Dolby Laboratories, Inc.
Form 10-Q
May 03, 2017
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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 March 31, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From To
Commission File Number: 001-32431

DOLBY LABORATORIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	90-0199783	
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)	
1275 Market Street San Francisco, CA	94103-1410	(415) 558-0200
(Address of principal executive offices)	(Zip Code)	(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth 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 ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
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 April 28, 2017, the registrant had 57,958,551 shares of Class A common stock, par value $0.001 per share, and 44,073,597 shares of Class B common stock, par value $0.001 per share, outstanding.

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GLOSSARY OF TERMS

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

Abbreviation	Term
AAC	Advanced Audio Coding
AFS	Available-For-Sale (Securities)
AOCI	Accumulated Other Comprehensive Income
APIC	Additional-Paid In-Capital
ASC	Accounting Standards Codification
ASP	Average Selling Price
ASU	Accounting Standards Update
ATSC	Advanced Television Systems Committee
AVR	Audio/Video Receiver
CE	Consumer Electronics
CODM	Chief Operating Decision Maker
COGS	Cost Of Goods Sold
COSO	Committee Of Sponsoring Organizations (Of The Treadway Commission)
DD	Dolby Digital®
DD+	Dolby Digital Plus™
DMA	Digital Media Adapter
DTV	Digital Television
DVB	Digital Video Broadcasting
DVD	Digital Versatile Disc
EPS	Earnings Per Share
ESP	Estimated Selling Price
ESPP	Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
FCPA	Foreign Corrupt Practices Act
FIFO	First-in, First-out
G&A	General & Administrative
HDR	High-Dynamic Range
HDTV	High Definition Television
HE AAC	High Efficiency Advanced Audio Coding
HEVC	High Efficiency Video Coding
HFR	High Frame Rate
HTIB	Home Theater In-A-Box
IC	Integrated Circuit
IMB	Integrated Media Block
IP	Intellectual Property
IPO	Initial Public Offering
IPTV	Internet Protocol Television
IT	Information Technology
LCD	Liquid Crystal Display
LIFO	Last-in, Last-out
LP	Limited Partner/Partnership
ME	Multiple Element
NOL	Net Operating Loss
OCI	Other Comprehensive Income
ODD	Optical Disc Drive

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

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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)

	March 31, 2017 (unaudited)	September 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$532,508	$ 516,112
Restricted cash	5,752	3,645
Short-term investments	194,997	121,629
Accounts receivable, net of allowance for doubtful accounts of $3,258 and $2,370	88,216	75,688
Inventories	17,697	16,354
Prepaid expenses and other current assets	32,501	26,302
Total current assets	871,671	759,730
Long-term investments	326,800	393,904
Property, plant and equipment, net	471,095	443,656
Intangible assets, net	203,723	215,342
Goodwill	308,751	309,616
Deferred taxes	176,288	166,790
Other non-current assets	29,469	21,068
Total assets	$2,387,797	$ 2,310,106
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$10,062	$ 17,544
Accrued liabilities	179,029	169,055
Income taxes payable	25	2,304
Deferred revenue	23,940	24,180
Total current liabilities	213,056	213,083
Long-term deferred revenue	35,651	35,366
Other non-current liabilities	95,932	82,922
Total liabilities	344,639	331,371
Stockholders' equity:		
Class A, $0.001 par value, one vote per share, 500,000,000 shares authorized: 57,702,863 shares issued and outstanding at March 31, 2017 and 57,018,362 at September 30, 2016	57	57
Class B, $0.001 par value, ten votes per share, 500,000,000 shares authorized: 44,073,597 shares issued and outstanding at March 31, 2017 and 44,403,847 at September 30, 2016	44	44
Additional paid-in capital	37,459	42,032
Retained earnings	2,013,790	1,938,320
Accumulated other comprehensive (loss)	(14,708)	(10,197)
Total stockholders' equity – Dolby Laboratories, Inc.	2,036,642	1,970,256
Controlling interest	6,516	8,479

Total stockholders' equity	2,043,158	1,978,735
Total liabilities and stockholders' equity	$2,387,797	$2,310,106

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)
(unaudited)

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Revenue:				
Licensing	$241,617	$249,336	$474,316	$460,465
Products	20,713	20,063	48,924	44,872
Services	5,144	4,941	10,501	9,817
Total revenue	267,474	274,340	533,741	515,154
Cost of revenue:				
Cost of licensing	8,796	6,698	16,917	13,231
Cost of products	13,988	13,978	31,708	33,016
Cost of services	4,193	3,697	8,319	7,892
Total cost of revenue	26,977	24,373	56,944	54,139
Gross margin	240,497	249,967	476,797	461,015
Operating expenses:				
Research and development	58,341	52,088	115,859	105,416
Sales and marketing	75,620	71,815	146,795	146,269
General and administrative	43,253	42,482	84,793	86,560
Restructuring charges	—	1,255	—	1,255
Total operating expenses	177,214	167,640	347,447	339,500
Operating income	63,283	82,327	129,350	121,515
Other income/expense:				
Interest income	2,186	1,250	4,000	2,547
Interest expense	(37)	(33)	(63)	(62)
Other income/(expense), net	762	279	563	(693)
Total other income	2,911	1,496	4,500	1,792
Income before income taxes	66,194	83,823	133,850	123,307
Provision for income taxes	(15,467)	(16,278)	(29,549)	(24,751)
Net income including controlling interest	50,727	67,545	104,301	98,556
Less: net (income) attributable to controlling interest	(137)	(147)	(337)	(257)
Net income attributable to Dolby Laboratories, Inc.	$50,590	$67,398	$103,964	$98,299
Net income per share:				
Basic	$0.50	$0.67	$1.02	$0.98
Diluted	$0.49	$0.66	$1.00	$0.97
Weighted-average shares outstanding:				

Basic	101,787	100,456	101,635	100,600
Diluted	103,883	101,555	103,867	101,716
Related party rent expense:				
Included in operating expenses	$793	$756	$1,575	$1,537
Included in net income attributable to controlling interest	$175	$174	$350	$350
Cash dividend declared per common share	$0.14	$0.12	$0.28	$0.24
Cash dividend paid per common share	$0.14	$0.12	$0.28	$0.24

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)
(unaudited)

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Net income including controlling interest	$50,727	$67,545	$104,301	$98,556
Other comprehensive income:				
Currency translation adjustments, net of tax	4,445	2,872	(3,279)	2,122
Unrealized gains/(losses) on investments, net of tax	581	1,563	(1,438)	703
Comprehensive income	55,753	71,980	99,584	101,381
Less: comprehensive (income)/loss attributable to controlling interest	(192)	(1)	(131)	38
Comprehensive income attributable to Dolby Laboratories, Inc.	$55,561	$71,979	$99,453	$101,419

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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/(Loss)	Total Dolby Laboratories, Inc.	Controlling Interest	Total
Balance at September 30, 2016	$101	$42,032	$1,938,320	$ (10,197)	$1,970,256	$ 8,479	$1,978,735
Net income	—	—	103,964	—	103,964	337	104,301
Currency translation adjustments, net of tax of $666	—	—	—	(3,073)	(3,073)	(206)	(3,279)
Unrealized (losses) on investments, net of tax of $2	—	—	—	(1,438)	(1,438)	—	(1,438)
Distributions to controlling interest	—	—	—	—	—	(2,094)	(2,094)
Stock-based compensation expense	—	33,198	—	—	33,198	—	33,198
Repurchase of common stock	(1)	(49,999)	—	—	(50,000)	—	(50,000)
Cash dividends declared and paid on common stock	—	—	(28,494)	—	(28,494)	—	(28,494)
Tax benefit from employee stock plans	—	3,818	—	—	3,818	—	3,818
Common stock issued under employee stock plans	2	24,208	—	—	24,210	—	24,210
Tax withholdings on vesting of restricted stock	(1)	(15,798)	—	—	(15,799)	—	(15,799)
Balance at March 31, 2017	$101	$37,459	$2,013,790	$ (14,708)	$2,036,642	$ 6,516	$2,043,158

	Dolby Laboratories, Inc.						
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Dolby Laboratories, Inc.	Controlling Interest	Total
Balance at September 25, 2015	$102	$17,571	$1,800,857	$ (11,462)	$1,807,068	$ 8,939	$1,816,007
Net income	—	—	98,299	—	98,299	257	98,556
Currency translation adjustments, net of tax of $188	—	—	—	2,417	2,417	(295)	2,122
Unrealized gains on investments, net of tax of $(17)	—	—	—	703	703	—	703
Distributions to controlling interest	—	—	—	—	—	(214)	(214)
Stock-based compensation expense	—	35,466	—	—	35,466	—	35,466
Repurchase of common stock	(2)	(55,500)	(21,354)	—	(76,856)	—	(76,856)
Cash dividends declared and paid on common stock	—	—	(24,200)	—	(24,200)	—	(24,200)
Tax (deficiency) from employee stock plans	—	(1,369)	—	—	(1,369)	—	(1,369)
	—	14,575	—	—	14,575	—	14,575

Common stock issued under employee stock plans							
Tax withholdings on vesting of restricted stock	1	(10,743)	—	—	(10,742)	—	(10,742)
Balance at April 1, 2016	$101	$—	$1,853,602	$(8,342)	$1,845,361	$8,687	$1,854,048

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

	Fiscal Year-To-Date Ended	
	March 31, 2017	April 1, 2016
Operating activities:		
Net income including controlling interest	$104,301	$98,556
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	44,061	42,917
Stock-based compensation	33,198	35,466
Amortization of premium on investments	1,376	2,661
Excess tax benefit from exercise of stock options	(3,981)	(338)
Provision for doubtful accounts	1,010	1,228
Deferred income taxes	(8,856)	(5,709)
Other non-cash items affecting net income	160	498
Changes in operating assets and liabilities:		
Accounts receivable	(13,538)	(1,727)
Inventories	(3,253)	(3,533)
Prepaid expenses and other assets	(11,280)	(6,979)
Accounts payable and other liabilities	495	(5,939)
Income taxes, net	11,089	(8,752)
Deferred revenue	85	8,495
Other non-current liabilities	480	22
Net cash provided by operating activities	155,347	156,866
Investing activities:		
Purchase of investments	(98,789)	(200,944)
Proceeds from sales of investment securities	23,071	227,094
Proceeds from maturities of investment securities	66,171	59,053
Purchases of PP&E	(51,230)	(48,984)
Purchase of intangible assets	(5,250)	(105,270)
Change in restricted cash	(2,107)	(2,342)
Net cash used in investing activities	(68,134)	(71,393)
Financing activities:		
Proceeds from issuance of common stock	24,210	14,575
Repurchase of common stock	(50,000)	(76,856)
Payment of cash dividend	(28,494)	(24,200)
Distribution to controlling interest	(2,094)	(214)
Excess tax benefit from exercise of stock options	3,981	338
Shares repurchased for tax withholdings on vesting of restricted stock	(15,799)	(10,742)
Net cash used in financing activities	(68,196)	(97,099)
Effect of foreign exchange rate changes on cash and cash equivalents	(2,621)	902
Net increase/(decrease) in cash and cash equivalents	16,396	(10,724)

Cash and cash equivalents at beginning of period	516,112	531,926
Cash and cash equivalents at end of period	$532,508	$521,202
Supplemental disclosure:		
Cash paid for income taxes, net of refunds received	$28,093	$39,227
Non-cash investing and financing activities:		
Increase/(decrease) in PP&E purchases unpaid at period-end	$2,248	$(9,592)
Purchase consideration payable for acquisition	$—	$95

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 U.S. GAAP, and with SEC rules and regulations, which allow for certain information and footnote disclosures that are normally included in annual financial statements prepared in accordance with U.S. 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 30, 2016 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 30, 2016, which are included in our Annual Report on Form 10-K filed with the SEC.

The results for the fiscal quarter ended March 31, 2017 are not necessarily indicative of the results to be expected for any subsequent quarterly or annual financial period, including the fiscal year ending September 29, 2017.

Principles of Consolidation

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

Operating Segments

We operate as a single reportable segment. During the fiscal quarter ended December 30, 2016, we reorganized certain aspects of our internal business infrastructure primarily to integrate and align sales support more directly with our business units. Following the reorganization, we reassessed our business units and concluded that the composition of our reportable segments remains unchanged and that we continue to operate as a single reportable segment. This reflects the fact that our CODM, our Chief Executive Officer, continues to evaluate our financial information and resources, and continues to assess the performance of these resources, on a consolidated basis. All required financial segment information is therefore included in our unaudited interim condensed consolidated financial statements.

Use of Estimates

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

Fiscal Year

Our fiscal year is a 52 or 53 week period ending on the last Friday in September. The fiscal periods presented herein include the 13 week period ended March 31, 2017 and the 14 week period ended April 1, 2016. Our fiscal year ended September 30, 2016 (fiscal 2016) consisted of 53 weeks while our fiscal year ending September 29, 2017 (fiscal 2017) will consist of 52 weeks.

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2. Summary of Significant Accounting Policies

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

Recently Issued Accounting Standards

Adopted Standards

Consolidation. During the first quarter of fiscal 2017, we adopted ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis, which amended the consolidation requirements in ASC 810 and significantly changed the consolidation analysis required under U.S. GAAP. The ASU significantly amended how variable interests held by a reporting entity's related parties or de facto agents affect its consolidation conclusion. Adoption of this new standard did not result in any changes to the entities we currently consolidate and did not otherwise have any impact on our consolidated financial statements or notes thereto.

Inventory. During the second quarter of fiscal 2017, we adopted ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, which affected reporting entities that measure inventory using FIFO or average cost. Specifically, ASU 2015-11 requires that inventory be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. Adoption of this new standard did not result in any material changes to inventory and did not otherwise have any impact on our consolidated financial statements or notes thereto.

There have been no new accounting standards made effective or otherwise adopted during the current interim period that caused any changes to our significant accounting policies from those that were described in our Form 10-K for the prior fiscal year ended September 30, 2016.

Standards Not Yet Effective

Revenue Recognition. In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which outlines a comprehensive revenue recognition model and supersedes most current revenue recognition guidance. The new standard defines a five-step approach for recognizing revenue, which may require a company to use more judgment and make more estimates than under the current guidance. It requires an entity to, among others, recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers, recognize certain direct costs associated with revenues and contract acquisition costs such as sales commissions, and make expanded disclosures. We may adopt the new standard by either the full retrospective method whereby the standard is applied to all periods presented or the modified retrospective method whereby the cumulative effect of applying the new guidance is recognized as an adjustment to the opening retained earnings balance.

We are evaluating the impact on all of our revenue streams and currently believe the most significant changes upon adoption will be as follows:

- A change from recognizing our royalty-based revenue in the quarter it is reported to us by our licensees to estimating royalty-based revenue earned from our licensees' shipments in the reporting period with subsequent adjustments recorded as the royalties are reported.
- Capitalizing applicable sales commissions that are direct and incremental to obtaining a contract.
- A decrease in our deferred revenue balances.

We have not quantified the impact of the change in timing or the reduction in deferred revenue. We are currently evaluating our transition options. Although permitted, we do not intend to early-adopt the new standard, but we will adopt it beginning September 29, 2018.

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

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disclosures to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases. Consistent with current guidance, a lessee's recognition, measurement, and presentation of expenses and cash flows arising from a lease will continue to depend primarily on its classification. The ASU is effective for us beginning September 28, 2019, and must be applied using a modified retrospective approach. Early adoption is permitted, including adoption in an interim period. Upon adoption, we will recognize a lease liability and right-of-use asset for each of our long-term lease arrangements which currently exceed 40 as of the end of the second quarter of fiscal 2017. We currently intend to early adopt this new standard concurrently with the adoption of the new revenue recognition standard beginning September 29, 2018.

Share-Based Compensation. In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory withholding requirements, as well as classification in the statement of cash flows. We will adopt the new standard beginning September 30, 2017. We are currently evaluating the impact of the standard on our consolidated financial statements.

Going Concern. In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards as specified in the guidance. The ASU is effective for us beginning September 29, 2018. Early adoption is permitted, including adoption in an interim period. We do not anticipate that the new standard will impact our consolidated financial statements.

Cash Flow Classification. In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The new guidance addresses eight specific cash flow issues, with the objective of reducing an existing diversity in practices regarding the manner in which certain cash receipts and payments are presented and classified in the statement of cash flows. The ASU is effective for us beginning September 29, 2018. Early adoption is permitted, including adoption in an interim period, and we are currently evaluating the timing and impact of the standard on our consolidated financial statements.

Income Taxes: Intra-Entity Asset Transfers. In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The new guidance requires the recognition of the income tax consequences of an intercompany asset transfer, other than transfers of inventory, when the transfer occurs. For intercompany transfers of inventory, the income tax effects will continue to be deferred until the inventory has been sold to a third party. The ASU is effective for us beginning September 29, 2018. Early adoption is permitted, including adoption in an interim period, and we do not anticipate that the new standard will impact our consolidated financial statements.

Restricted Cash. In November 2016, the FASB issued ASU 2016-18, Restricted Cash — a consensus of the FASB Emerging Issues Task Force, which clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The new guidance requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The ASU is effective for us beginning September 29, 2018. Early adoption is permitted, including adoption in an interim period. Aside from conforming to new cash flow presentation and restricted cash disclosure requirements, we do not anticipate that the new standard will impact our consolidated financial statements.

3. Composition of Certain Financial Statement Captions

The following tables present detailed information from our consolidated balance sheets as of March 31, 2017 and September 30, 2016 (amounts displayed in thousands, except as otherwise noted).

Accounts Receivable

	March 31, 2017	September 30, 2016
Trade accounts receivable	$ 78,755	$ 66,229
Accounts receivable from patent administration program customers	12,719	11,829

Accounts receivable, gross	91,474	78,058
Less: allowance for doubtful accounts	(3,258)	(2,370)
Total	$ 88,216	$ 75,688

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Inventories

	March 31, 2017	September 30, 2016
Raw materials	$ 3,934	$ 3,526
Work in process	3,236	4,020
Finished goods	10,527	8,808
Total	$ 17,697	$ 16,354

Inventories are stated at the lower of cost and net realizable value. Inventory with a consumption period expected to exceed twelve months is recorded within other non-current assets in our consolidated balance sheets. In addition to the amounts shown in the table above, we have included $2.0 million and $1.6 million of raw materials inventory within other non-current assets in our consolidated balance sheets as of March 31, 2017 and September 30, 2016, respectively. Based on anticipated inventory consumption rates, and aside from existing write-downs due to excess and obsolete inventory, we do not believe that material risk of obsolescence exists prior to ultimate sale.

Prepaid Expenses And Other Current Assets

	March 31, 2017	September 30, 2016
Prepaid expenses	$ 17,532	$ 13,440
Other current assets	10,510	11,578
Income tax receivable	4,459	1,284
Total	$ 32,501	$ 26,302

Accrued Liabilities

	March 31, 2017	September 30, 2016
Accrued royalties	$ 2,144	$ 1,939
Amounts payable to patent administration program partners	49,953	34,472
Accrued compensation and benefits	59,458	71,261
Accrued professional fees	7,896	6,528
Other accrued liabilities	59,578	54,855
Total	$ 179,029	$ 169,055

Other accrued liabilities include amounts accrued for unpaid PP&E additions of $21.2 million and $17.1 million as of March 31, 2017 and September 30, 2016, respectively.

Other Non-Current Liabilities

	March 31, 2017	September 30, 2016
Supplemental retirement plan obligations	$ 2,694	$ 2,540
Non-current tax liabilities	80,925	68,254
Other liabilities	12,313	12,128
Total	$ 95,932	$ 82,922

4. Investments & Fair Value Measurements

We use cash holdings to purchase investment grade securities diversified among security types, industries and issuers. All of our investment securities are measured at fair value, and are recorded within cash equivalents and both short-term and long-term investments in our consolidated balance sheets. With the exception of our mutual fund investments held in our SERP and classified as trading securities, all of our investment securities are classified as AFS securities.

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Our investment securities primarily consist of municipal debt securities, corporate bonds, U.S. agency securities and commercial paper. In addition, our cash and cash equivalents also consist of highly-liquid money market funds. Consistent with our investment policy, none of our held municipal debt investments are supported by letters of credit or standby purchase agreements. Our cash and investment portfolio consists of the following (in thousands):

	March 31, 2017						
		Unrealized			Estimated Fair Value		
	Cost	Gains	Losses	Total	Level 1	Level 2	Level 3
Cash and cash equivalents:							
Cash	$522,850			$522,850			
Cash equivalents:							
Money market funds	9,498	—	—	9,498	9,498		
Corporate bonds	160	—	—	160		160	
Cash and cash equivalents	532,508	—	—	532,508	9,498	160	—
Short-term investments:							
Certificate of deposit (1)	28,318	19	(6)	28,331		28,331	
U.S. agency securities	2,715	—	(3)	2,712	2,712		
Commercial paper	15,353	5	(1)	15,357		15,357	
Corporate bonds	127,350	48	(109)	127,289		127,289	
Municipal debt securities	21,312	2	(6)	21,308		21,308	
Short-term investments	195,048	74	(125)	194,997	2,712	192,285	—
Long-term investments:							
Certificate of deposit (1)	6,230	—	(2)	6,228		6,228	
U.S. agency securities	24,809	—	(217)	24,592	24,592		
Government bonds	22,994	4	(197)	22,801	22,801		
Corporate bonds	228,406	322	(795)	227,933		227,933	
Municipal debt securities	41,592	52	(57)	41,587		41,587	
Other long-term investments (2)	3,282	377	—	3,659	377		
Long-term investments	327,313	755	(1,268)	326,800	47,770	275,748	—
Total cash, cash equivalents, and investments	$1,054,869	$829	$(1,393)	$1,054,305	$59,980	$468,193	$ —
Investments held in supplemental retirement plan:							
Assets	2,792			2,792	2,792		
Included in prepaid expenses and other current assets & other non-current assets							
Liabilities	2,792			2,792	2,792		
Included in accrued liabilities & other non-current liabilities							

(1) Certificates of deposit include marketable securities, while those with a maturity in excess of one year as of March 31, 2017 are classified within long-term investments.

(2) Other long-term investments as of March 31, 2017 include a marketable equity security of $0.4 million, and other investments that are not carried at fair value including an equity method investment of $0.8 million and two cost method investments of $2.0 million and $0.5 million.

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	September 30, 2016						
		Unrealized			Estimated Fair Value		
	Cost	Gains	Losses	Total	Level 1	Level 2	Level 3
Cash and cash equivalents:							
Cash	$501,863			$501,863			
Cash equivalents:							
Commercial paper	1,099	—	—	1,099		1,099	
Corporate bonds	2,240	—	—	2,240		2,240	
Money market funds	10,910	—	—	10,910	10,910		
Cash and cash equivalents	516,112	—	—	516,112	10,910	3,339	—
Short-term investments:							
Certificate of deposit (1)	13,912	6	—	13,918		13,918	
Commercial paper	19,629	1	(10)	19,620		19,620	
Corporate bonds	63,762	24	(14)	63,772		63,772	
Municipal debt securities	24,334	—	(15)	24,319		24,319	
Short-term investments	121,637	31	(39)	121,629	—	121,629	—
Long-term investments:							
Certificate of deposit (1)	4,500	10	—	4,510		4,510	
U.S. agency securities	27,536	24	(26)	27,534	27,534		
Government bonds	31,971	77	(12)	32,036	32,036		
Corporate bonds	295,921	715	(266)	296,370		296,370	
Municipal debt securities	30,090	28	(32)	30,086		30,086	
Other long-term investments (2)	3,002	366	—	3,368	366		
Long-term investments	393,020	1,220	(336)	393,904	59,936	330,966	—
Total cash, cash equivalents, and investments	$1,030,769	$1,251	$(375)	$1,031,645	$70,846	$455,934	$ —
Investments held in supplemental retirement plan:							
Assets	2,638			2,638	2,638		
Included in prepaid expenses and other current assets & other non-current assets							
Liabilities	2,638			2,638	2,638		
Included in accrued liabilities & other non-current liabilities							

(1) Certificates of deposit include marketable securities, while those with a maturity in excess of one year as of September 30, 2016 are classified within long-term investments.

(2) Other long-term investments as of September 30, 2016 include a marketable equity security of $0.4 million, and other investments that are not carried at fair value including an equity method investment of $0.5 million and two cost method investments of $2.0 million and $0.5 million.

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

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

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

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

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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 AFS securities were primarily the result of unfavorable changes in interest rates subsequent to the initial purchase of these securities. The following table presents the gross unrealized losses and fair value for those AFS securities that were in an unrealized loss position for less than twelve months and for twelve months or greater as of March 31, 2017 and September 30, 2016 (in thousands):

	March 31, 2017				September 30, 2016			
	Less Than 12 Months		12 Months Or Greater		Less Than 12 Months		12 Months Or Greater	
Investment Type	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Certificate of deposit	$14,412	$ (8)	$—	$ —	$—	$ —	$—	$ —
U.S. agency securities	27,304	(220)	—	—	22,988	(38)	—	—
Government bonds	19,799	(197)	—	—	—	—	—	—
Commercial paper	4,951	(1)	—	—	11,479	(10)	—	—
Corporate bonds	212,903	(904)	—	—	153,491	(280)	1,000	—
Municipal debt securities	33,902	(62)	1,250	(1)	35,625	(42)	4,615	(5)
Total	$313,271	$ (1,392)	$1,250	$ (1)	$223,583	$ (370)	$5,615	$ (5)

Although we had certain securities that were in an unrealized loss position as of March 31, 2017, 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 March 31, 2017 or September 30, 2016 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 AFS securities within our investment portfolio based on stated maturities as of March 31, 2017 and September 30, 2016, which are recorded within cash equivalents and both short and long-term investments in our consolidated balance sheets (in thousands):

	March 31, 2017		September 30, 2016	
Range of maturity	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within 1 year	$204,708	$204,655	$135,886	$135,884
Due in 1 to 2 years	219,732	219,571	225,679	225,953
Due in 2 to 3 years	104,297	103,570	164,339	164,583
Total	$528,737	$527,796	$525,904	$526,420

5. Property, Plant & Equipment

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

	March 31, 2017	September 30, 2016
Land	$43,270	$ 43,325
Buildings and building improvements	276,916	251,700
Leasehold improvements	61,626	60,480
Machinery and equipment	94,917	88,943
Computer equipment and software	162,883	154,291
Furniture and fixtures	27,735	26,900

Equipment provided under operating leases	73,912	35,968
Construction-in-progress	6,520	32,576
Property, plant and equipment, gross	747,779	694,183
Less: accumulated depreciation	(276,684)	(250,527)
Property, plant and equipment, net	$471,095	$ 443,656

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6. Goodwill & Intangible Assets

Goodwill

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

	Goodwill
Balance at September 30, 2016	$309,616
Translation adjustments	(865)
Balance at March 31, 2017	$308,751

During the fiscal quarter ended December 30, 2016, we reorganized certain aspects of our internal business infrastructure primarily to integrate and align sales support more directly with our business units. In accordance with ASC Topic 350, we reviewed and reassigned our goodwill amongst our reporting units using a relative fair value allocation approach. Before doing so, we performed a “Step Zero” qualitative assessment during the quarter ended September 30, 2016 and determined that there was minimal risk of goodwill impairment in our pre-reorganization reporting units. Immediately after the reorganization, and related to our consolidated balance of goodwill of $307.1 million as of December 30, 2016, we initiated the "Step One" goodwill impairment assessment using a market approach and an income approach to value our reporting units. We completed this assessment as of March 31, 2017 and determined that there was no goodwill impairment. We did not incur any goodwill impairment losses in either the fiscal year-to-date period ended March 31, 2017 or April 1, 2016.

Intangible Assets

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

	March 31, 2017			September 30, 2016		
Intangible Assets, Net	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Acquired patents and technology	$298,556	$(115,122)	$183,434	$293,824	$(101,711)	$192,113
Customer relationships	56,803	(37,006)	19,797	56,821	(34,113)	22,708
Other intangibles	22,694	(22,202)	492	22,716	(22,195)	521
Total	$378,053	$(174,330)	$203,723	$373,361	$(158,019)	$215,342

We purchase various patents and developed technologies that enable us to further develop our audio, imaging and potential product offerings.

Patent Portfolio Acquisition. In the first quarter of fiscal 2016, we completed an asset purchase of a patent portfolio that fits within our existing patent licensing programs for consideration of $105.0 million. These assets are categorized within the "Acquired patents and technology" intangible asset class, and will be amortized over their weighted-average useful life of 9.0 years.

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

Fiscal Period	Total Purchase Consideration (1)	Weighted-Average Useful Life
	(in millions)	(in years)
Fiscal 2016		
Q1 - Quarter ended January 1, 2016	$105.3	9.0
Q2 - Quarter ended April 1, 2016	None	
	$105.3	9.0
Fiscal 2017		
Q1 - Quarter ended December 30, 2016	None	

Q2 - Quarter ended March 31, 2017	$5.3	18.0
	$5.3	18.0

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

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Amortization expense for our intangible assets is included in cost of licensing, cost of products, R&D and S&M expenses in our consolidated statements of operations. Amortization expense was $8.4 million and $8.2 million in the second quarter of fiscal 2017 and 2016, respectively, and $16.8 million and $16.7 million in the fiscal year-to-date period ended March 31, 2017 and April 1, 2016, respectively. As of March 31, 2017, estimated amortization expense in future fiscal periods was as follows (in thousands):

Fiscal Year	Amortization Expense
Remainder of 2017	$ 14,076
2018	25,592
2019	25,008
2020	24,545
2021	24,518
Thereafter	89,984
Total	$ 203,723

7. Stockholders' Equity & Stock-Based Compensation

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

Common Stock - Class A and Class B

Our Board of Directors has authorized two classes of common stock, Class A and Class B. At March 31, 2017, we had authorized 500,000,000 Class A shares and 500,000,000 Class B shares. At March 31, 2017, we had 57,702,863 shares of Class A common stock and 44,073,597 shares of Class B common stock issued and outstanding. Holders of our Class A and Class B common stock have identical rights, except that holders of our Class A common stock are entitled to one vote per share and holders of our Class B common stock are entitled to ten votes per share. Shares of Class B common stock can be converted to shares of Class A common stock at any time at the option of the stockholder and automatically convert upon sale or transfer, except for certain transfers specified in our amended and restated certificate of incorporation.

Stock Incentive Plans

2005 Stock Plan. In January 2005, our stockholders approved our 2005 Stock Plan, which our Board of Directors adopted in November 2004. The 2005 Stock Plan became effective on February 16, 2005, the day prior to the completion of our initial public offering. Our 2005 Stock Plan, as amended and restated, provides for the ability to grant incentive stock options, non-qualified stock options, restricted stock, RSUs, stock appreciation rights, deferred stock units, performance units, performance bonus awards and performance shares. A total of 46.0 million shares of our Class A common stock is authorized for issuance under the 2005 Stock Plan. For awards granted prior to February 2011, any shares subject to an award with a per share price less than the fair market value of our Class A common stock on the date of grant and any shares subject to an outstanding RSU award will be counted against the authorized share reserve as two shares for every one share subject to the award, and if returned to the 2005 Stock Plan, such shares will be counted as two shares for every one share returned. For those awards granted from February 2011 onward, any shares subject to an award with a per share price less than the fair market value of our Class A common stock on the date of grant and any shares subject to an outstanding RSU award will be counted against the authorized share reserve as 1.6 shares for every one share subject to the award, and if returned to the 2005 Stock Plan, such shares will be counted as 1.6 for every one share returned.

Stock Options. Stock options are granted at fair market value on the date of grant. Options granted to employees and officers prior to June 2008 generally vested over four years, with equal annual cliff-vesting and expire on the earlier of ten years after the date of grant or three 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 ten years after the date of grant or three months after termination of service. All options granted vest over the requisite service period and upon the exercise of stock options, we issue new shares of Class A common stock under the 2005 Stock Plan. Our 2005 Stock Plan also allows us to grant stock awards which vest based on the satisfaction of specific performance criteria.

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Performance-Based Stock Options (PSOs). In fiscal 2016, we began granting PSOs to our executive officers with shares of our Class A common stock underlying such options. The contractual term for the PSOs is seven years, with vesting contingent upon market-based performance conditions, representing the achievement of specified Dolby annualized TSR targets at the end of a three-year measurement period following the date of grant. If the minimum conditions are met, the PSOs earned will cliff vest on the third anniversary of the grant date, upon certification of achievement of the performance conditions by our Compensation Committee. Anywhere from 0% to 125% of the shares subject to a PSO may vest based on achievement of the performance conditions at the end of the three-year performance period.

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

On December 15, 2016, we granted PSOs exercisable for an aggregate of up to 276,199 shares to our executive officers, all of which were outstanding as of March 31, 2017. On December 15, 2015, we granted PSOs exercisable for an aggregate of up to 419,623 shares to our executive officers, of which 397,748 were outstanding as of March 31, 2017.

The following table summarizes information about all stock options issued under our 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 30, 2016	8,690	$ 35.98		
Grants	1,959	46.05		
Exercises	(567)	33.06		
Forfeitures and cancellations	(69)	37.70		
Options outstanding at March 31, 2017	10,013	38.10	7.1	$ 143,411
Options vested and expected to vest at March 31, 2017	9,268	37.84	7.0	135,212
Options exercisable at March 31, 2017	5,195	$ 35.55	6.0	87,726

(1) Aggregate intrinsic value is based on the closing price of our Class A common stock on March 31, 2017 of $52.41 and excludes the impact of options that were not in-the-money.

Restricted Stock Units. Beginning in fiscal 2008, we began granting RSUs to certain directors, officers and employees under our 2005 Stock Plan. Awards granted to employees and officers generally vest over four years, with equal annual cliff-vesting. Awards granted to directors prior to November 2010 generally vest over three years, with equal annual cliff-vesting. Awards granted after November 2010 and prior to fiscal 2014 to new directors vest over approximately two years, with 50% vesting per year, while awards granted from November 2010 onward to ongoing directors generally vest over approximately one year. Awards granted to new directors from fiscal 2014 onward vest on the earlier of the first anniversary of the award’s date of grant, or the day immediately preceding the date of the next annual meeting of stockholders that occurs after the award’s date of grant. Our 2005 Stock Plan also allows us to grant RSUs that vest based on the satisfaction of specific performance criteria, although no such awards had been granted as of March 31, 2017. At each vesting date, the holder of the award is issued shares of our Class A common stock. Compensation expense from these awards is equal to the fair market value of our Class A common stock on the date of grant and is recognized on a straight-line basis over the requisite service period.

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

	Shares	Weighted-Average Grant Date Fair Value

	(in thousands)	
Non-vested at September 30, 2016	2,872	$ 40.16
Granted	1,091	46.15
Vested	(1,000)	36.24
Forfeitures	(63)	39.18
Non-vested at March 31, 2017	2,900	$ 43.79

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

Stock Option Valuation Assumptions

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

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

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

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

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

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

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Expected term (in years)	5.13	5.24	5.13	5.24
Risk-free interest rate	1.9 %	1.5 %	2.1 %	1.7 %
Expected stock price volatility	27.0 %	30.1 %	27.5 %	29.8 %
Dividend yield	1.2 %	1.4 %	1.1 %	1.4 %

Stock-Based Compensation Expense

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

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

Expense - By Award Type

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Compensation Expense - By Type				
Stock options	$4,575	$4,998	$9,378	$11,364
Restricted stock units	10,514	10,267	22,097	22,343
Employee stock purchase plan	894	821	1,723	1,759
Total stock-based compensation	15,983	16,086	33,198	35,466
Benefit from income taxes	(4,635)	(4,706)	(9,663)	(10,412)
Total stock-based compensation, net of tax	$11,348	$11,380	$23,535	$25,054

Expense - By Income Statement Line Item Classification

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Compensation Expense - By Classification				
Cost of products	$223	$219	$481	$499
Cost of services	123	114	257	243
Research and development	4,506	4,268	9,436	9,375
Sales and marketing	6,509	6,441	13,376	14,151
General and administrative	4,622	5,044	9,648	11,198
Total stock-based compensation	15,983	16,086	33,198	35,466
Benefit from income taxes	(4,635)	(4,706)	(9,663)	(10,412)
Total stock-based compensation, net of tax	$11,348	$11,380	$23,535	$25,054

The tax benefit that we recognize from shares issued under our ESPP is excluded from the tables above. This benefit was as follows (in thousands):

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Tax benefit - shares issued under ESPP	$ 95	$ 28	$ 419	$ 123

Unrecognized Compensation Expense. At March 31, 2017, total unrecorded compensation expense associated with employee stock options expected to vest was approximately $39.0 million, which is expected to be recognized over a weighted-average period of 2.5 years. At March 31, 2017, total unrecorded compensation expense associated with RSUs expected to vest was approximately $90.5 million, which is expected to be recognized over a weighted-average period of 2.8 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 March 31, 2017 (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
Fiscal 2017: January 2017	200,000
Total	$ 1,300,000

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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 March 31, 2017, the remaining authorization to purchase additional shares is approximately $201.9 million.

The following table provides information regarding share repurchase activity under the program during fiscal 2017:

Quarterly Repurchase Activity	Shares Repurchased	Cost (1)	Average Price Paid Per Share (2)
		(in thousands)	
Q1 - Quarter ended December 30, 2016	531,465	$ 25,001	$ 47.02
Q2 - Quarter ended March 31, 2017	519,917	24,999	48.07
Total	1,051,382	$ 50,000	

(1) Cost of share repurchases includes the price paid per share and applicable commissions.
(2) Average price paid per share excludes commission costs.

Dividend

In October 2014, our Board of Directors initiated a recurring quarterly dividend program for our stockholders. The following table summarizes dividend payments to be made under the program in relation to fiscal 2017:

Fiscal Period	Declaration Date	Record Date	Payment Date	Cash Dividend Per Common Share	Dividend Payment	
Fiscal 2017						
Q1 - Quarter ended December 30, 2016	January 25, 2017	February 6, 2017	February 15, 2017	$ 0.14	$14.3 million	
Q2 - Quarter ended March 31, 2017	April 26, 2017	May 8, 2017	May 16, 2017	$ 0.14	$14.3 million	(1)

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

8. Accumulated Other Comprehensive Income

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

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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 March 31, 2017			Fiscal Year-To-Date Ended March 31, 2017		
	Investment Securities	Currency Translation Adjustments	Total	Investment Securities	Currency Translation Adjustments	Total
Beginning Balance	$(1,277)	$ (18,402)	$(19,679)	$742	$ (10,939)	$(10,197)
Other comprehensive income/(loss) before reclassifications:						
Unrealized gains/(losses) - investment securities	686		686	(1,474)		(1,474)
Foreign currency translation gains/(losses) (1)		4,989	4,989		(3,739)	(3,739)
Income tax effect - benefit/(expense)	(99)	(599)	(698)	3	666	669
Net of tax	587	4,390	4,977	(1,471)	(3,073)	(4,544)
Amounts reclassified from AOCI into earnings:						
Realized gains/(losses) - investment securities (1)	(12)		(12)	34		34
Income tax effect - benefit/(expense) (2)	6		6	(1)		(1)
Net of tax	(6)	—	(6)	33	—	33
Net current-period other comprehensive (loss)	581	4,390	4,971	(1,438)	(3,073)	(4,511)
Ending Balance	$(696)	$ (14,012)	$(14,708)	$(696)	$ (14,012)	$(14,708)

	Fiscal Quarter Ended April 1, 2016			Fiscal Year-To-Date Ended April 1, 2016		
	Investment Securities	Currency Translation Adjustments	Total	Investment Securities	Currency Translation Adjustments	Total
Beginning Balance	$(510)	$ (12,413)	$(12,923)	$350	$ (11,812)	$(11,462)
Other comprehensive income/(loss) before reclassifications:						
Unrealized gains - investment securities	1,401		1,401	242		242
Foreign currency translation gains (1)		3,173	3,173		2,229	2,229
Income tax effect - benefit/(expense)	(94)	(155)	(249)	105	188	293
Net of tax	1,307	3,018	4,325	347	2,417	2,764
Amounts reclassified from AOCI into earnings:						
Realized gains - investment securities (1)	347		347	478		478
Income tax effect - (expense) (2)	(91)		(91)	(122)		(122)
Net of tax	256	—	256	356	—	356
Net current-period other comprehensive income	1,563	3,018	4,581	703	2,417	3,120
Ending Balance	$1,053	$ (9,395)	$(8,342)	$1,053	$ (9,395)	$(8,342)

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

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

9. Earnings Per Share

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

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

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

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

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Numerator:				
Net income attributable to Dolby Laboratories, Inc.	$50,590	$67,398	$103,964	$98,299
Denominator:				
Weighted-average shares outstanding—basic	101,787	100,456	101,635	100,600
Potential common shares from options to purchase common stock	1,513	748	1,448	674
Potential common shares from restricted stock units	583	351	784	442
Weighted-average shares outstanding—diluted	103,883	101,555	103,867	101,716
Net income per share attributable to Dolby Laboratories, Inc.:				
Basic	$0.50	$0.67	$1.02	$0.98
Diluted	$0.49	$0.66	$1.00	$0.97
Antidilutive awards excluded from calculation:				
Stock options	1,819	7,124	1,222	6,349
Restricted stock units	2	733	8	184

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 March 31, 2017, the total amount of gross unrecognized tax benefits was $87.4 million, of which $75.3 million, if recognized, would reduce our effective tax rate. As of September 30, 2016, the total amount of gross unrecognized tax benefits was $75.2 million, of which $62.1 million, if recognized, would reduce our effective tax rate. Our net liability for unrecognized tax benefits is classified within other non-current liabilities in our consolidated balance sheets.

Withholding Taxes

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

Fiscal Quarter Ended	Fiscal Year-To-Date Ended

	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Withholding taxes	$13,408	$12,406	$22,399	$22,188

Effective Tax Rate

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

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Our effective tax rate in the second quarter of fiscal 2017 was 23.4%, compared to 19.4% in the second quarter of fiscal 2016. The increase in our effective tax rate reflects a decrease in discrete benefits from the settlement of prior years' state audit, partially offset by increased benefits from a relative change in foreign earned income.
Our effective tax rate was 22.1% in the fiscal year-to-date period ended March 31, 2017, compared to 20.1% in the fiscal year-to-date period ended April 1, 2016. The increase in our effective tax rate reflects decreases in discrete benefits from the both R&D credits and settlement of prior years' state audit, partially offset by increased benefits from a relative change in foreign earned income.

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

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 March 31, 2017 (in thousands):

	Payments Due By Fiscal Period						
	Remainder Of Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Thereafter	Total
Naming rights	$—	$7,715	$7,811	$7,909	$8,008	$94,972	$126,415
Donation commitments	—	6,300	322	322	122	1,013	8,079
Operating leases	8,030	14,411	11,865	11,108	9,809	33,520	88,743
Purchase obligations	7,579	8,300	24,289	21,010	—	—	61,178
Total	$15,609	$36,726	$44,287	$40,349	$17,939	$129,505	$284,415

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. Donation commitments primarily relate to a non-cancelable obligation entered into during fiscal 2014 to install and donate imaging and audio products to the Museum of the Academy of Motion Picture Arts and Sciences in Los Angeles, California, and to provide maintenance services for fifteen years from its expected opening date in fiscal 2018, in exchange for various marketing, branding and publicity benefits.
Operating Leases. Operating lease payments represent our commitments for future minimum rent made under non-cancelable leases for office space, including those payable to our principal stockholder and portions attributable to the controlling interests in our wholly owned subsidiaries.
Purchase Obligations. Purchase obligations primarily consist of our commitments made under agreements to purchase goods and services related to Dolby Cinema and for purposes that include IT and telecommunications,

marketing and professional services, and manufacturing and other R&D activities.
Indemnification Clauses.   On a limited basis, our contractual agreements contain a clause under which we agree to provide indemnification to the counterparty, most commonly to licensees in connection with licensing arrangements that include our IP property. Additionally, and although not a contractual requirement, we have at times elected to defend our licensees from third party IP 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.

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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; future competition; our stock repurchase plan; and our dividend policy. Use of words such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," "continue" or similar expr indicates a forward-looking statement. Actual results may differ materially from those discussed in these forward-looking statements due to a number of factors, including the risks set forth in Part II, Item 1A, "Risk Factors." Such forward-looking statements are based on management's reasonable current assumptions and expectations. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform our prior statements to new developments or actual results.

Investors and others should note that we disseminate information to the public about our company, our products, services and other matters through various channels, including our website (www.dolby.com), our investor relations website (http://investor.dolby.com), SEC filings, press releases, public conference calls and webcasts, in order to achieve broad, non-exclusionary distribution of information to the public. We encourage investors and others to review the information we make public through these channels, as such information could be deemed to be material information.

OVERVIEW

Dolby Laboratories creates audio and imaging technologies that transform entertainment and communications at the cinema, at home, at work and on mobile devices. Founded in 1965, our strengths stem from expertise in digital signal processing and compression technologies that have transformed the ability of artists to convey entertainment experiences to their audiences through recorded media. Such technologies led to the development of our noise-reduction systems for analog tape recordings, and have since evolved into multiple offerings that enable more immersive sound for cinema, digital television transmissions and devices, OTT video services, DVD and Blu-ray Discs, gaming consoles, and mobile devices. Today, we derive the majority of our revenue from licensing our audio technologies. We also derive revenue from licensing our consumer imaging and communication technologies, as well as audio and imaging technologies for premium cinema offerings in collaboration with exhibitors. Finally, we provide products and services for a variety of applications in the cinema, broadcast and communications markets.

OUR STRATEGY

Key elements of our strategy include:

Advancing the Science of Sight and Sound. We apply our understanding of the human senses, audio and imaging engineering to develop technologies aimed at improving how people experience and interact with their entertainment and communications content.

Providing Creative Solutions. We promote the use of our solutions as creative tools, and provide our products, services and technologies to filmmakers, sound mixers and other production teams in their creative processes. Our tools help showcase the quality and impact of their efforts and intent, and this may generate market demand.

Delivering Superior Experiences. Our technologies and solutions optimize playback and communications so that users may enjoy sound and sight in Dolby, which results in a more rich, clear, and immersive experience.

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REVENUE GENERATION

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

Revenue	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Licensing	90%	91%	89%	89%
Products	8%	7%	9%	9%
Services	2%	2%	2%	2%
Total	100%	100%	100%	100%

We license our technologies in approximately 50 countries, and our licensees distribute products that incorporate our technologies throughout the world. As shown in the table below, we generate the majority 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, and services revenue is based on the location where services are performed.

Revenue By Geographic Location	Fiscal Year-To-Date Ended	
	March 31, 2017	April 1, 2016
United States	32%	29%
International	68%	71%

We have active licensing arrangements with over 550 electronics product OEMs and software developer licensees. As of March 31, 2017, we had approximately 7,000 issued patents relating to technologies from which we derive a significant portion of our licensing revenue. We have approximately 1,000 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.

Licensing

We license our technologies and IP to a range of customers who incorporate them into their products for enhanced audio and imaging functionality whether it be at home, at work, on mobile devices, or at the cinema. Our key technologies and IP are as follows:

Technology	Description
AAC & HE-AAC	An advanced digital audio codec solution with higher bandwidth efficiency used for a wide range of media applications such as TVs, STBs, PCs, gaming consoles, mobile devices and digital radio.
AVC	A digital video codec with high bandwidth efficiency used in a wide range of media devices, such as TVs, STBs, PCs, gaming consoles, and mobile devices.
Dolby® AC-4	A next-generation digital audio coding technology that is aimed at maximizing transmission efficiency while delivering new audio experiences to a wide range of playback devices, including TVs, STBs, PCs, and mobile devices.
Dolby Atmos®	An object-oriented audio technology for home theaters, cinema, device speakers, and headphones that allows sound to be precisely placed and moved anywhere in the listening environment including the overhead dimension. Dolby Atmos is an immersive experience that can be provided via multiple Dolby audio coding technologies.
Dolby Digital®	A digital audio coding technology that provides multichannel sound to applications such as DVD players, TVs and STBs.

Dolby Digital Plus™	An advanced digital audio coding technology that offers more efficient audio transmission for a wide range of media applications such as TVs, STBs, Blu-ray Discs, PCs, and mobile devices.
Dolby® TrueHD	A digital audio coding technology providing lossless encoding for premium quality media applications such as Blu-ray Discs and home theaters.
Dolby Vision™	An imaging technology combining HDR and an expanded color spectrum to deliver higher contrast, brighter highlights, and improved details for TV, cinema, and other consumer devices.
Dolby Voice®	An audio conferencing technology with superior spatial perception, voice clarity and background noise reduction that emulates the in-person meeting experience.
HEVC	A next-generation digital video codec with higher bandwidth efficiency to support ultra-high definition experiences for a wide range of media devices.

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

Market	Fiscal Quarter Ended		Fiscal Year-To-Date Ended		Main Offerings Incorporating Our Technologies
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016	
Broadcast	44%	45%	45%	46%	STBs & Televisions
PC	15%	16%	15%	16%	Windows and macOS operating systems
CE	15%	14%	13%	14%	DMAs, Blu-ray Disc devices, AVRs, soundbars, DVDs & HTIBs
Mobile	11%	11%	11%	10%	Smartphones & tablets
Other	15%	14%	16%	14%	Gaming consoles, Auto DVD, Dolby Cinema, Dolby Voice
Total	100%	100%	100%	100%	

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

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

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

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

Integrated Licensing Model. We also license our technologies to software operating system vendors 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 using our technologies that are shipped, and is subject to the same quality control evaluation process.

Patent Licensing Model. We license our patents through patent pools which are arrangements between multiple patent owners to jointly offer and license pooled patents to licensees. We also license our patents directly to manufacturers that use our IP in their products. Finally, we generate service fees for managing patent pools on behalf of third party patent owners through our wholly-owned subsidiary, Via Licensing Corporation. By aggregating and offering pooled IP, patent pools deliver efficiencies that reduce transactional costs for both IP owners and licensees. The Via Licensing patent pools enable product manufacturers to efficiently and transparently secure patent licenses for audio coding, interactive television, digital radio and wireless technologies. We offer our AAC, AVC, HE-AAC, HEVC and other IP through patent licensing. Currently, most of our revenue earned from patent licensing relates to the licensing of AAC and HE-AAC technologies.

Collaboration Arrangements.

Dolby Cinema: We partner with exhibitors to create a premium cinema experience featuring Dolby Vision and Dolby Atmos at new and pre-existing venues. We receive a portion of box-office receipts from the installed theaters.

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

Settlements & Back Payments From Licensees: Licensing revenue recognized in any given quarter may include back payments and/or settlements with licensees. Within the Results of Operations section of Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations," settlements and back payments are collectively referred to as "recoveries." Such recoveries have become a recurring element of our business and are particularly subject to fluctuation and unpredictability.

Products

We design and manufacture audio and imaging products for the cinema, television, broadcast, and entertainment industries. Distributed in over 80 countries, these products are used in content creation, distribution, and playback to enhance image and sound quality, and improve transmission and playback. We also market and sell the Dolby Conference Phone which optimizes the conference call experience when using Dolby Voice.

Products revenue is derived primarily from sales of the following:

Product		Description
Cinema	Digital Cinema Servers	Servers used to load, store, decrypt, decode and watermark digital film files for presentation on digital cinema projectors, and also encrypt, encode and package digital film data for distribution.
	Cinema Audio Products	Cinema Processors used to decode and render digital cinema soundtracks including those using Dolby Atmos and products that author, encrypt, encode and package Dolby Atmos soundtracks.
Other	Dolby Conference Phone	An integral hardware component of the Dolby Voice conferencing solution that enhances productivity through superior sound, full-room voice capture, spatial voice separation and touch-screen interface.
	Other Products	3-D glasses and kits, broadcast hardware and software used to encode, transmit, and decode multiple channels of high quality audio for DTV and HDTV distribution, monitors, and accessibility solutions for hearing and visually impaired consumers.

Services

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

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EXECUTIVE SUMMARY

We are focused on expanding our leadership by delivering dynamic new audio and visual technologies to the market. The increasing availability of Dolby Atmos across a broad array of devices coupled with the convergent uses of Dolby Atmos and Dolby Vision beyond Dolby Cinema and into consumer electronics create potential opportunities for increases in our consumer base and revenues.

The following are highlights of our second quarter of fiscal 2017 as well as challenges in key areas:
AUDIO LICENSING
Broadcast
Highlights: We have an established presence in developed markets and are focused on increased adoption of our technologies in emerging markets by working with country-specific operators and standards bodies to drive longer term growth.
During the second quarter, the first Dolby Atmos TVs were announced by LG and Xiaomi, expanding the presence of Dolby Atmos in the home.
Challenges: To achieve growth and further adoption in emerging markets where conversion to digital television is still underway, our success will be impacted by a number of factors such as regional fragmentation of operators and regulators, and the pace of their decision-making and implementation. Further, in some emerging growth countries such as China, we face difficulties enforcing our contractual and IP rights, including instances in which our licensees fail to accurately report the shipment of products using our technologies.
Consumer Electronics
Highlights: Dolby Atmos is being adopted in an increasing range of devices including DMAs, AVRs, speakers and soundbars. The first Dolby Atmos soundbar came to market a year ago and there are now seven soundbars in the market from Onkyo, Pioneer, LG, Samsung, Yamaha and Phillips. These hardware offerings are paired with a growing array of content via Blu-ray Discs and OTT services as well as via other offerings such as BT's recent broadcast of 40 Premier League football matches and boxing in Dolby Atmos in the UK. We will continue to work with OEMs to expand the range of Dolby Audio-enabled hardware, and with content developers and distributors to expand the range of entertainment offerings that utilize our audio technologies.
Challenges: We must continue to present compelling reasons for consumers to demand our audio technologies wherever they enjoy entertainment content. To the extent that OEMs do not incorporate our technologies in current and forthcoming products, our future revenue could be impacted.
Mobile
Highlights: We have driven adoption of our technologies across the major mobile ecosystems - Apple, Android, Windows and Amazon. Collectively, these platforms facilitate delivery and enhanced consumption of Dolby-enabled content from a multitude of streaming services. We continue to expand the presence of Dolby Atmos on a number of mobile devices from partners such as Amazon, Lenovo, Le-Shi, ZTE, and Nokia.
Challenges: Growth in this market is dependent on several factors. With shorter product lifecycles, it is easier for mobile device OEMs to add or remove certain of our technologies from mobile devices. In addition, we must continuously collaborate with manufacturers of mobile devices to incorporate our technologies, and develop and distribute Dolby content via various ecosystems.
Personal Computers
Highlights: During the second quarter, Lenovo launched the world's first Windows gaming PC that supports Dolby Atmos. More broadly, our technologies continue to enhance playback in both Mac and Windows operating systems including native support in their respective Safari and Microsoft Edge browsers. Dolby's presence in these browsers enables us to reach more users through new types of content, including streaming video entertainment.
Challenges: In recent years, unit demand for PCs has experienced secular decline as consumer choices have shifted towards other devices such as tablets and mobile phones. This has caused downward pressure on

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our PC revenues. Furthermore, a decline in the portion of PCs that have optical disc functionality will have a negative impact on our ASPs.

PRODUCTS

Highlights: We offer servers and audio processors to enable the playback of content in cinemas. Our most advanced audio for the cinema is Dolby Atmos. As of March 31, 2017, there were over 2,800 Dolby Atmos-enabled screens installed or committed to be installed, an increase of approximately 1,000 screens from the second quarter of fiscal 2016, and over 700 Dolby Atmos theatrical titles announced or released, an increase of approximately 250 titles from the second quarter of fiscal 2016.

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

NEW GROWTH INITIATIVES

Dolby Cinema™

Highlights: Launched in partnership with established movie theater exhibitors, Dolby Cinema is our premium cinema offering for moviegoers that combines Dolby Vision and Dolby Atmos at new or pre-existing theaters. During the second quarter, we announced that Reel Cinemas plans to open multiple Dolby Cinema locations across its portfolio in the Middle East. In total, over 90 Dolby Cinema locations are now operational with an expectation that we will reach 140 by the end of fiscal 2017. Of these, our largest partnership is with AMC which has opened 70 Dolby Cinema at AMC locations with plans to open 100 locations by the end of calendar 2017. In addition to AMC, exhibitors who feature Dolby Cinema include Wanda, the largest exhibitor in China, Cineplexx in Austria, and Vue in the Netherlands.

Dolby Cinema has also attracted strong interest from the creative community; 85 theatrical titles with Dolby Vision and Dolby Atmos have been announced or released with participation from every major studio.

Challenges: Although the premium large format market of the cinema industry is currently growing, Dolby Cinema is in competition with other existing offerings. Our success with this initiative depends on our ability to differentiate our offering, deploy new sites in accordance with plans, and attract and retain a global viewing audience.

Dolby Vision™

Highlights: While Dolby Vision TVs were available from four partners a year ago, we now have ten TV OEM partners who have released or announced TVs with Dolby Vision. At CES in January 2017, Sony announced that its 2017 premium 4K HDR TVs will support Dolby Vision. In addition, LG, the world’s second largest TV manufacturer, began shipping their 2017 OLED TVs that feature both Dolby Vision and Dolby Atmos which marks the first time that users can enjoy our premium audio and visual experience from a single product. LG also features Dolby Vision in their full lineup of 2017 UHD TVs. Other TV OEM partners include Vizio, the second largest TV manufacturer in the U.S., and TCL, the world’s third largest TV manufacturer.

Dolby Vision has also expanded beyond the living room. At Mobile World Congress in March 2017, LG announced the G6, the first smartphone with Dolby Vision, with content support from Netflix and Amazon.

The availability of entertainment content in Dolby Vision continues to grow. During the second quarter, the first UHD Blu-ray players that will support Dolby Vision were announced from LG, Phillips and Oppo. Three major studios - Lionsgate, Universal and Warner Bros. - have committed to release Dolby Vision titles on Blu-ray. Additionally, there are movie titles and original TV content available in Dolby Vision through our OTT streaming partners, which include Vudu, Netflix, Amazon and Tencent.

Challenges: The success of Dolby Vision will depend on a number of factors, such as the expansion of available content, broader adoption of the technology into consumer devices, and market share capture from competing technologies.

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Dolby Voice®
Highlights: During the second quarter, we launched a partnership with West, the world's largest audio conferencing services provider. Along with BT MeetMe with Dolby Voice and PGi's iMeet offering, we are expanding Dolby Voice's availability to the global market for audio conferencing services.
We recently announced a partnership with BlueJeans, a leading video meetings platform, who will incorporate Dolby Voice into both their BlueJeans Huddle and BlueJeans onVideo offerings. We have also partnered with Highfive to incorporate Dolby Voice into their cloud-based conferencing solutions. These recent partnerships allow Dolby Voice to address an expanding array of use cases, including the huddleroom which is considered a growing market.
Challenges: Our success in this market will depend on the number of service providers and enterprise customers we are able to attract from competing solutions, and on the volume of usage of the service and Dolby Conference Phones that we are able to sell.

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 2016 Annual Report on Form 10-K filed with the SEC.

RESULTS OF OPERATIONS
For each line item included on our consolidated statements of operations described and analyzed below, the significant factors identified as the leading drivers contributing to the overall fluctuation are presented in descending order according to the quantitative magnitude of their impact on the overall change (from an absolute value perspective). Note that recovery payments received from licensees either in the form of back payments or settlements are collectively referred to as "recoveries."
Our fiscal quarterly and annual reporting periods generally consist of 13 weeks and 52 weeks, respectively. However, our fiscal quarter ended January 1, 2016 consisted of 14 weeks and our fiscal year ended September 30, 2016 consisted of 53 weeks. The occurrence of an additional week during the prior fiscal year-to-date period resulted in proportionately higher operating expenses relative to the current fiscal year-to-date period for compensation, depreciation and amortization.
Revenue and Gross Margin
Licensing
Licensing revenue consists of fees earned from licensing our technologies to customers who incorporate them into their products and services to enable and enhance audio, imaging and voice capabilities. The technologies that we license are either internally developed, acquired, or licensed from third parties. Our cost of licensing consists mainly of amortization of purchased intangible assets and intangible assets acquired in business combinations as well as third party royalty obligations paid to license IP that we then sublicense to our customers.

	Fiscal Quarter Ended		Change		Fiscal Year-To-Date Ended		Change	
Licensing	March 31, 2017	April 1, 2016	$	%	March 31, 2017	April 1, 2016	$	%
Revenue	$241,617	$249,336	$(7,719)	(3)%	$474,316	$460,465	$13,851	3%
Percentage of total revenue	90%	91%			89%	89%		
Cost of licensing	8,796	6,698	2,098	31%	16,917	13,231	3,686	28%
Gross margin	232,821	242,638	(9,817)	(4)%	457,399	447,234	10,165	2%
Gross margin percentage	96%	97%			96.43%	97%		

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Quarter-To-Date: Q2 2017 vs. Q2 2016

Factor		Revenue		Gross Margin
Broadcast	â	Lower recoveries, partially offset by higher STB units reported	â	Increase in cost of licensing primarily due to higher depreciation of Dolby Cinema equipment and amortization of newly-acquired assets
PC	â	Decrease primarily due to timing of revenue under contractual arrangements and lower recoveries		
CE	á	Higher recoveries, higher revenue from patent licensing and higher shipments of soundbars and DMAs, partially offset by decreases due to timing of revenue under contractual arrangements and lower shipments of DVD players and HTIBs		
Other	ßà	Higher revenues from automotive recoveries and Dolby Cinema, offset by lower revenue from Via Licensing and lower shipments of gaming consoles		
Mobile	ßà	No significant fluctuations		

Year-To-Date: Q2 2017 vs. Q2 2016

Factor		Revenue		Gross Margin
Other	á	Higher revenues from automotive recoveries and Dolby Cinema	â	Increase in cost of licensing primarily due to higher depreciation of Dolby Cinema equipment and amortization of newly-acquired assets
Mobile	á	Higher revenue from patent licensing programs, including new customers, partially offset by lower units reported		
PC	â	Decrease due to timing of revenue under contractual arrangements, partially offset by higher units reported, higher revenue from patent licensing and higher recoveries		
Broadcast	á	Higher STB units reported, partially offset by lower recoveries and pricing		
CE	â	Lower shipments of DVD players, HTIBs and Blu-ray, partially offset by higher recoveries, revenue from patent licensing, and higher shipments of soundbars		

Products

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

	Fiscal Quarter Ended		Change		Fiscal Year-To-Date Ended		Change	
Products	March 31, 2017	April 1, 2016	$	%	March 31, 2017	April 1, 2016	$	%
Revenue	$20,713	$20,063	$650	3%	$48,924	$44,872	$4,052	9%
Percentage of total revenue	8%	7%			9%	9%		
Cost of products	13,988	13,978	10	—%	31,708	33,016	(1,308)	(4)%
Gross margin	6,725	6,085	640	11%	17,216	11,856	5,360	45%
Gross margin percentage	32%	30%			35%	26%		

Quarter-To-Date: Q2 2017 vs. Q2 2016

Factor		Revenue		Gross Margin
Cinema	á	Higher units of digital server and audio products, partially offset by lower units of 3D glasses	á	Lower manufacturing costs partially offset by a less favorable product mix

Year-To-Date: Q2 2017 vs. Q2 2016

Factor		Revenue		Gross Margin
Cinema	á	Higher units of digital server and audio products and higher sales from extended warranty programs, partially offset by lower units of 3D glasses	á	Improved mix of products combined with lower manufacturing costs and lower charges from excess & obsolete inventory

Services

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

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Services	Fiscal Quarter Ended		Change		Fiscal Year-To-Date Ended		Change	
	March 31, 2017	April 1, 2016	$	%	March 31, 2017	April 1, 2016	$	%
Revenue	$5,144	$4,941	$203	4%	$10,501	$9,817	$684	7%
Percentage of total revenue	2%	2%			2%	2%		
Cost of services	4,193	3,697	496	13%	8,319	7,892	427	5%
Gross margin	951	1,244	(293)	(24)%	2,182	1,925	257	13%
Gross margin percentage	18%	25%			21%	20%		

Quarter-To-Date: Q2 2017 vs. Q2 2016

Factor	Revenue	Gross Margin
Configuration & Post-Production Support & Other	ßàNo significant fluctuations	ßàNo significant fluctuations

Year-To-Date: Q2 2017 vs. Q2 2016

Factor	Revenue	Gross Margin
Configuration & Post-Production Support & Other	ßàNo significant fluctuations	ßàNo significant fluctuations

Operating Expenses

Research & Development

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

	Fiscal Quarter Ended		Change		Fiscal Year-To-Date Ended		Change	
	March 31, 2017	April 1, 2016	$	%	March 31, 2017	April 1, 2016	$	%
Research and development	$58,341	$52,088	$6,253	12%	$115,859	$105,416	$10,443	10%
Percentage of total revenue	22%	19%			22%	20%		

Quarter-To-Date: Q2 2017 vs. Q2 2016

Category	Key Drivers
Compensation & Benefits	áHigher headcount on new or existing R&D projects along with merit increases across the employee base
Product Development	áIncreased funding of various research projects and initiatives aimed at developing new products and technologies

Year-To-Date: Q2 2017 vs. Q2 2016

Category	Key Drivers
Compensation & Benefits	áHigher headcount on new or existing R&D projects along with merit increases across the employee base
Product Development	áIncreased funding of various research projects and initiatives aimed at developing new products and technologies

Sales & Marketing

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

	Fiscal Quarter Ended		Change		Fiscal Year-To-Date Ended		Change	
	March 31, 2017	April 1, 2016	$	%	March 31, 2017	April 1, 2016	$	%
Sales and marketing	$75,620	$71,815	$3,805	5%	$146,795	$146,269	$526	—%
Percentage of total revenue	28%	26%			28%	28%		

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Quarter-To-Date: Q2 2017 vs. Q2 2016

Category	Key Drivers
Marketing Programs	á Increase impacted by the timing of promotional events and other marketing activities
Compensation & Benefits	á Higher headcount and merit increases across the existing employee base

Year-To-Date: Q2 2017 vs. Q2 2016

Category	Key Drivers
Compensation & Benefits	á Higher headcount and merit increases across the existing employee base
Marketing Programs	â Decrease impacted by the timing of promotional events and other marketing activities, partially offset by higher costs associated with industry trade shows
Technology & Communications	â Lower costs associated with IT-related projects
Stock-Based Compensation	â Decrease in award grants

General & Administrative

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

	Fiscal Quarter Ended		Change		Fiscal Year-To-Date Ended		Change	
	March 31, 2017	April 1, 2016	$	%	March 31, 2017	April 1, 2016	$	%
General and administrative	$43,253	$42,482	$771	2%	$84,793	$86,560	$(1,767)	(2)%
Percentage of total revenue	16%	15%			16%	17%		

Quarter-To-Date: Q2 2017 vs. Q2 2016

Category	Key Drivers
Compensation & Benefits	á Higher headcount and merit increases across the existing employee base
Legal, Professional & Consulting	á Higher costs associated with patent filings and other various legal activities
Facilities	â Lower proportionate costs associated with our headquarters

Year-To-Date: Q2 2017 vs. Q2 2016

Category	Key Drivers
Stock-Based Compensation	â Decrease in award grants
Facilities	â Lower proportionate costs associated with our headquarters
Compensation & Benefits	á Higher headcount and merit increases across the existing employee base

Restructuring

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

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

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Other Income/Expense

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

Other Income/Expense	Fiscal Quarter Ended		Change		Fiscal Year-To-Date Ended		Change	
	March 31, 2017	April 1, 2016	$	%	March 31, 2017	April 1, 2016	$	%
Interest income	$2,186	$1,250	$936	75%	$4,000	$2,547	$1,453	57%
Interest expense	(37)	(33)	(4)	12%	(63)	(62)	(1)	2%
Other income/(expense), net	762	279	483	173%	563	(693)	1,256	(181)%
Total	$2,911	$1,496	$1,415	95%	$4,500	$1,792	$2,708	151%

Quarter-To-Date: Q2 2017 vs. Q2 2016

Category	Key Drivers
Interest Income	á Increase due to higher yields on our investment balances

Year-To-Date: Q2 2017 vs. Q2 2016

Category	Key Drivers
Interest Income	á Increase due to higher yields on our investment balances
Other Income/(Expense)	á Decrease in other expense due primarily to lower currency translation losses and other expenses

Income Taxes

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

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Provision for income taxes	$(15,467)	$(16,278)	$(29,549)	$(24,751)
Effective tax rate	23.4%	19.4%	22.1%	20.1%

Quarter-To-Date: Q2 2017 vs. Q2 2016

Factor	Impact On Effective Tax Rate
Tax Contingencies	á Decreased benefit from the settlement of a state audit in the prior year
Foreign Operations	â Increased benefit from foreign earned income

Year-To-Date: Q2 2017 vs. Q2 2016

Factor	Impact On Effective Tax Rate
Tax Contingencies	á Decreased benefit from the settlement of a state audit in the prior year
Federal R&D Credits	á Decrease in discrete benefits from federal R&D credits
Foreign Operations	â Increased benefit from foreign earned income

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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 March 31, 2017, we had cash and cash equivalents of $532.5 million, which consisted of cash and highly-liquid money market funds. In addition, we had short and long-term investments of $521.8 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 March 31, 2017, approximately $732 million, or 69%, was held by our foreign subsidiaries. This represented a $78 million increase from the $654 million that was held by our foreign subsidiaries as of September 30, 2016. 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.

The following table presents selected financial information as of March 31, 2017 and September 30, 2016 (amounts displayed are in thousands):

	March 31, 2017	September 30, 2016
Cash and cash equivalents	$532,508	$ 516,112
Short-term investments	194,997	121,629
Long-term investments	326,800	393,904
Accounts receivable, net	88,216	75,688
Accounts payable and accrued liabilities	189,091	186,599
Working capital	658,615	546,647

Capital Expenditures and Uses of Capital

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

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

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

Shareholder Return

Since fiscal 2010, we have returned cash to stockholders through repurchases of Class A common stock under our repurchase program and our quarterly dividend program initiated in fiscal 2015. Refer to Note 7 "Stockholders' Equity & Stock-Based Compensation" to our interim condensed consolidated financial statements for a summary of dividend payments made under the program during fiscal 2017 and additional information regarding our stock repurchase program.

Stock Repurchase Program. Our stock repurchase program was approved in fiscal 2010, and since then we have completed approximately $1.1 billion of stock repurchases.

Quarterly Dividend Program. During the first quarter of fiscal 2015, we initiated a recurring quarterly cash dividend program for our stockholders. Under the program, current quarterly dividends of $0.14 per share are paid on our Class A and Class B common stock to eligible stockholders of record for each respective dividend record date.

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Cash Flows Analysis

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

Operating Activities

	Fiscal Year-To-Date Ended	
	March 31, 2017	April 1, 2016
Net cash provided by operating activities	$155,347	$156,866

Net cash provided by operating activities decreased $1.5 million in the fiscal year-to-date period ended March 31, 2017 as compared to the fiscal year-to-date period ended April 1, 2016, primarily due to the following:

Factor		Impact On Cash Flows
Net Income	â	Higher net income, more than offset by non-cash reconciling adjustments
Working Capital	â	Net overall decrease primarily attributed to an increase in accounts receivable and decrease in deferred revenue, partially offset by an increase in income tax liabilities

Investing Activities

	Fiscal Year-To-Date Ended	
	March 31, 2017	April 1, 2016
Net cash used in investing activities	$(68,134)	$(71,393)
Capital expenditures	(51,230)	(48,984)

Net cash used in investing activities was $3.3 million lower in the fiscal year-to-date period ended March 31, 2017 as compared to the fiscal year-to-date period ended April 1, 2016, primarily due to the following:

Factor		Impact On Cash Flows
Proceeds From Investments	â	Lower inflows from the sale & maturity of marketable investment securities
Purchase Of Investments	á	Lower outflows for the purchase of marketable investment securities
Acquisition Of Intangible Assets	á	Lower outflows for the purchase of patent portfolios

Financing Activities

	Fiscal Year-To-Date Ended	
	March 31, 2017	April 1, 2016
Net cash used in financing activities	$(68,196)	$(97,099)
Repurchase of common stock	(50,000)	(76,856)

Net cash used in financing activities was $28.9 million lower in the fiscal year-to-date period ended March 31, 2017 as compared to the fiscal year-to-date period ended April 1, 2016, primarily due to the following:

Factor		Impact On Cash Flows
Share Repurchases	á	Lower outflows from decreases in common stock repurchases

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 30, 2016, 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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Indemnification Clauses

We are party to certain contractual agreements under which we have agreed to provide indemnification of varying scope and duration to the other party relating to our licensed IP. 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 interim condensed consolidated financial statements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity

As of March 31, 2017, we had cash and cash equivalents of $532.5 million, which consisted of cash and highly liquid money market funds. In addition, we had both short and long-term investments of $521.8 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 March 31, 2017, the weighted-average credit quality of our investment portfolio was AA, with a weighted-average maturity of approximately fourteen 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 March 31, 2017, hypothetical changes in interest rates of 1% and 0.5% would have an impact on the carrying value of our portfolio of approximately $5.5 million and $2.7 million, respectively.

Foreign Currency Exchange Risk

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

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

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

In an effort to reduce the risk that our earnings will be adversely affected by foreign currency exchange rate fluctuations, we enter into foreign currency forward contracts to hedge against assets and liabilities for which we have foreign currency exchange rate exposure. These derivative instruments are carried at fair value with changes in the fair value recorded to other income, net, in our consolidated statements of operations. While not designated as hedging instruments, these foreign currency forward contracts are used to reduce the exchange rate risk associated primarily with intercompany receivables and payables. These contracts do not subject us to material balance sheet risk due to exchange rate movements as gains and losses on these derivatives are intended to offset gains and losses on the related receivables and payables for which we have foreign currency exchange rate exposure. As of March 31, 2017 and September 30, 2016, the outstanding derivative instruments had maturities of equal to or less than 32 and 38 days, respectively, and the total notional amounts of outstanding contracts were $21.7 million and $18.3 million, respectively. The fair values of these contracts were nominal as of March 31, 2017 and September 30, 2016, and were included within prepaid expenses and other current assets and within accrued liabilities in our

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consolidated balance sheets. For 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 March 31, 2017. This sensitivity analysis was based on a modeling technique that measures the hypothetical market value resulting from a 10% shift in the value of exchange rates relative to the U.S. dollar. For these forward contracts, duration modeling was used where hypothetical changes are made to the spot rates of the currency. A 10% increase in the value of the U.S. dollar would lead to an increase in the fair value of our financial instruments by $1.0 million. Conversely, a 10% decrease in the value of the U.S. dollar would result in a decrease in the fair value of these financial instruments by $1.0 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 SEC rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2017 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 IP rights, commercial, employment, and other matters. In our opinion, resolution of these pending matters is not expected to have a material adverse impact on our operating results or financial condition. Given the unpredictable nature of legal proceedings, it is possible that an unfavorable resolution of one or more such proceedings could materially affect our future operating results or financial condition in a particular period; however, based on the information known by us as of the date of this filing and the rules and regulations applicable to the preparation of our consolidated financial statements, any such amounts are either immaterial or it is not possible to provide an estimated amount of any such potential losses.

ITEM 1A. RISK FACTORS

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

REVENUE GENERATION

Markets We Target

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

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

- Purchasing trends away from traditional PCs and toward computing devices without optical disc drives, such as ultrabooks and tablets, which trends we expect to continue;
- Because PC OEMs are required to pay us a higher per-unit royalty for Windows 8 and Windows 10 PCs that include optical disc playback functionality than Windows 8 or Windows 10 PCs that do not include such functionality, the continued decreasing inclusion of optical disc drives in Windows 8 or Windows 10 PCs will result in lower per-unit royalties;
- PC software that includes our technologies on an unauthorized and infringing basis, for which we receive no royalty payments; and
- Continued decreasing inclusion of independent software vendor media applications by PC OEMs.

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

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

device OEMs to add or remove our technologies from mobile devices than it was for PC OEMs.
In order to increase the value of our technologies in the mobile market, we have worked with online and mobile media content service providers to encode their content with our technologies, which could affect OEM and software

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. Revenue from Dolby Cinema and cinema product sales is subject to the pace of construction or upgrade of screens, the advent of new or competing technologies, consumer trends, and events or conditions in the cinema industry. Although we have invested, and expect to continue to invest, a substantial amount of time and resources developing Dolby Cinema and building our partnerships in connection with the launch of Dolby Cinema locations, this is a new market for us and we may not recognize a meaningful amount of revenue from these efforts in the near future, or at all, if Dolby Cinema is not ultimately successful. Additionally, we have collaborations with Wanda Cinema Line to open 100 Dolby Cinema locations in China and with Reel Cinemas to open ten locations in the Middle East, and we may face a number of risks in expanding Dolby Cinema in these and other new international markets. The royalties we receive from Dolby Cinema exhibitors are based on a portion of box-office receipts from the installed theaters, and the timing of such theater installations is dependent upon a number of factors beyond our control. In addition, the success of our Dolby Cinema offering will be tied to the pipeline and success of motion pictures available at Dolby Cinema locations generally. The success of Dolby Cinema depends in large part on our ability to differentiate our offering, deploy new sites in accordance with plans, provide a compelling experience, and attract and retain a viewing audience. In addition, a decrease in our ability to develop and introduce new cinema products and services successfully could affect licensing of our consumer technologies, because the strength of our brand and our ability to use professional product developments to introduce new consumer technologies would be negatively impacted.

Our revenue from cinema product sales is also tied to the number of movies produced and distributed by studios and independent filmmakers. A number of factors outside of our control can affect the number of movies that are produced, including strikes and work stoppages within the cinema industry and budgetary constraints and changes in cinema industry business models.

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

- Exhibitors may choose competing products with different features or lower prices; and
- Pricing and other competitive pressures have caused us to implement pricing strategies which have adversely affected gross margins of our cinema products.

Customers and Distributors

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

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

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

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

Marketing and Branding

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

Industry Standards

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

Difficulty Becoming Incorporated in an Industry Standard. Standards-setting organizations establish technology standards for use in a wide range of consumer entertainment products. It can be difficult for companies to have their technologies adopted as an industry standard, as multiple companies, including ones that typically compete against one another, are involved in the development of new technology standards for use in entertainment-oriented products. Furthermore, some standards-setting organizations choose to adopt a set of optional standards or a combination of mandatory and optional standards; in such cases, our technologies may be adopted only as an optional standard and not a mandatory standard. Standards may also change in ways that are unfavorable to Dolby.

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. Furthermore, different standards may be adopted for different markets. 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, including in emerging markets, and the choice to use our technologies where it is one of several accepted industry standards.

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

Royalty Reporting

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

- Timing of royalty reports from our licensees and meeting revenue recognition criteria;
- Royalty reports including positive or negative corrective adjustments;
- Retroactive royalties that cover extended periods of time; and
- Timing of revenue recognition under licensing agreements and other contractual arrangements, including recognition of unusually large amounts of revenue in any given quarter because not all of our revenue recognition criteria were met in prior periods.

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

Royalties We Owe Others. In some cases, the products we sell and the technologies we license to our customers include IP 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, cinema, 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

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

Incorporation of Dolby Formats into New Products & Availability of Content in Dolby Formats. The success of many of our newer initiatives, such as Dolby Atmos, Dolby Vision, and Dolby Cinema, is dependent upon the availability and success of (i) products that incorporate Dolby formats and (ii) content produced in Dolby formats. However, there is no guarantee that device makers will continue to incorporate Dolby formats into their products, that content creators will continue to release content in Dolby formats, or that either those products or that content will be commercially successful.

For instance, to successfully establish Dolby Vision and Dolby Atmos, we will need to continue to expand the array of products and consumer devices that incorporate Dolby Atmos and Dolby Vision, expand the pipeline of Dolby Atmos and Dolby Vision content available from content creators, and encourage consumer adoption in the face of competing products and technologies. Similarly, the success of Dolby Cinema is dependent upon our ability to partner with movie theater exhibitors to launch new Dolby Cinema sites and deploy new sites in accordance with plans, as well as the continued release and box-office success of new films in the Dolby Vision and Dolby Atmos formats released through Dolby Cinemas.

Further, the commercial success of products incorporating Dolby formats, content released in Dolby formats, and Dolby Cinemas generally, depends upon a number of factors outside of our control, including, but not limited to, consumer preferences, critical reception, timing of release, marketing efforts of third-parties, and general market conditions. Moreover, release and distribution of such products and content can be subject to delays in production or changes in release schedule, which can negatively impact the quantity, timing and quality of such products and content released in Dolby formats and available at Dolby Cinema theaters.

INTELLECTUAL PROPERTY

Our business is dependent upon protecting our patents, trademarks, trade secrets, copyrights, and other IP rights, the loss or expiration of which may significantly impact our results of operations and financial condition. Effective IP 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 IP as trade secrets, and third parties or our employees could intentionally or accidentally compromise the IP that we maintain as trade secrets. In addition, protecting our IP rights is costly and time consuming. We have taken steps in the past to enforce our IP rights and expect to do so in the future. However, it may not be practicable or cost effective for us to enforce our IP 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 March 31, 2017, we

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had approximately 7,000 issued patents in addition to approximately 4,200 pending patent applications in more than 100 jurisdictions throughout the world. Our currently issued patents expire at various times through September 2040. We seek to mitigate this risk in a variety of ways. We regularly look for opportunities to expand our patent portfolio through organic development and acquisitions. We develop proprietary technologies to replace licensing revenue from technologies covered by expiring patents with licensing revenue supported by patents with a longer remaining life. And we develop and license our technologies in a manner designed to minimize the chance that a system licensee would develop competing technologies that do not include any Dolby IP.

In the case of our patent coverage related to DD, some of our relevant patents have expired, but others continue to apply. DD is our solution that includes technology necessary to implement AC-3 as it has been updated over time. We have continued to innovate and develop intellectual property to support the standard and its implementation. Our customers use our DD implementation for quality, reliability, and performance, even in locations where we have not had applicable patent coverage. We derive a significant, but declining portion of our licensing revenue from for our DD technologies.

Many of our partners have adopted newer generations of our offerings such as DD+, and the range of products incorporating DD solutions is now limited to DVD players (but not Blu-ray players) and some TVs, STBs and soundbars. To continue to be successful, we must keep transitioning our DD licensees to our newer technologies, including our DD+ and Dolby AC-4 technologies.

Unauthorized Use of Our Intellectual Property. We have often experienced, and expect to continue to experience, problems with non-licensee OEMs and software vendors, particularly in China and certain emerging economies, incorporating our technologies and trademarks into their products without our authorization and without paying us any licensing fees. Manufacturers of 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 IP. 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 IP rights. We have faced such claims in the past, and we expect to face similar claims in the future. Any IP 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 IP 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 IP. Additionally, at times we have chosen to defend our licensees from third party IP 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 IP 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 IP in foreign jurisdictions, including:

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

- Limited or no patent protection for our DD technologies in countries such as China, Taiwan, and India, which may require us to obtain patent rights for new and existing technologies in order to grow or maintain our revenue; and
- Because of limitations in the legal systems in many countries, our ability to obtain and enforce patents in many countries is uncertain, and we must strengthen and develop relationships with entertainment industry participants worldwide to increase our ability to enforce our IP 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 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. While we have three production facilities, we increasingly use contract manufacturers for a significant portion of our production capacity. Our reliance on contract manufacturers for the manufacture of our products involves risks, including limited control over timely delivery and quality of such products. If production of our products is interrupted, we may not be able to manufacture products on a timely basis. A shortage of manufacturing capacity for our products could reduce our operating results and damage our customer relationships. We may be unable to quickly adapt our manufacturing capacity to rapidly changing market conditions and a contract manufacturer may encounter similar difficulties. Likewise, we may be unable to quickly respond to fluctuations in customer demand or contract manufacturer interruptions. At times we underutilize our manufacturing facilities as a result of reduced demand for some of our products.

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

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computer programmers and hackers, software bugs or other technical malfunctions, or other disruptions.
While we have taken a number of steps to protect our information technology systems, the number and sophistication of malicious attacks that companies have experienced from third parties has increased over the past few years. In addition, because techniques used by computer programmers and hackers (many of whom are highly sophisticated and well-funded) to access or sabotage networks and computer systems change frequently and often are not recognized until after they are used, we may be unable to anticipate or immediately detect these techniques. This could delay our response or the effectiveness of our response and impede our operations and ability to limit our exposure to third-party claims and potential liability. Attacks on our systems are sometimes successful, and, in some instances, we might be unaware of an incident or its magnitude and effects. We also may suffer data security breaches and the unauthorized access to, misuse or acquisition of, personal data or other sensitive and confidential information as the result of intentional or inadvertent breaches by our employees or service providers. Any data security breach, whether external or internal in origin, could compromise our networks and systems, creating system disruptions or slowdowns and exploiting security vulnerabilities of our products. Any such breach can result in the information stored on our networks and systems being improperly accessed, publicly disclosed, lost, or stolen, which could subject us to liability to our customers, suppliers, business partners and others. We seek to detect and investigate such attempts and incidents and to prevent their recurrence where practicable through changes to our internal processes and tools, but in some cases preventive and remedial action might not be successful. In addition, despite the implementation of network security measures, our networks also may be vulnerable to computer viruses, break-ins, denial of service attacks, and similar other disruptions.
Disruptions to our information technology systems, due to outages, security breaches or other causes, can have severe consequences to our business, including financial loss and reputational damage.
Recent Political Developments in the United Kingdom. On June 23, 2016, a referendum was held on the U.K.'s membership in the European Union, the outcome of which was a vote in favor of leaving the European Union. The U.K.'s vote to leave the European Union creates an uncertain political and economic environment in the U.K. and potentially across other European Union member states, which may last for a number of months or years. As a result, there is a risk of instability for both the U.K. and the European Union, which could adversely affect our results, financial condition and prospects.
Further, it is uncertain what the effect of the referendum will be on immigration and employment rules, including the right of European Union nationals to remain in the U.K., or the ability of companies with operations in the U.K. to hire or retain European Union nationals (or conversely, the right of U.K. nationals to remain in European Union member states, or the ability of companies with operations in the European Union to hire or retain U.K. nationals). The political and economic instability created by the U.K.'s vote to leave the European Union has caused and may continue to cause significant volatility in global financial markets and the value of the Pound Sterling currency or other currencies, including the Euro. Depending on the terms reached regarding any exit from the European Union, it is possible that there may be adverse practical and/or operational implications on our business. The outcome of the referendum has also created uncertainty with regard to the regulation of data protection in the U.K. In particular, it is unclear whether following the exit of the U.K. from the European Union, the U.K. will enact its own form of the pending European General Data Protection Regulation that will apply to the personal data of U.K. citizens. In addition, it is unclear how data transfers to and from the U.K. will be regulated.
Business Interruptions by Natural Disasters and Other Events Beyond Our Control. Although we maintain crisis management plans, our business operations are subject to interruption by natural disasters and catastrophic events beyond our control, including, but not limited to, earthquakes, hurricanes, typhoons, tropical storms, floods, tsunamis, fires, droughts, tornadoes, public health issues and pandemics, severe changes in climate, war, terrorism, and geo–political unrest and uncertainties. Additionally, several of our offices, including our corporate headquarters in San Francisco, are located in seismically active regions. Because we do not carry earthquake insurance for earthquake–related losses and significant recovery time could be required to resume operations, our financial condition and operating results could be materially adversely affected in the event of a major earthquake or catastrophic event.

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COMPETITION

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

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

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

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

Competition for Employees. In order to be successful, we must attract, develop, and retain employees, including employees to work on our growth initiatives where our current employees may lack experience with the business models and markets we are pursuing. Competition for experienced employees in our markets can be intense. In order to attract and retain employees, we must provide a competitive compensation package, including cash and equity compensation. Our equity awards include stock options and restricted stock units. The future value of these awards is uncertain, and depends on our stock price performance over time. In order for our compensation packages to be viewed as competitive, prospective employees must perceive our equity awards to be a valuable benefit.

STRATEGIC ACTIVITIES

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

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

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

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

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

LEGAL AND REGULATORY COMPLIANCE

International Business and Compliance. We are dependent on international sales for a substantial amount of our total revenue. Approximately 68% and 71% of our revenue was derived outside of the U.S. in the fiscal year-to-date period ended March 31, 2017 and April 1, 2016, respectively. 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 change unexpectedly, 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, including new tariffs, trade protection measures, import or export licensing requirements, trade embargoes and other trade barriers;
- 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;
- Poor recognition of IP rights;
- Difficulties in enforcing contractual rights;
- Political or social instability, natural disasters, war or events of terrorism; and
- The strength of international economies.

Certain foreign governments, particularly in China, have advanced arguments under their competition laws that exert downward pressure on royalties for IP. The regulatory enforcement activities in such jurisdictions can be unpredictable, in some cases because these jurisdictions have only recently implemented competition laws. For instance, in March 2014, the National Development and Reform Commission of China ("NDRC") initiated a review of

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our business practices under the Chinese competition laws and requested information relating to our business practices in China. In early May 2015, the NDRC confirmed that the matters under review have been resolved on mutually agreeable terms. The implementation of these terms remains ongoing. Additionally, in December 2013, the Korean Fair Trade Commission ("KFTC") initiated a review of the Company under Korean competition law. The KFTC requested information relating to our business practices in Korea and we cooperated during its review. As a result of this review, in July 2015, the KFTC issued an order and we agreed to modify certain terms in our standard licensing agreements going forward without admitting to any liability or wrongdoing.

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

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

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

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

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

- Tax costs related to intercompany realignments;
- Any obligations or decisions to repatriate earnings from abroad earlier than anticipated;
- Changes in accounting principles; or
- Changes in tax laws and regulations in the countries in which we operate, including U.S. legislative changes.

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

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

STOCK-RELATED ISSUES

Controlling Stockholder. At March 31, 2017, the Dolby family and their affiliates owned 2,588,840 shares of our Class A common stock and 43,972,210 shares of our Class B common stock. As of March 31, 2017, the Dolby family and their affiliates had voting power of 99.8% of our outstanding Class B common stock, which combined with their shares of our Class A common stock, represented 88.7% of the combined voting power of our outstanding Class A and Class B common stock. Under our certificate of incorporation, holders of Class B common stock are entitled to ten votes per share while holders of Class A common stock are entitled to one vote per share. Generally, shares of Class B common stock automatically convert into shares of Class A common stock upon transfer of such Class B common stock, other than transfers to certain specified persons and entities, including the spouse and descendants of Ray Dolby and the spouses and domestic partners of such descendants.

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

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

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

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

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Our Board of Directors announced a $250.0 million stock repurchase program on November 3, 2009. The program, which has no expiration date, approved the repurchase of shares of our Class A common stock, $0.001 par value per share. The authorized maximum was subsequently increased by $300.0 million, $250.0 million, $100.0 million, $200.0 million and $200.0 million as announced on July 27, 2010, August 4, 2011, February 8, 2012, October 23, 2014 and January 25, 2017, 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 second quarter of fiscal 2017:

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)
December 31, 2016 - January 27, 2017	—	$—	—	$226.9 million
January 28, 2017 - February 24, 2017	519,917	48.07	519,917	$201.9 million
February 25, 2017 - March 31, 2017	—	—	—	$201.9 million
Total	519,917		519,917	

(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 Form	File Number	Date	Provided Herewith
10.1*	2005 Stock Plan (as amended and restated on February 7, 2017)	Current Report on Form 8–K	001–32431	February 9, 2017	
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act				X
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act				X
32.1+	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act				X
101.INS	XBRL Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	XBRL Extension Definition				X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				X

* Denotes a management contract or compensatory plan or arrangement.
\+ Furnished herewith.

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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: May 3, 2017

DOLBY LABORATORIES, INC.

By: /S/ LEWIS CHEW

Lewis Chew

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)