laws;
- 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 possible U.S. changes to the taxation of earnings of our foreign subsidiaries, the deductibility of expenses attributable to foreign income, or the foreign tax credit rules. For example, the Organization for Economic Co-operation and Development ("OECD"), an international association of 34 countries including the United States, is contemplating revisions to certain corporate tax, transfer pricing, and tax treaty provisions. If and when the OECD finalizes these revisions, they could be adopted by many countries. These contemplated revisions, if finalized and adopted by various countries, could increase our income taxes and adversely affect our provision for income taxes.

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 December 26, 2014, the Dolby family and their affiliates owned 1,338,495 shares of our Class A common stock and 50,951,075 shares of our Class B common stock. As of December 26, 2014, the Dolby family and their affiliates had voting power of approximately 99.7% of our outstanding Class B common stock, which in the aggregate represented approximately 90.8% 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

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for trading on a daily basis. Such purchases may be limited, suspended, or terminated at any time without prior notice. 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.

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

Sales of Unregistered Securities

During the fiscal quarter ended December 26, 2014, we issued an aggregate of 436 shares of our Class B common stock to certain employees, officers, and directors upon the exercise of options awarded under our 2000 Stock Incentive Plan, for which we received aggregate proceeds of approximately $0.1 million. We believe these transactions were exempt from the registration requirements of the Securities Act of 1933, as amended ("Securities Act") in reliance on Rule 701 thereunder as transactions pursuant to compensatory benefit plans and contracts relating to compensation as provided under Rule 701.

As of December 26, 2014, options to purchase an aggregate of 372 shares of our Class B common stock remain outstanding. All issuances of shares of our Class B common stock pursuant to the exercise of these options will be made in reliance on Rule 701. All option grants made under the 2000 Stock Incentive Plan were made prior to the effectiveness of our initial public offering, and no further option grants will be made under our 2000 Stock Incentive Plan. None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, or any public offering.

Each share of our Class B common stock is convertible into one share of our Class A common stock at any time at the option of the holder or upon the affirmative vote of the holders of a majority of the shares of Class B common stock. In addition, each share of Class B common stock shall convert automatically into one share of Class A common stock upon any transfer, except for certain transfers described in our amended and restated certificate of incorporation.

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 first quarter of fiscal 2015:

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)
September 27, 2014 - October 24, 2014	—	$—	—	$260.0 million
October 25, 2014 - November 21, 2014	209,000	42.86	209,000	$251.1 million
November 22, 2014 - December 26, 2014	180,500	44.27	180,500	$243.1 million
Total	389,500		389,500	

(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.

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ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporated By Reference Herein			Filed Herewith
		Form	File Number	Date	
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

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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: January 30, 2015

DOLBY LABORATORIES, INC.

By: /S/ LEWIS CHEW
Lewis Chew
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)