UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended December 28, 2012
OR

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

For the Transition Period From _____ To _____

Commission File Number: 001-32431

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

Delaware	**90-0199783**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
100 Potrero Avenue **San Francisco, CA**	**94103-4813**
(Address of principal executive offices)	*(Zip Code)*

(415) 558-0200
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

On January 23, 2013 the registrant had 46,351,339 shares of Class A common stock, par value $0.001 per share, and 55,121,632 shares of Class B common stock, par value $0.001 per share, outstanding.

DOLBY LABORATORIES, INC.
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PART I – FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DOLBY LABORATORIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(unaudited)

	December 28, 2012	September 28, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 316,193	$ 492,600
Short-term investments	118,681	302,693
Accounts receivable, net of allowance of $699 at December 28, 2012 and $956 at September 28, 2012	51,797	43,495
Inventories	21,023	16,700
Deferred taxes	82,661	80,966
Prepaid expenses and other current assets	28,203	33,832
Total current assets	618,558	970,286
Long-term investments	308,277	361,614
Property, plant and equipment, net	254,361	254,676
Intangible assets, net	52,913	56,526
Goodwill	281,763	281,375
Deferred taxes	24,362	22,634
Other non-current assets	11,716	13,687
Total assets	**$ 1,551,950**	**$ 1,960,798**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 9,900	$ 14,831
Accrued liabilities	99,019	116,092
Income taxes payable	12,890	2,424
Deferred revenue	22,656	23,493
Total current liabilities	144,465	156,840
Long-term deferred revenue	18,893	18,192
Deferred taxes	2,714	2,696
Other non-current liabilities	40,078	39,837
Total liabilities	206,150	217,565
Stockholders' equity:		
Class A common stock, $0.001 par value, one vote per share, 500,000,000 shares authorized: 46,703,839 shares issued and outstanding at December 28, 2012 and 46,496,635 at September 28, 2012	47	46
Class B common stock, $0.001 par value, ten votes per share, 500,000,000 shares authorized: 55,116,153 shares issued and outstanding at December 28, 2012 and 56,598,829 at September 28, 2012	55	57
Additional paid-in capital	—	—
Retained earnings	1,316,461	1,709,479
Accumulated other comprehensive income	11,214	10,687
Total stockholders' equity – Dolby Laboratories, Inc.	1,327,777	1,720,269
Controlling interest	18,023	22,964
Total stockholders' equity	1,345,800	1,743,233
Total liabilities and stockholders' equity	**$ 1,551,950**	**$ 1,960,798**

See accompanying notes to unaudited condensed consolidated financial statements

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

	Fiscal Quarter Ended	
	December 28, 2012	December 30, 2011
Revenue:		
Licensing	$ 204,876	$ 200,424
Products	25,498	26,400
Services	6,228	7,354
Total revenue	236,602	234,178
Cost of revenue:		
Cost of licensing	3,080	3,328
Cost of products	18,489	13,888
Cost of services	4,036	3,194
Total cost of revenue	25,605	20,410
Gross margin	210,997	213,768
Operating expenses:		
Research and development	42,436	32,826
Sales and marketing	58,421	43,816
General and administrative	43,108	35,465
Restructuring charges, net	—	368
Total operating expenses	143,965	112,475
Operating income	67,032	101,293
Interest income	1,339	1,737
Interest expense	(25)	(26)
Other income, net	713	200
Income before income taxes	69,059	103,204
Provision for income taxes	(17,582)	(29,838)
Net income including controlling interest	51,477	73,366
Less: net (income) attributable to controlling interest	(128)	(207)
Net income attributable to Dolby Laboratories, Inc.	**$ 51,349**	**$ 73,159**
Net income per share:		
Basic	$ 0.50	$ 0.67
Diluted	$ 0.50	$ 0.67
Weighted-average shares outstanding:		
Basic	102,361	108,884
Diluted	103,523	109,443
Related party rent expense included in operating expenses	$ 343	$ 343
Related party rent expense included in net income attributable to controlling interest	$ 732	$ 754

See accompanying notes to unaudited condensed consolidated financial statements

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

	Fiscal Quarter Ended	
	December 28, 2012	**December 30, 2011**
Net income including controlling interest	$ 51,477	$ 73,366
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of tax	1,234	(377)
Unrealized gains (losses) on available-for-sale securities, net of tax	(737)	(114)
Comprehensive income	51,974	72,875
Less: comprehensive (income) loss attributable to controlling interest	(98)	(141)
Comprehensive income attributable to Dolby Laboratories, Inc.	**$ 51,876**	**$ 72,734**

See accompanying notes to unaudited condensed consolidated financial statements

DOLBY LABORATORIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

	Dolby Laboratories, Inc.						
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total Dolby Laboratories, Inc.	Controlling Interest	Total
Balance at September 28, 2012	**$ 103**	**$ —**	**$1,709,479**	**$ 10,687**	**$ 1,720,269**	**$ 22,964**	**$1,743,233**
Net income	—	—	51,349	—	51,349	128	51,477
Translation adjustments, net of taxes of $328	—	—	—	1,264	1,264	(30)	1,234
Unrealized losses on available-for-sale securities, net of taxes of $414	—	—	—	(737)	(737)	—	(737)
Distributions to controlling interest	—	—	—	—	—	(5,039)	(5,039)
Stock-based compensation expense	—	17,704	—	—	17,704	—	17,704
Repurchase of common stock	(1)	(17,794)	(36,161)	—	(53,956)	—	(53,956)
Cash dividends declared and paid on common stock	—	—	(408,206)	—	(408,206)	—	(408,206)
Tax benefit / (deficiency) from stock incentive plans	—	(776)	—	—	(776)	—	(776)
Class A common stock issued under employee stock plans	—	4,360	—	—	4,360	—	4,360
Shares repurchased for tax withholdings on vesting of restricted stock units	—	(3,636)	—	—	(3,636)	—	(3,636)
Exercise of Class B stock options	—	142	—	—	142	—	142
Balance at December 28, 2012	**$ 102**	**$ —**	**$1,316,461**	**$ 11,214**	**$ 1,327,777**	**$ 18,023**	**$1,345,800**

	Dolby Laboratories, Inc.						
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total Dolby Laboratories, Inc.	Controlling Interest	Total
Balance at September 30, 2011	**$ 110**	**$ 210,681**	**$1,445,189**	**$ 7,533**	**$ 1,663,513**	**$ 21,837**	**$1,685,350**
Net income	—	—	73,159	—	73,159	207	73,366
Translation adjustments, net of taxes of $(383)	—	—	—	(311)	(311)	(66)	(377)
Unrealized losses on available-for-sale securities, net of taxes of $63	—	—	—	(114)	(114)	—	(114)
Stock-based compensation expense	—	11,323	—	—	11,323	—	11,323
Capitalized stock-based compensation expense	—	172	—	—	172	—	172
Repurchase of common stock	(1)	(26,067)	—	—	(26,068)	—	(26,068)
Tax benefit / (deficiency) from stock incentive plans	—	(1,347)	—	—	(1,347)	—	(1,347)
Class A common stock issued under employee stock plans	—	2,745	—	—	2,745	—	2,745
Shares repurchased for tax withholdings on vesting of restricted stock units	—	(985)	—	—	(985)	—	(985)
Exercise of Class B stock options	—	23	—	—	23	—	23
Balance at December 30, 2011	**$ 109**	**$ 196,545**	**$1,518,348**	**$ 7,108**	**$ 1,722,110**	**$ 21,978**	**$1,744,088**

See accompanying notes to unaudited condensed consolidated financial statements

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

	Fiscal Quarter Ended	
	December 28, 2012	December 30, 2011
Operating activities:		
Net income including controlling interest	$ 51,477	$ 73,366
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,129	9,929
Stock-based compensation	17,704	11,439
Amortization of premium on investments	3,794	4,920
Excess tax benefit from exercise of stock options	(469)	(57)
Provision for doubtful accounts	(179)	(52)
Deferred income taxes	(2,627)	(7,643)
Other non-cash items affecting net income	(691)	1,227
Changes in operating assets and liabilities:		
Accounts receivable	(8,064)	7,531
Inventories	(6,173)	(7,271)
Prepaid expenses and other assets	8,625	1,101
Accounts payable and other liabilities	(19,898)	(22,860)
Income taxes, net	9,512	24,431
Deferred revenue	(143)	(661)
Other non-current liabilities	1,012	392
Net cash provided by operating activities	67,009	95,792
Investing activities:		
Purchases of available-for-sale securities	(204,135)	(54,726)
Proceeds from sales of available-for-sale securities	389,068	51,488
Proceeds from maturities of available-for-sale securities	51,325	47,645
Purchases of property, plant and equipment	(6,717)	(12,566)
Acquisitions, net of cash acquired	—	(575)
Other investments	(3,000)	—
Purchases of intangible assets	(4,048)	—
Proceeds from sales of property, plant and equipment and assets held for sale	19	335
Net cash provided by investing activities	222,512	31,601
Financing activities:		
Proceeds from issuance of common stock	4,502	813
Repurchase of common stock	(53,956)	(26,068)
Payment of cash dividend	(408,206)	—
Distribution to controlling interest	(5,039)	—
Excess tax benefit from the exercise of stock options	469	57
Shares repurchased for tax withholdings on vesting of restricted stock	(3,636)	970
Net cash used in financing activities	(465,866)	(24,228)
Effect of foreign exchange rate changes on cash and cash equivalents	(62)	(263)
Net increase in cash and cash equivalents	(176,407)	102,902
Cash and cash equivalents at beginning of period	492,600	551,512
Cash and cash equivalents at end of period	**$ 316,193**	**$ 654,414**
Supplemental disclosure:		
Cash paid for income taxes	$ 11,734	$ 13,047
Cash paid for interest	$ 1	$ 36

See accompanying notes to unaudited condensed consolidated financial statements

DOLBY LABORATORIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

Unaudited Interim Financial Statements

We have prepared the accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the U.S. ("GAAP"), and with Securities and Exchange Commission ("SEC") rules and regulations, which allow for certain information and footnote disclosures that are normally included in annual financial statements prepared in accordance with GAAP to be condensed or omitted. In our opinion, these condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements for the fiscal year ended September 28, 2012 and include all adjustments necessary for fair presentation. The accompanying condensed consolidated financial statements should be read in conjunction with our condensed consolidated financial statements for the fiscal year ended September 28, 2012, which are included in our Annual Report on Form 10-K filed with the SEC.

The results for the fiscal quarter ended December 28, 2012 are not necessarily indicative of the results to be expected for any subsequent quarterly or annual financial period, including the fiscal year ending September 27, 2013.

Principles of Consolidation

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

Use of Estimates

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the U.S. ("GAAP") requires management to make certain estimates and assumptions that affect the amounts reported and disclosed in our consolidated financial statements and accompanying notes. Significant items subject to such estimates and assumptions include estimated selling prices for elements sold in multiple-element revenue arrangements, valuation allowances for accounts receivable, carrying values of inventories and certain property, plant, and equipment, products provided under operating leases, goodwill, intangible assets, stock-based compensation, fair values of investments, accrued expenses, including liabilities for unrecognized tax benefits, and deferred income tax assets. Actual results could differ from our estimates.

Fiscal Year

Our fiscal year is a 52 or 53 week period ending on the last Friday in September. The fiscal periods presented herein include the 13 week periods ended December 28, 2012 and December 30, 2011. Our fiscal year ending September 27, 2013 (fiscal 2013) consists of 52 weeks and our fiscal year ended September 28, 2012 (fiscal 2012) consisted of 52 weeks.

Reclassifications

Beginning in the first quarter of fiscal 2013, we have recorded settlements from implementation licensees as licensing revenue rather than as an offset to sales and marketing expense. In order to conform to the current period's presentation, we have reclassified these settlements for the prior periods presented within our condensed consolidated statements of operations. For the fiscal quarters ended December 28, 2012 and December 30, 2011, licensing revenue now includes amounts recognized under settlement agreements of $6.6 million and $0.8 million, respectively. The reclassification did not impact our previously reported operating income, operating cash flows, net income, or earnings per share.

In addition to the reclassification mentioned above, we have reclassified certain prior period amounts within our condensed consolidated financial and accompanying notes to conform to our current period presentation. These reclassifications did not affect total revenue, operating income, operating cash flows, or net income.

2. Summary of Significant Accounting Policies

Recently Issued Accounting Standards

In June 2011 the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU" No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, ("ASU 2011-05"). This new accounting standard: (1) eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity, (2) requires the consecutive presentation of the statement of net income and other comprehensive income, and (3) requires an entity to present reclassification adjustments on the face of the financial statements from other comprehensive income to net income. This new standard does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income, nor does it affect how earnings per share is calculated or presented. ASU 2011-05 is required to be applied retrospectively and is effective for fiscal years and interim periods within those years beginning after December 15, 2011, with early adoption permitted. In December 2011 the FASB issued ASU No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. This update temporarily defers the effective date of the requirement for presentation of reclassification adjustments, as described above. ASU 2011-05 is effective for our fiscal year beginning September 29, 2012. As this new standard only requires enhanced disclosure, the adoption of ASU 2011-05 will result only in changes in our financial statement presentation and will not impact our financial position or results of operations.

In December 2011, the FASB issued guidance to amend the disclosure requirements regarding the offsetting of assets and liabilities related to financial and derivative instruments. This new guidance requires an entity to disclose quantitative information in a tabular format about offsetting and related arrangements for recognized financial and derivative instruments to enable the users of its financial statements to evaluate the effect of those netting arrangements on its financial position. This new guidance, which is to be applied on a retrospective basis, will become effective for entities with annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. Thus, the effective date of this amended guidance will commence in the first quarter of fiscal 2014. We are currently evaluating the impact of this new guidance on our presentation of our derivative and financial instruments on our consolidated financial statements.

There have been no changes to our critical accounting policies from those described in our Annual Report on Form 10-K for the fiscal year ended September 28, 2012.

3. Composition of Certain Financial Statement Captions

Cash, Cash Equivalents, and Investments

Cash, cash equivalents, and investments consist of the following:

	December 28, 2012	September 28, 2012
	(in thousands)	
Cash and cash equivalents:		
Cash	$ 288,558	$ 468,622
Cash equivalents:		
Money market funds	9,241	17,090
U.S. agency securities	16,393	—
Commercial paper	1,000	4,885
Corporate bonds	1,001	—
Municipal debt securities	—	2,003
Total cash and cash equivalents	316,193	492,600
Short-term investments:		
U.S. agency securities	2,003	3,999
Commercial paper	7,050	19,414
Corporate bonds	51,871	107,243
Municipal debt securities	57,757	172,037
Total short-term investments	118,681	302,693
Long-term investments (1):		
U.S. agency securities	38,015	21,013
Commercial paper	2,974	—
Corporate bonds	104,128	112,993
Municipal debt securities	160,160	227,608
Other long-term investments (2)	3,000	—
Total long-term investments	308,277	361,614
Total cash, cash equivalents and investments	**$ 743,151**	**$ 1,156,907**

(1) Our long-term investments have maturities that range from one to three years.

(2) Other long-term investments include a $3.0 million investment made in the first quarter of fiscal 2013, which we have accounted for under the cost method of accounting, for which there were no indicators of potential impairment at December 28, 2012.

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

	December 28, 2012			
	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(in thousands)			
Money market funds	$ 9,241	$ —	$ —	$ 9,241
U.S. agency securities	56,403	10	(2)	56,411
Commercial paper	11,024	—	—	11,024
Corporate bonds	156,637	443	(80)	157,000
Municipal debt securities	217,715	323	(121)	217,917
Cash equivalents and investments	**$ 451,020**	**$ 776**	**$ (203)**	**$ 451,593**

	September 28, 2012			
	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(in thousands)			
Money market funds	$ 17,090	$ —	$ —	$ 17,090
U.S. agency securities	24,997	18	(3)	25,012
Commercial paper	24,299	—	—	24,299
Corporate bonds	219,265	990	(19)	220,236
Municipal debt securities	400,958	728	(38)	401,648
Cash equivalents and investments	**$ 686,609**	**$ 1,736**	**$ (60)**	**$ 688,285**

We have classified all of our investments listed in the tables above as available-for-sale securities recorded at fair market value in our condensed consolidated balance sheets, with unrealized gains and losses reported as a component of accumulated other comprehensive income. Upon sale, amounts of gains and losses reclassified into earnings are determined based on specific identification of the securities sold.

The following tables show the gross unrealized losses and the fair value for those available-for-sale securities that were in an unrealized loss position:

	December 28, 2012					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in thousands)					
U.S. agency securities	$ 26,401	$ (2)	$ —	$ —	$ 26,401	$ (2)
Corporate bonds	53,111	(80)	—	—	53,111	(80)
Municipal debt securities	81,193	(121)	—	—	81,193	(121)
Total	**$ 160,705**	**$ (203)**	**$ —**	**$ —**	**$ 160,705**	**$ (203)**

	September 28, 2012					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in thousands)					
U.S. agency securities	$ 6,999	$ (3)	$ —	$ —	$ 6,999	$ (3)
Corporate bonds	25,277	(19)	—	—	25,277	(19)
Municipal debt securities	87,705	(37)	5,565	(1)	93,270	(38)
Total	**$ 119,981**	**$ (59)**	**$ 5,565**	**$ (1)**	**$ 125,546**	**$ (60)**

The unrealized losses on our available-for-sale securities were primarily a result of unfavorable changes in interest rates subsequent to the initial purchase of these securities. As of December 28, 2012, we had certain securities that were in an unrealized loss position. We do not intend to sell, nor will we need to sell, these securities before we recover the associated unrealized losses. We expect to recover the full carrying value of these securities. As a result, we do not consider any portion of the unrealized losses at December 28, 2012 or September 28, 2012 to be an other-than-temporary impairment, nor do we consider any of the unrealized losses to be credit losses.

The following table summarizes the amortized cost and estimated fair value of short-term and long-term available-for-sale investments based on stated maturities as of December 28, 2012 and September 28, 2012:

	December 28, 2012		September 28, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)		(in thousands)	
Due within 1 year	$ 118,494	$ 118,681	$ 302,154	$ 302,693
Due in 1 to 2 years	167,779	168,010	209,302	209,871
Due in 2 to 3 years	$ 137,112	$ 137,267	$ 151,174	$ 151,743
Total	**$ 423,385**	**$ 423,958**	**$ 662,630**	**$ 664,307**

Accounts Receivable

Accounts receivable consists of the following:

	December 28, 2012	September 28, 2012
	(in thousands)	
Trade accounts receivable	$ 50,172	$ 43,565
Accounts receivable related to patent administration program	2,324	886
Accounts receivable, gross	52,496	44,451
Less: allowance for doubtful accounts	(699)	(956)
Accounts receivable, net	**$ 51,797**	**$ 43,495**

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market and consist of the following:

	December 28, 2012	September 28, 2012
	(in thousands)	
Raw materials	$ 3,933	$ 4,403
Finished goods	17,090	12,297
Inventories	**$ 21,023**	**$ 16,700**

We have included $4.7 million and $6.5 million of raw materials inventory within other non-current assets in our condensed consolidated balance sheets as of December 28, 2012 and September 28, 2012, respectively. This inventory was purchased in bulk in fiscal 2012 to obtain a significant volume discount, and is expected to be consumed over a period that exceeds 12 months. We have reviewed anticipated consumption rates of this inventory and do not believe there to be material risk of obsolescence prior to the ultimate sale of the inventory. As a result, no valuation reserve has been recorded as of December 28, 2012.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	December 28, 2012	September 28, 2012
	(in thousands)	
Prepaid assets	$ 13,884	$ 14,955
Other current assets	9,358	13,165
Income tax receivable	4,961	5,712
Prepaid expenses and other current assets	**$ 28,203**	**$ 33,832**

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and consist of the following:

	December 28, 2012	September 28, 2012
	(in thousands)	
Land	$ 48,219	$ 48,227
Buildings	33,582	27,266
Leasehold improvements	64,467	68,352
Machinery and equipment	33,363	29,070
Computer systems and software	87,527	86,266
Furniture and fixtures	13,359	13,158
Construction in progress	80,460	79,965
	360,977	352,304
Less: accumulated depreciation	(106,616)	(97,628)
Property, plant and equipment, net	**$ 254,361**	**$ 254,676**

Depreciation expense for our property, plant and equipment is included in cost of products, cost of services, research and development expenses, sales and marketing expenses, and general and administrative expenses in our condensed consolidated statements of operations.

Goodwill and Intangible Assets

The following table outlines changes to the carrying amount of goodwill:

	Total
	(in thousands)
Balance at September 28, 2012	$ 281,375
Translation adjustments	388
Balance at December 28, 2012	**$ 281,763**

Intangible assets consist of the following:

	December 28, 2012			September 28, 2012		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Intangible assets subject to amortization:			(in thousands)			
Acquired patents and technology	$ 79,631	$ (42,886)	$ 36,745	$ 79,213	$ (40,071)	$ 39,142
Customer relationships	30,693	(17,195)	13,498	30,679	(16,386)	14,293
Other intangibles	20,943	(18,273)	2,670	20,925	(17,834)	3,091
Total	**$ 131,267**	**$ (78,354)**	**$ 52,913**	**$ 130,817**	**$ (74,291)**	**$ 56,526**

Amortization expense for our intangible assets is included in cost of licensing, cost of products, and sales and marketing expenses in our condensed consolidated statements of operations.

As of December 28, 2012, our expected amortization expense in future periods is as follows:

Fiscal Year	Amortization Expense
	(in thousands)
Remainder of 2013	$ 11,614
2014	13,473
2015	11,017
2016	8,848
2017	5,736
Thereafter	2,225
Total	**$ 52,913**

Accrued Liabilities

Accrued liabilities consist of the following:

	December 28, 2012	September 28, 2012
	(in thousands)	
Accrued royalties	$ 2,432	$ 2,391
Amounts payable to joint licensing program partners	33,329	35,492
Accrued compensation and benefits	32,439	47,331
Accrued professional fees	5,267	4,893
Other accrued liabilities	25,552	25,985
Accrued liabilities	**$ 99,019**	**$ 116,092**

Other Non-Current Liabilities

Other non-current liabilities consist of the following:

	December 28, 2012	September 28, 2012
	(in thousands)	
Supplemental retirement plan obligations	$ 1,964	$ 2,042
Non-current tax liabilities	19,917	20,862
Other liabilities	18,197	16,933
Other non-current liabilities	**$ 40,078**	**$ 39,837**

See Note 7 "*Income Taxes*" for additional information related to tax liabilities.

4. Fair Value Measurements

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.

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.

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.

Financial assets and liabilities carried at fair value are classified below:

	December 28, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets:				
Investments held in supplemental retirement plan (1)	$ 2,061	$ —	$ —	$ 2,061
Money market funds (2)	9,241	—	—	9,241
Commercial paper (2), (3)	—	11,024	—	11,024
Corporate bonds (2), (3)	—	157,000	—	157,000
Municipal debt securities (3)	—	217,917	—	217,917
U.S. agency securities (2), (3)	56,411	—	—	56,411
Total	**$ 67,713**	**$ 385,941**	**$ —**	**$ 453,654**

(1) These assets are included within prepaid expenses and other current assets and within other non-current assets.
(2) These assets are included within cash and cash equivalents.
(3) These assets are included within short-term investments and within long-term investments.

	December 28, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Liabilities:				
Investments held in supplemental retirement plan (1)	$ 2,061	$ —	$ —	$ 2,061
Total	**$ 2,061**	**$ —**	**$ —**	**$ 2,061**

(1) These liabilities are included within accrued liabilities and within other non-current liabilities.

	September 28, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets:				
Investments held in supplemental retirement plan (1)	$ 2,140	$ —	$ —	$ 2,140
Money market funds (2)	17,090	—	—	17,090
Commercial paper (2), (3)	—	24,299	—	24,299
Corporate bonds (3)	—	220,236	—	220,236
Municipal debt securities (2), (3)	—	401,648	—	401,648
U.S. agency securities (3)	25,012	—	—	25,012
Total	**$ 44,242**	**$ 646,183**	**$ —**	**$ 690,425**

(1) These assets are included within prepaid expenses and other current assets and within other non-current assets.
(2) These assets are included within cash and cash equivalents.
(3) These assets are included within short-term investments and within long-term investments.

	September 28, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Liabilities:				
Investments held in supplemental retirement plan (1)	$ 2,140	$ —	$ —	$ 2,140
Total	**$ 2,140**	**$ —**	**$ —**	**$ 2,140**

(1) These liabilities are included within accrued liabilities and within other non-current 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. Our Level 1 financial instruments include money market funds, U.S. agency securities, U.S. government bonds, and mutual fund investments held in our supplemental retirement plan.

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.

We did not own any Level 3 financial assets or liabilities as of December 28, 2012 or September 28, 2012.

5. Stockholders' Equity and Stock-Based Compensation

We have adopted compensation plans that 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, restricted stock units, and stock appreciation rights under our equity incentive plans, as well as shares under our Employee Stock Purchase Plan ("ESPP"). We recognize stock-based compensation expense net of estimated forfeitures.

Stock-based compensation expense recorded in our condensed consolidated statements of operations was as follows:

	Fiscal Quarter Ended	
	December 28, 2012 (2)	**December 30, 2011 (2)**
	(in thousands)	
Stock-based compensation:		
Stock options (1)	$ 8,309	$ 6,058
Restricted stock units	8,340	5,264
Employee stock purchase plan	1,055	82
Stock appreciation rights	—	35
Total stock-based compensation	17,704	11,439
Benefit from income taxes	(5,413)	(3,669)
Total stock-based compensation, net of tax	**$ 12,291**	**$ 7,770**

(1) Expense excludes $0.2 million in the first quarter of fiscal 2012 related to stock-based compensation which was capitalized to property, plant and equipment.
(2) We also recognized $0.1 million and $0.1 million in the first quarter of fiscal 2013 and 2012, respectively, of tax benefit from certain exercises of incentive stock options and shares issued under our ESPP, which is not included in the table above.

	Fiscal Quarter Ended	
	December 28, 2012	**December 30, 2011**
	(in thousands)	
Stock-based compensation expense was classified as follows:		
Cost of products	$ 248	$ 166
Cost of services	151	56
Research and development	4,887	2,664
Sales and marketing	5,991	3,715
General and administrative	6,427	4,838
Total stock-based compensation expense	**$ 17,704**	**$ 11,439**

At December 28, 2012, total unrecorded stock-based compensation expense associated with employee stock options expected to vest was approximately $50.9 million, which is expected to be recognized over a weighted-average period of 3.2 years. At December 28, 2012, total unrecorded stock-based compensation expense associated with restricted stock units expected to vest was approximately $93.6 million, which is expected to be recognized over a weighted-average period of 2.9 years.

The following table summarizes information about stock options issued to officers, directors, and employees under our 2000 Stock Incentive Plan and 2005 Stock Plan:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
	(in thousands)		(in years)	(in thousands)
Options outstanding at September 28, 2012	4,622	$ 32.50		
Grants (1)	2,228	30.14		
Exercises	(87)	14.87		$ 1,605
Forfeitures and cancellations	(123)	44.89		
Options outstanding at December 28, 2012	6,640	29.54	8.0	9,650
Options vested and expected to vest at December 28, 2012	6,369	29.48	8.0	9,564
Options exercisable at December 28, 2012	**2,428**	**27.70**	**5.7**	**8,270**

(1) Includes the additional options granted in connection with the equity award modification.

Aggregate intrinsic value is based on the closing price of our common stock on December 28, 2012 of $28.98 and excludes the impact of stock options that were not in-the-money.

We use the Black-Scholes option pricing model to determine the fair value of employee stock options at the date of grant. The fair value of our stock-based awards was estimated using the following weighted-average assumptions:

	Fiscal Quarter Ended	
	December 28, 2012	December 30, 2011
Expected life (in years)	4.37	4.53
Risk-free interest rate	0.5%	0.8%
Expected stock price volatility	40.6%	44.5%
Dividend yield	—	—

The following table summarizes information about restricted stock units issued to officers, directors, and employees under our 2005 Stock Plan:

	Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Non-vested at September 28, 2012	2,572	$ 37.98
Granted	951	30.57
Vested	(296)	39.20
Forfeitures	(47)	38.65
Non-vested at December 28, 2012	**3,180**	**35.64**

Common Stock Repurchase Program

In November 2009, we announced a stock repurchase program, providing for the repurchase of up to $250.0 million of our Class A common stock. Our Board of Directors approved an additional $300.0 million for our stock repurchase program in July 2010, $250.0 million in July 2011, and an additional $100.0 million in February 2012, for a total authorization of up to $900.0 million in stock repurchases. Stock repurchases under this 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 programs, and other market conditions. We may limit, suspend, or terminate the stock repurchase program at any time without prior notice. This program does not have a specified expiration date. Shares repurchased under the program will be returned to the status of authorized but unissued shares of Class A common stock. As of December 28, 2012, the remaining authorization to purchase additional shares is $144.3 million.

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Stock repurchase activity under the stock repurchase program during the first quarter of fiscal 2013 is summarized as follows:

	Shares Repurchased	Cost (in thousands) (1)	Average Price Paid per Share (2)
Repurchase activity for the fiscal quarter ended December 28, 2012	1,674,648	$ 53,956	$ 32.20
Total	**1,674,648**	**$ 53,956**	

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

Equity Award Modification

On December 11, 2012, we announced the declaration by our Board of Directors of a one-time special dividend in the amount of $4.00 per share on our Class A and Class B Common Stock. Payment of the special dividend was made on December 27, 2012 to eligible stockholders, which represented all stockholders of record as of the close of business on December 21, 2012 (the "Record Date"). Based on the 102,051,386 shares of Class A and Class B Common Stock outstanding as of the record date, the total special dividend payment was $408.2 million.

In connection with the declaration of this special dividend, we adjusted the number and exercise price of certain eligible outstanding stock options and stock appreciation rights granted under our 2005 Stock Plan in a manner intended to preserve the pre-cash dividend economic value of these awards. Eligible awards include stock options and stock appreciation rights that were granted prior to December 2012 and were outstanding as of the day following the record date, with the exception of stock options held by employees in Australia which were not adjusted due to tax considerations. The modification of these existing awards at the time of the dividend declaration date resulted in a total net incremental charge to compensation expense of approximately $7.9 million, of which approximately $3.1 million was recognized in the first quarter of fiscal 2013. This incremental charge is being recognized over the vesting periods of the original awards, determined on a grant-by-grant basis, based on the extent to which the awards were vested as of the date of modification. The incremental charge related to all fully-vested awards as of the modification date was recognized in the first quarter of fiscal 2013. The vesting period for those awards not fully-vested at the time of modification range from one to four years.

Additionally, all outstanding RSUs under the 2005 Stock Plan that were unvested on the day following the record date, including RSUs that were granted on the record date, were modified to allow for the granting of a dividend equivalent (as such term is defined in the 2005 Stock Plan) with respect to each share of our Class A Common Stock underlying the unvested RSU. The dividend equivalent was payable in cash in a per share amount equal to the per share cash dividend on the same date that the related underlying restricted stock unit shares vest. The granting of the dividend equivalent for all outstanding RSUs resulted in a total net incremental charge to compensation expense of approximately $11.9 million, of which approximately less than $0.1 million was recognized in the first quarter of fiscal 2013. This incremental charge is being recognized over the remaining vesting periods of the RSUs at the date of modification, determined on a grant-by-grant basis. These vesting periods range from one to four years beginning on the first anniversary of the grant.

6. Earnings Per Share

We compute basic earnings per share by dividing net income attributable to Dolby Laboratories, Inc. by the weighted-average number of shares of Class A and Class B common stock outstanding during the period. For diluted earnings per share, we divide net income attributable to Dolby Laboratories, Inc. by the sum of the weighted-average number of shares of Class A and Class B common stock outstanding and the potential number of dilutive shares of Class A and Class B common stock outstanding during the period.

The following table sets forth the computation of basic and diluted earnings per share attributable to Dolby Laboratories, Inc.:

	Fiscal Quarter End	
	December 28, 2012	December 30, 2011
Numerator:		
Net income attributable to Dolby Laboratories, Inc.	$ 51,349	$ 73,159
Denominator:		
Weighted-average shares outstanding—basic	102,361	108,884
Potential common shares from options to purchase Class A and Class B common stock	326	382
Potential common shares from restricted stock units	836	177
Weighted-average shares outstanding—diluted	103,523	109,443
Net income per share attributable to Dolby Laboratories, Inc.—basic	**$ 0.50**	**$ 0.67**
Net income per share attributable to Dolby Laboratories, Inc.—diluted	**$ 0.50**	**$ 0.67**
Antidilutive options excluded from calculation	5,178	6,698
Antidilutive restricted stock units excluded from calculation	1,327	1,305

7. Income Taxes

Our effective tax rate is based on a projection of our annual fiscal year results. Our effective tax rate was 25% and 29% for the first quarters of fiscal 2013 and fiscal 2012, respectively. Our effective tax rate for the first quarter of fiscal 2013 was lower than the first quarter of fiscal 2012 primarily due to recognized tax benefits from the expired statute of limitation on some uncertain tax positions.

As of December 28, 2012, the total amount of gross unrecognized tax benefits was $16.4 million, of which $11.1 million, if recognized, would reduce our effective tax rate. Our liability for unrecognized tax benefits is classified within other non-current liabilities in our condensed consolidated balance sheets.

Withholding Tax. We recognize licensing revenue gross of withholding taxes, which our licensees remit directly to their local tax authorities. We reduce our income tax provision for withholding taxes in various jurisdictions for allowable foreign tax credits. Withholding tax remittances were $9.4 million and $11.3 million in the fiscal quarters ended December 28, 2012 and December 30, 2011, respectively.

8. Legal Proceedings

We are involved in various legal proceedings from time to time arising from the normal course of business activities, including claims of alleged infringement of intellectual property rights, commercial employment, and other matters. In our opinion, resolution of these proceedings is not expected to have a material adverse impact on our operating results or financial condition. Given the unpredictable nature of legal proceedings, it is possible that an unfavorable resolution of one or more such proceedings could materially affect our future operating results or financial condition in a particular period; however, based on the information known by us as of the date of this filing and the rules and regulations applicable to the preparation of our financial statements, any such amount is either immaterial or it is not possible to provide an estimated amount of any such potential loss. There has not been a material change in the status of legal proceedings since our fiscal year ended September 28, 2012.

9. Commitments and Contingencies

The following table presents a summary of our contractual obligations and commitments as of December 28, 2012:

	Payments Due By Fiscal Period						
	Remainder of Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Thereafter	Total
	(in thousands)						
Naming rights (1)	$ —	$ 7,341	$ 7,432	$ 7,525	$ 7,619	$ 126,414	$ 156,331
Operating leases (2)	10,725	11,167	7,995	6,055	4,326	5,655	45,923
Purchase obligations (3)	3,860	957	355	—	—	—	5,172
Total	**$ 14,585**	**$ 19,465**	**$ 15,782**	**$ 13,580**	**$ 11,945**	**$ 132,069**	**$ 207,426**

(1) In April 2012, we entered into 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 with the exception of fiscal 2013 when no payments are due. Our payment obligations are conditioned in part on the Academy Awards® being held and broadcast from the Dolby Theatre.

(2) Operating lease payments include future minimum rental commitments, including those payable to our principal stockholder and portions attributable to the controlling interests in our wholly owned subsidiaries, for non-cancelable operating leases of office space as of December 28, 2012.

(3) Our purchase obligations consist of agreements to purchase goods and services, entered into in the ordinary course of business. These represent non-cancelable commitments for which a penalty would be imposed if the agreement was canceled for any reason other than an event of default as described by the agreement.

We are party to certain contractual agreements under which we have agreed to provide indemnifications of varying scope and duration to the other party relating to our licensed intellectual property. Historically, we have made no payments for these indemnification obligations and no amounts have been accrued in our condensed consolidated financial statements with respect to these obligations. Due to their varying terms and conditions, we are unable to make a reasonable estimate of the maximum potential amount we could be required to pay.

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 interim condensed consolidated financial statements and the related notes that appear elsewhere in this Quarterly Report on Form 10-Q. These discussions contain forward-looking statements reflecting our current expectations, which involve risks and uncertainties. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," or the negative of these terms or other comparable terminology. Forward-looking statements include, but are not limited to: statements regarding the extent and timing of future licensing, products, and services revenue levels and mix, expenses, margins, net income per diluted share, income taxes, tax benefits, acquisition costs and related amortization, and other elements of results of operations; our expectations regarding demand and acceptance for our technologies; growth opportunities and trends in the markets in which we operate; our plans, strategies, and expected opportunities; the deployment of and demand for our products and for products incorporating our technologies; and future competition. 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," of this Quarterly Report on Form 10-Q and elsewhere in this filing. 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. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform our prior statements to new developments or actual results.

Overview

Dolby Laboratories has been a leading solutions provider to the entertainment industry for more than 45 years. We provide products, services, and technologies to capture, distribute, and play back entertainment content that gives consumers a premium entertainment experience, regardless of how or where they choose to enjoy it. Our core strengths range from our expertise in digital signal processing and compression technology to our long history of providing products, tools, and technologies to participants in the entertainment industry at each stage in the content creation, distribution, and playback process. We provide products and services that enable content creators and distributors to produce, encode, and transmit content with our premium audio technologies, and we license decoding technologies to the manufacturers of entertainment devices to ensure that content is ultimately experienced as the creator and distributor intended.

Throughout our history, we have introduced numerous innovations that have significantly improved the quality of audio entertainment, such as noise reduction for the recording and cinema industries and surround sound for cinema and home entertainment. Today, we continue to derive the vast majority of our revenue from our audio technologies.

Looking forward, we see a number of industry trends that create opportunities for the continued growth of our audio business, including the ongoing global transition from analog to digital television and consumers' increasing use of mobile devices, such as tablets and smartphones, to play back digital content. Our portfolio of technologies and solutions optimize the audio experience for mobile devices to provide consumers with a rich, clear, and immersive sound, despite the bandwidth limitations of online and cellular networks and the physical limitations of devices with small speakers.

In 2012, we announced Dolby Atmos, a new audio platform for cinema that delivers a more natural and realistic sound field. Since then, numerous movie titles have been released or announced in Dolby format from major studios such as Disney, Twentieth Century Fox, and Warner Bros.

We also see opportunities to apply our core strengths in areas beyond audio. For example, we believe that significant improvements can be made in the technology currently used to deliver and play back premium video, and we have identified solutions that may substantially improve the video experience. Similarly, we believe we can apply our existing audio technologies to improve the clarity and quality of voice communications in areas such as multi-party teleconferencing.

Business Model

We generate the majority of our revenue by licensing technologies to original equipment manufacturers ("OEM") of consumer entertainment ("CE") products and to software vendors. We also generate revenue by selling products and related services to creators, distributors and exhibitors of entertainment content.

We participate in the global entertainment industry in several important ways:

- We offer products, services, and technologies to creators and distributors of entertainment content, such as motion picture, television, and music recording studios, television broadcasters, satellite and cable operators, cinema theatre chains, and increasingly, Internet content streaming and download service providers. These content creators and distributors use our products, services, and technologies to encode and transmit content, creating rich, clear, and immersive audio experiences for consumers upon playback.
- We license technologies, such as Dolby Digital, Dolby Digital Plus, and Dolby TrueHD to OEMs and software vendors for incorporation into their CE and other products, so that consumers can play back audio content with our technologies in the rich, clear, and immersive manner the creators intended.
- We work directly with standards-setting organizations in the entertainment and technology industries, as well as governments and other regulatory bodies, to promote adoption of our technologies in their standards. As a result, our technologies are included in the majority of worldwide TV shipments to support digital TV standards around the world. Our technologies are also included in virtually all DVD players, Blu-ray Disc players, audio/video receivers, and personal computer (“PC”) DVD software players.

We license our technologies to OEMs and software vendors in 49 countries, and our licensees distribute products incorporating our technologies throughout the world. We sell our products and services in over 80 countries. In the first quarter of fiscal 2013 and first quarter of fiscal 2012, revenue from outside of the U.S. represented 68% and 69% of our total revenue, respectively. Geographic data for our licensing revenue is based on the location of our licensees’ headquarters. Products revenue is based on the destination to which we ship our products, while services revenue is based on the location where services are performed.

Opportunities, Challenges, and Risks

Our licensing and product markets are characterized by rapid technological changes, new and improved product features and performance, changing customer demands, evolving industry standards, changing licensee needs, and product life cycles that can result in obsolescence. We believe that these changes present us with opportunities to provide realistic and immersive audio experiences to consumers through new and emerging delivery channels. However, as described below, our licensing revenue is subject to uncertainties and trends relating to technology and market growth, as well as the mix of CE products sold that incorporate our technologies. Our licensing business also could be affected by adverse general economic conditions, because many of the products in which our technologies are incorporated are discretionary goods. Furthermore, our products business is subject to intense competition and uncertainties relating to the transition to digital cinema and purchasing decisions by our cinema customers.

Licensing

Licensing revenue constitutes the majority of our total revenue, representing 86% of total revenue in both the first quarter of fiscal 2013 and the first quarter of fiscal 2012.

The entertainment industry is continually in transition. As consumers are presented with more options for receiving entertainment content, competition across the delivery channels has intensified. We see this reflected in the changing composition of our licensing revenue, driven by a shift away from optical disc based products. Our optical disc-based revenue is generated from the licensing of technologies that enable DVD or Blu-ray Disc playback, including the licensing of such technologies in the Microsoft Windows operating system, independent PC DVD software players, and consumer DVD and Blu-ray Disc players. However, most of these products can also receive content over mobile or online networks and we have increased our technology penetration into these other distribution channels. Non-optical disc based revenue is generated from the sale of technology solutions other than those used to enable DVD or Blu-ray Disc playback. Non-optical disc based revenue includes licensing revenue derived from products such as TVs, set-top boxes, and mobile devices, as well as from the incorporation of our post processing technologies in a range of devices. We remain focused on delivering the products, tools, and technologies needed to ensure a high quality audio experience from any device.

Looking forward, we expect continued growth in the proportion of our licensing revenue we derive from non-optical disc sources. This will be driven partly by the maturity of optical disc as a method for delivering content, but also by the significant opportunities presented by digital broadcast and online and mobile distribution, as well as the inclusion of our technologies in the Windows 8 operating system to enable the playback of online content. We also see significant opportunities to offer encode/decode solutions in video and voice that leverage our expertise in signal processing, compression, and the capture and playback of content.

Our licensing revenue comes from the following markets and primarily from the inclusion of our technologies in the products indicated for each market:

- Broadcast market: primarily televisions and set-top boxes
- PC market: primarily DVD software players and Microsoft Windows operating systems
- CE market: primarily DVD and Blu-ray Disc players and recorders, audio/video receivers, and home-theater-in-a-box systems
- Mobile – primarily smartphones, tablets and other mobile devices
- Other markets:
  - Gaming – primarily video game consoles
  - Licensing services – primarily administration of joint licensing programs
  - Automotive – primarily in-car DVD players

The growth of the Internet, and the related shift by consumers toward online entertainment content, has resulted in a global trend toward an array of online content streaming and download services. Today content is captured, delivered, and played back in more ways than ever before. Content creators and distributors are increasingly focused on delivering content across a multitude of media and devices with varying bandwidth and performance requirements, including PCs, connected TVs, set-top boxes, gaming consoles, connected Blu-ray Disc players, and a variety of mobile devices. Many of these mobile devices are increasingly designed to capture and distribute content through improved camera and WiFi technologies, as well as to play back rich entertainment experiences. This increasingly complex array of devices, with capability for both creating and playing back content, presents a challenge for content creators and device manufacturers seeking consistent audio quality. We believe this challenge provides an opportunity similar to that of digital broadcast, whereby we can provide solutions to optimize the audio experience across the online and portable device markets.

In the area of content creation and delivery, our technologies are included in DVD, Blu-ray Disc, and certain broadcast standards, and we are working to extend our technologies to online delivery services. Online content aggregators, including Netflix, Amazon, VUDU, Apple, HBO GO, Samsung's Acetrax, and the Roxio Now platform, use our technologies to encode video and audio content. Leading music services such as Rhapsody and Omnifone use our audio encoding tools to deliver a rich music experience to their subscribers. In the second quarter of fiscal 2012, HBO adopted Dolby Digital Plus in its HBO GO content for select connected TVs. HBO now offers Dolby Digital Plus in its HBO GO service for content delivered to certain TV's and gaming consoles. In addition, Samsung now offers Dolby Digital Plus surround sound audio through the Acetrax Video on Demand application.

Our broadcast market, driven by demand for our technologies in televisions and set-top boxes, represented approximately 33% and 31% of our licensing revenue in the first quarter of fiscal 2013 and first quarter of fiscal 2012, respectively. Dolby technology was included in a higher percentage of televisions and set-top boxes in the first fiscal quarter of 2013, which drove increased revenue relative to the same period in the prior year. We see opportunities in working with specific operators and standards bodies across emerging markets to adopt our multichannel formats. Given the percentage of the world's population that lives in countries in emerging markets and the number of televisions and set-top boxes sold in such markets, we believe that these markets present significant opportunities for growth. While there is no guarantee that the countries in the emerging markets will convert to digital television, we believe we are well positioned to benefit from such transition if it occurs. Broadcast services, such as terrestrial broadcast or IPTV services that operate under bandwidth constraints, represent another area of opportunity for Dolby technologies, which enable the delivery of high quality audio content at reduced bit rates, thereby conserving bandwidth. We may not, however, be able to extend our current success in the broadcast market to these new opportunities.

Our PC market represented approximately 29% of our licensing revenue in both the first quarter of fiscal 2013 and first quarter of fiscal 2012. Our technologies are incorporated in the majority of PCs sold today, primarily because of the inclusion of DVD and Blu-ray Disc playback in the majority of PCs and the inclusion of Dolby technologies in the DVD and Blu-ray Disc standards.

Historically, we have licensed our technologies to a range of PC licensees, including independent software vendors ("ISV"), PC OEMs, and operating system providers. The release of new versions of major PC operating systems has often resulted in changes in the mix of our PC licensees. In 2007, Microsoft released its Windows Vista operating system, which included our technologies to enable DVD audio playback in two of its editions. In fiscal 2009, Microsoft released its Windows 7 operating system, which included our technologies within four editions. As a result, since 2007 the mix of our PC licensing revenue from operating systems has increased relative to that from OEMs and ISVs. We currently license our audio codec technologies directly to OEMs such as Apple, Toshiba, and Sony to support optical disc playback on PCs, and we license our PC Entertainment Experience ("PCEE") technologies to multiple PC OEMs through our PCEE licensing program.

In May 2012, we entered into an agreement with Microsoft under which Dolby Digital Plus 5.1 channel decoding and Dolby Digital two-channel encoding are included in all PCs and tablets licensed to run the Windows 8 operating system. Under the arrangement, OEMs generally are required to directly license and pay us a base royalty rate for the right to use the Dolby technologies included in Windows 8 installed on the PCs they produce for online and file-based content. OEMs are required to pay a higher per-unit royalty for Windows 8 PCs that also include optical disc playback functionality, which is implemented by ISV applications. This higher rate is comparable to the rates paid historically for the inclusion of Dolby disc playback software in the PC market. In the near term, we expect the majority of PCs to continue to ship with optical disc drives and to include optical disc playback functionality.

We believe that the Microsoft Windows 8 arrangement provides a simple and consistent way for OEMs to enable playback with our technologies of content delivered by online services and video in local files on the device. In the current quarter, we began generating revenue from the Windows 8 arrangement, while Microsoft continues to license its Windows 7 operating systems with our technologies. The impact on our licensing revenue from the transition to Windows 8 will depend on several factors, including:

- The extent and rate at which Windows 8 is adopted in the marketplace;
- The extent to which OEMs include optical disc playback in Windows 8 devices;
- The extent to which earlier versions of Microsoft operating systems, including Windows 7, continue to be licensed after the release of Windows 8;
- Our ability to establish and extend licensing relationships directly with PC OEMs and ISVs;
- The rate at which entertainment content shifts from optical disc media to online media, thus reducing the need for PCs to have optical disc drives and DVD and Blu-ray Disc software players; and
- Our ability to extend the adoption of our technologies to online and mobile platforms.

In the short term, revenue from our PC market remains dependent on several factors, including underlying PC unit shipment growth and the extent to which our technologies are included in operating systems and ISV media applications. We continue to face risks relating to:

- Purchasing trends away from traditional PCs and toward alternative devices without optical disc drives, such as ultrabooks and tablets, which may not include our technologies;
- The prevalence of PC software that includes our technologies on an unauthorized and infringing basis, for which we receive no royalty payments; and
- Continued decreasing inclusion of ISV media applications by PC OEMs in their Windows 7-based PCs, as Windows 7 already incorporates DVD playback software.

Our CE market, driven primarily by revenue attributable to Blu-ray Disc and DVD players and recorders, represented approximately 17% and 20% of licensing revenue in the first quarter of fiscal 2013 and first quarter of fiscal 2012, respectively. Sales of DVD players are declining as a result of the maturity of the DVD platform and a shift to Blu-ray players and other connected devices capable of delivering content. The decline in DVD revenue is only partly offset by revenue from Blu-ray players which have been adversely impacted by the popularity of other connected devices. At the same time, royalties on Blu-ray players have declined as licensees have migrated to products with lower average selling prices. Revenue from other home theater devices categorized in our CE market remained relatively unchanged from the first quarter of fiscal 2012.

Our Mobile market represented approximately 11% and 8% of our licensing revenue in the first quarter of fiscal 2013 and first quarter of fiscal 2012, respectively. Mobile revenue is largely driven by sales of smartphones and tablet devices that incorporate our technologies. Our growth in this market is dependent not only on the underlying growth of the mobile device market as a whole, but also on the success of the mobile devices incorporating our technologies. Under our arrangement entered into with Microsoft in May 2012 as noted above, OEMs generally are required to directly license and pay us a base royalty rate for the right to use the Dolby technologies included in Windows 8 installed on the tablets they produce for online and file-based content.

Revenue generated from our other markets stem from gaming, automotive and licensing services, and represented approximately 10% and 12% of licensing revenue in the first quarter of fiscal 2013 and first quarter of fiscal 2012, respectively. Revenue attributable to gaming and automotive is primarily driven by sales of video game consoles and in-car entertainment systems, respectively, that incorporate our Dolby Digital, Dolby Digital Plus, AAC, and Dolby TrueHD technologies. Licensing services revenue, from administration of joint licensing programs, is primarily driven by demand for standards-based audio compression technologies for broadcast, PC, CE, and mobile products.

Consumer entertainment products throughout the world incorporate our technologies. We expect that sales of such products incorporating our technologies in emerging economies such as Brazil, China, India, and Russia, will increase in the future as consumers in these markets acquire more disposable income with which to purchase entertainment products.

However, events in these economies or in the world economy in general may contradict these expectations. Moreover, we expect that OEMs in lower-cost manufacturing countries, including China, will increase production in response to this demand and that traditional OEMs will continue to shift their manufacturing operations to these lower-cost manufacturing countries. There are substantial risks associated with doing business in such countries, including OEMs failing to report or underreporting shipments of products incorporating our technologies, that have affected and will continue to affect our operating results.

Revenue from Microsoft represented approximately 12% and 14% of our total revenue in the first quarter of fiscal 2013 and first quarter of fiscal 2012, respectively, and included licensing revenue from our PC, CE, and other markets. Additionally, revenue from Samsung represented approximately 11% of our total revenue in the first quarter of fiscal 2013, and included licensing revenue from our PC, CE, mobile, and other markets.

Products

Products revenue is driven primarily by sales of equipment to cinema operators and broadcasters and represented 11% of our total revenue in both the first quarter of fiscal 2013 and first quarter of fiscal 2012.

Our cinema products represented approximately 87% and 84% of total products revenue in the first quarter of fiscal 2013 and first quarter of fiscal 2012, respectively. Sales of our cinema products tend to fluctuate based on the underlying trends in the cinema industry, including the popularity of individual movies, as cinema owners often purchase equipment to meet expected box office demand.

Our recently introduced Dolby Atmos enhances the cinema experience through the use of a hybrid approach that combines multi-channel audio with discrete audio objects. This approach provides more flexibility and control for sound designers and mixers to deliver a more natural and realistic sound environment.

The cinema industry is transitioning from traditional film to digital cinema, and we estimate that the industry is more than halfway through this transition. Digital cinema offers motion picture studios a means to save costs in printing and distributing movies, combat piracy, and enable repeated movie playback without degradation in image and audio quality. Our cinema products include our Dolby Digital Cinema Integrated Media Block, screen server and central library server, for the storage and playback of digital content, and our digital audio processor, which provides audio control for our digital cinema servers. We expect that most cinema owners who are either constructing new theaters or upgrading existing theaters will choose digital cinema products over traditional film cinema products. However, our competitive position in the digital cinema market is not as strong as our position in the traditional film cinema market. For example, digital cinema specifications are based on open standards which, unlike traditional cinema standards, do not include our proprietary audio technologies. Furthermore, we are facing more pricing and other competitive pressures for our digital cinema products than we experience for our traditional film cinema products.

Digital cinema standards are defined by the Digital Cinema Initiative (“DCI”) specifications, and we have developed software for our currently available digital cinema server that is DCI compliant. This software was made commercially available during fiscal 2012.

Our digital 3D products provide 3D image capabilities when combined with a digital cinema projector and server. Our cinema products revenue has been negatively impacted by declines in unit shipments and lower selling prices for 3D products, as the market for 3D cinema equipment has become increasingly competitive. We also believe the decrease in revenue from our 3D products reflects a higher saturation of 3D enabled screens within the cinema industry.

Our traditional film cinema products are used primarily to read, decode, and play back film soundtracks, to calibrate cinema sound systems, and to enable soundtracks encoded in digital audio formats to be played back on analog cinema audio systems. As investment by the cinema industry in digital cinema has increased, revenue from our traditional film cinema products has declined, and we expect this decline to continue.

Our broadcast products represented approximately 9% and 13% of total products revenue in the first quarter of fiscal 2013 and first quarter of fiscal 2012, respectively. Our broadcast products are used to encode, transmit, and decode multiple channels of high quality audio content for DTV and HDTV program production and broadcast distribution and to measure the subjective loudness of audio content within broadcast programming.

Services

Services revenue represented approximately 3% of our total revenue in both the first quarter of fiscal 2013 and first quarter of fiscal 2012. The level of our services revenue is primarily tied to activity in the cinema industry, and has been adversely impacted by the industry's transition from film to digital-based production. Services are also dependent upon the volume of film production by studios and independent filmmakers. Several factors influence the number of movies produced in a given fiscal period, including strikes and work stoppages within the cinema industry, as well as tax incentive arrangements provided by many governments to promote local filmmaking. Services revenue is also impacted by the transition to digital cinema in some regions.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based on our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP"), and pursuant to Securities and Exchange Commission ("SEC") rules and regulations. GAAP and SEC rules and regulations require us to use accounting policies and make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies as of the date of the financial statements, and the reported amounts of revenue and expenses during a fiscal period. The SEC considers an accounting policy or estimate to be critical if it is both important to a company's financial condition and/or results of operations and requires significant judgment on the part of management in its application. On a regular basis, we evaluate our assumptions, judgments, and estimates. We have discussed the selection and development of our critical accounting policies and estimates with the Audit Committee of our Board of Directors. The Audit Committee has reviewed our related disclosures of these in our Annual Report on Form 10-K for the fiscal year ended September 28, 2012. Although we believe that our judgments and estimates are appropriate and correct, actual results may differ from these estimates. There have been no changes to our critical accounting policies from those described in our Annual Report on Form 10-K for the fiscal year ended September 28, 2012.

We consider the following to be critical accounting policies and estimates because we believe they are both important to the portrayal of our financial condition and results of operations and require management judgments about matters that are uncertain. If actual results or events differ materially, our reported financial condition and results of operation for future periods could be materially affected. See our "*Risk Factors*" for further information on the potential risks to our future results of operations.

Revenue Recognition

We enter into revenue arrangements with our customers to license technologies, trademarks, and know-how and to sell products and services. We recognize revenue when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable, and collectibility is probable. Judgment is required to assess whether collectibility is probable. We determine collectibility based on an evaluation of our customer's recent payment history, the existence of a standby letter of credit between the customer's financial institution and our financial institution, and other factors.

Our revenue arrangements may include multiple elements, such as hardware, software, maintenance, and other services. We evaluate each element in a multiple element ("ME") arrangement to determine whether it represents a separate unit of accounting. An element constitutes a separate unit of accounting when it has standalone value and delivery of an undelivered element is both probable and within our control. When these criteria are not met, the delivered and undelivered elements are combined and the arrangement fees are allocated to a combined single unit.

If the unit separation criteria are met, we account for each element within a ME arrangement (such as hardware, software, maintenance, and other services) separately, and we allocate fees from the arrangement based on its relative selling price, which we establish using a selling price hierarchy. We determine the selling price of each element based on its vendor specific objective evidence ("VSOE"), if available, third-party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available.

We determine our best estimate of the selling price for an individual element within a ME revenue arrangement using the same methods used to determine the selling price of an element sold on a standalone basis. If we sell the element on a standalone basis, we estimate the selling price by considering actual sales prices. Otherwise, we estimate the selling price by considering internal factors such as pricing practices and margin objectives. Consideration is also given to market conditions such as competitor pricing strategies, customer demands, and industry technology lifecycles. Management applies judgment to establish margin objectives, pricing strategies, and technology lifecycles.

For some arrangements, customers receive certain elements over a period of time, after delivery of the initial product. These elements may include support and maintenance and/or the right to receive upgrades. Revenue allocated to the undelivered element is recognized either over its estimated service period or when the upgrade is delivered. We do not recognize revenue that is contingent upon the future delivery of products or services or upon future performance obligations. We recognize revenue for delivered elements only when we have completed all contractual obligations.

Revenue recognition for transactions which involve software, such as fees we earn from certain system licensees, requires judgment, including whether a software arrangement includes multiple elements, and if so, whether VSOE of fair value exists for those elements. For some of our ME arrangements, customers receive certain elements of the arrangement over a period of time or after delivery of the initial software. These elements may include support and maintenance. The fair values of these elements are recognized over the estimated period for which these elements will be delivered, which is sometimes the estimated life of the software. If we do not have VSOE of fair value for any undelivered element included in these ME arrangements for software, we defer revenue until all elements are delivered and/or services have been performed, or until we have VSOE of fair value for all remaining undelivered elements. If the undelivered element is support and we do not have fair value for the support element, revenue for the entire arrangement is bundled and recognized ratably over the support period.

We account for our digital cinema server sales as ME arrangements that may include up to three separate units, or elements, of accounting. The first element consists of our digital cinema server hardware and the accompanying software, which is essential to the functionality of the hardware. This element is typically delivered at the time of sale. The second element is the right to receive support and maintenance, which is included with the purchase of the hardware element and is typically delivered over a service period subsequent to the initial sale. The third element is the right to receive specified upgrades, which is included with the purchase of the hardware element and is typically delivered when a specified upgrade is available, subsequent to the initial sale. The application of the revenue accounting standards to our digital cinema server sales typically results in the allocation of a substantial majority of the arrangement fees to the delivered hardware element based on its ESP, relative to the VSOE or ESP of the other elements, which we recognize as revenue at the time of sale. A small portion of the arrangement fees is allocated to the undelivered support and maintenance element, and in some cases to the undelivered specified upgrade element, based on the VSOE or ESP of each element. The portion of the arrangement fees allocated to the support and maintenance element is recognized as revenue ratably over the estimated service period and the portion of the arrangement fees allocated to specified upgrades is recognized as revenue upon delivery of the upgrade.

Goodwill, Intangible Assets, and Long-Lived Assets

We perform our annual goodwill impairment test during the third quarter of each fiscal year, and whenever events or changes in circumstances indicate that the carrying amount may be impaired.

In performing our annual goodwill impairment test, we first assess qualitative factors to determine whether it is more likely than not (a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform a two-step goodwill test. We consider events and circumstances, including but not limited to, macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, changes in management or key personnel, changes in strategy, changes in customers, changes in the composition or carrying amount of a reporting unit's net assets and changes in the price of our common stock. If, after assessing the totality of events or circumstances, we determine that it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then the two-step goodwill impairment test is not performed.

If the two-step goodwill test is performed, we evaluate and test our goodwill for impairment at a reporting-unit level using expected future cash flows to be generated by the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the calculated fair value of the goodwill. A reporting unit is an operating segment or one level below. Our operating segments are aligned with the management principles of our business.

We completed our annual goodwill impairment assessment in the fiscal quarter ended June 29, 2012. At the time of our annual goodwill impairment test for fiscal 2012, we had two reporting units: Via, which corresponds to our wholly owned subsidiary and has no assigned goodwill, and Dolby Entertainment Technology ("DET"), with goodwill of $263.5 million. We determined, after performing a qualitative review and assessing the totality of the events and circumstances described above, that it is more likely than not that the fair value of each reporting unit is greater than its carrying amount. Accordingly there was no indication of impairment and the two-step goodwill impairment test was not performed. We did not recognize any goodwill impairment losses in the first quarter of fiscal 2013, fiscal 2012, or fiscal 2011.

Intangible assets with definite lives are amortized over their estimated useful lives. Our intangible assets principally consist of acquired technology, patents, trademarks, customer relationships, and contracts, which are amortized on a straight-line basis over their useful lives ranging from two to fifteen years.

We review long-lived assets, including intangible assets, for impairment whenever events or a change in circumstances indicate an asset's carrying value may not be recoverable. Recoverability of an asset is measured by comparing its carrying value to the total future undiscounted cash flows that the asset is expected to generate. If it is determined that an asset is not recoverable, an impairment loss is recorded in the amount by which the carrying value of the asset exceeds its estimated fair value.

Accounting for Income Taxes

We make estimates and judgments that affect our accounting for income taxes. This includes estimating actual tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences, including the timing of the recognition of stock-based compensation expense, result in deferred tax assets and liabilities, which are included in our condensed consolidated balance sheets. We also assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent that we believe that recovery is not likely, we establish a valuation allowance.

Our policy is to recognize a tax benefit from an uncertain tax position only if it is more likely than not that the tax position is sustainable upon examination by tax authorities. We include interest and penalties related to gross unrecognized tax benefits within our provision for income taxes. When accrued interest and penalties do not ultimately become payable, amounts accrued are reduced in the period that such determination is made and are reflected as a reduction of the overall income tax provision.

Significant judgment is required in determining the provision for income taxes, the deferred tax asset and liability balances, the valuation allowance against our deferred tax assets, and the reserve resulting from uncertainties in income tax positions. Our financial position and results of operations may be materially affected if actual results differ significantly from these estimates or if the estimates are adjusted in future periods.

Valuation and Classification of Investments

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 classify our financial assets and liabilities measured at fair value using a three-level hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that reflect the assumptions market participants would use in pricing the investment that are based on market data obtained from sources independent of the reporting entity, such as market quoted prices. GAAP establishes a three-level hierarchy prioritizing the inputs used in measuring fair value as follows: the fair value hierarchy gives the highest priority to quoted prices in active markets that are accessible by us at the measurement date for identical investments, described as Level 1, and the lowest priority to valuation techniques using unobservable inputs, described as Level 3. 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. Fair value from this professional pricing source can also be based on pricing models whereby all significant inputs, including maturity dates, issue dates, settlement dates, benchmark yields, reported trades, broker-dealer quotes, issuer spreads, benchmark securities, bids, offers, and other market related data, are observable or can be derived from or corroborated by observable market data for substantially the full term of the asset.

The degree to which estimates and judgment are used in determining fair value, is generally dependent upon the market pricing information available for the investments, the availability of observable inputs, the frequency of trading in the investments and the investment's complexity. If different judgments regarding inputs were made, we could potentially reach different conclusions regarding the fair value of our investments.

Stock-Based Compensation

We determine the expense for all employee stock-based compensation awards by estimating their fair value and recognizing that value as an expense, on a ratable basis, in our condensed consolidated financial statements over the requisite service period in which our employees earn the awards. We use the Black-Scholes option pricing model to determine the fair value of employee stock options at the date of the grant. To determine the fair value of a stock-based award using the Black-Scholes option pricing model, we make assumptions regarding the expected term of the award, the expected future volatility of our stock price over the expected term of the award, and the risk-free interest rate over the expected term of the award. We estimate the expected term of our stock-based awards by evaluating historical exercise patterns of our employees. We use a blend of the historical volatility of our common stock and the implied volatility of our traded options as an estimate of the expected volatility of our stock price over the expected term of the awards. We use an average interest rate based on U.S. Treasury instruments with terms consistent with the expected term of our awards to estimate the risk-free interest rate. We reduce the stock-based compensation expense for estimated forfeitures based on our historical experience. We are required to estimate forfeitures at the time of the grant and revise our estimate, if necessary, in subsequent periods if actual forfeitures differ from our estimate.

Recently Issued Accounting Standards

There have been no new accounting pronouncements not yet effective that have significance, or potential significance, to our condensed consolidated financial statements.

Results of Operations

Revenue

	Fiscal Quarter Ended		Change	
	December 28, 2012	December 30, 2011	$	%
	($ in thousands)			
Licensing	$ 204,876	$ 200,424	$ 4,452	2 %
Percentage of total revenue	*86%*	*86%*		
Products	25,498	26,400	(902)	(3)%
Percentage of total revenue	*11%*	*11%*		
Services	6,228	7,354	(1,126)	(15)%
Percentage of total revenue	*3%*	*3%*		
Total revenue	**$ 236,602**	**$ 234,178**	**$ 2,424**	**1 %**

Licensing. The 2% increase in licensing revenue from the first quarter of fiscal 2012 to the first quarter of fiscal 2013 was primarily driven by increases in our broadcast and mobile markets, partially offset by decreases in our CE and other markets. The increase in our broadcast and mobile markets was primarily driven by higher shipments of products that incorporate our technologies along with higher settlements from implementation licensees. Beginning in the first quarter of fiscal 2013, we have classified settlements from implementation licensees as revenue rather than an offset to sales and marketing expenses. For additional details on the change in classification, see Note 1 “Basis of Presentation” to our condensed consolidated financial statements. The decrease in our CE market was primarily attributable to declines in sales of DVD and Blu-ray Disc devices, while the decrease in our other markets was primarily attributable to declines in sales of video game consoles that incorporate our technologies.

Products. The 3% decrease in products revenue from the first quarter of fiscal 2012 to the first quarter of fiscal 2013 was primarily driven by decreases in our film-based cinema products. The decrease in revenue from broadcast products was primarily driven by our customers' ongoing transition to software licensing solutions and to a lesser extent, lower average selling prices as a result of increased competition. The decrease in revenue from film-based products was primarily due to lower shipments, as more exhibitors converted to digital cinema, and to a lesser extent lower pricing.

Services. The 15% decrease in services revenue from the first quarter of fiscal 2012 to the first quarter of fiscal 2013 was attributable primarily to decreases in film-based production services. This decrease was partially offset by an increase in maintenance and support services.

Gross Margin

	Fiscal Quarter Ended	
	December 28, 2012	December 30, 2011
	($ in thousands)	
Cost of licensing	$ 3,080	$ 3,328
Licensing gross margin percentage	*98%*	*98%*
Cost of products	18,489	13,888
Products gross margin percentage	*27%*	*47%*
Cost of services	4,036	3,194
Services gross margin percentage	*35%*	*57%*
Total gross margin percentage	**89%**	**91%**

Licensing Gross Margin. We license intellectual property to our customers that may be internally developed, acquired by us, or licensed from third parties. Our cost of licensing consists principally of amortization expenses associated with purchased intangible assets and intangible assets acquired in business combinations. Our cost of licensing also includes third-party royalty obligations paid to license intellectual property that we then sublicense to our customers. Licensing gross margin was unchanged from the first quarter of fiscal 2012 to the first quarter of fiscal 2013.

Products Gross Margin. Cost of products primarily consists of the cost of materials related to products sold, applied labor and manufacturing overhead, and, to a lesser extent, amortization of certain intangible assets. Our cost of products also includes third-party royalty obligations paid to license intellectual property that we then include in our products. Products gross margin decreased from 47% to 27% from the first quarter of fiscal 2012 to the first quarter of fiscal 2013. This decrease was primarily due to lower average selling prices in all product markets, combined with lower gross margins on certain digital cinema products released near the end of fiscal 2012. Discrete charges related to inventory valuation were higher in the first quarter of fiscal 2013 as compared to the first quarter of fiscal 2012, partially offset by improvements in manufacturing costs in the first quarter of fiscal 2013.

Services Gross Margin. Cost of services primarily consists of personnel and personnel-related costs for employees performing our professional services such as compensation and benefits expenses, including stock-based compensation, the cost of outside consultants, and other direct expenses incurred on behalf of customers. Services gross margin decreased from 57% to 35% from the first quarter of fiscal 2012 to the first quarter of fiscal 2013 primarily due to higher labor costs incurred in connection with exhibitor installations of equipment for Dolby Atmos-enabled theaters.

Operating Expenses

	Fiscal Quarter Ended		Change	
	December 28, 2012	December 30, 2011	$	%
	($ in thousands)			
Research and development	$ 42,436	$ 32,826	$ 9,610	29 %
Percentage of total revenue	*18%*	*14%*		
Sales and marketing	58,421	43,816	14,605	33 %
Percentage of total revenue	*25%*	*18%*		
General and administrative	43,108	35,465	7,643	22 %
Percentage of total revenue	*18%*	*15%*		
Restructuring charges, net	—	368	(368)	(100)%
Percentage of total revenue	*n/a*	*—%*		
	$ 143,965	**$ 112,475**	**$ 31,490**	**28 %**

Research and Development. Research and development expenses consist primarily of employee compensation and benefits expenses, including stock-based compensation, consulting and contract labor costs, depreciation and amortization expenses, facilities costs, and information technology expenses. The 29% increase in research and development expenses from the first quarter of fiscal 2012 to the first quarter of fiscal 2013 was primarily driven by increases in personnel, facilities, and information technology expenses, as the Company expanded its efforts to develop new products and technologies.

Sales and Marketing. Sales and marketing expenses consist primarily of employee compensation and benefits expenses, including stock-based compensation, marketing and promotional expenses, travel-related expenses for our sales and marketing personnel, facilities costs, depreciation and amortization expenses, and information technology expenses. The 33% increase in sales and marketing expenses from the first quarter of fiscal 2012 to the first quarter of fiscal 2013 was primarily driven by higher consulting and marketing costs related to the recent launch of Atmos technology, as well as expenses for promotional events and naming rights associated with the Dolby Theatre. Additionally, the increase from the first quarter of fiscal 2012 to the first quarter of fiscal 2013 was driven by additional headcount. Beginning in the first quarter of fiscal 2013, settlements from implementation licensees have been classified as licensing revenue rather than an offset to sales and marketing expenses. For additional details on the reclassification, see Note 1 "Basis of Presentation" to our condensed consolidated financial statements.

General and Administrative. General and administrative expenses consist primarily of employee compensation and benefits expenses, including stock-based compensation, depreciation, information technology expenses, professional fees, consulting and contract labor and facilities costs. The 22% increase in general and administrative expenses from the first quarter of fiscal 2012 to the first quarter of fiscal 2013 was due primarily to higher professional fees largely related to general legal matters, and higher personnel expenses that include compensation, benefits, and stock-based compensation expenses, which increased as a result of additional headcount.

Restructuring Charges, net. Restructuring charges for the first quarter of fiscal 2012 include severance and other associated costs attributable to the reorganization of our global business infrastructure and a strategic restructuring program.

Other Income, Net

	Fiscal Quarter Ended		Change	
	December 28, 2012	December 30, 2011	$	%
	($ in thousands)			
Interest income	$ 1,339	$ 1,737	$ (398)	(23)%
Interest expense	(25)	(26)	1	(4)%
Other income/(expense), net	713	200	513	257 %
Total other income, net	**$ 2,027**	**$ 1,911**	**$ 116**	**6 %**

Other income, net, primarily consists of interest income earned on cash, cash equivalents, and investments, as well as net gains/losses from foreign currency transactions. Other income, net, primarily consists of interest income earned on cash, cash equivalents, and investments, as well as net gains/losses from foreign currency transactions. The increase in other income from the first quarter of fiscal 2012 to the first quarter of fiscal 2013 was primarily driven by an increase in realized gains on investment securities sold. These securities were sold to fund the payment of a special one-time dividend to eligible stockholders in the first quarter of fiscal 2013.

Income Taxes

	Fiscal Quarter Ended	
	December 28, 2012	December 30, 2011
	($ in thousands)	
Provision for income taxes	$ 17,582	$ 29,838
Effective tax rate	25%	29%

Our effective tax rate is based on a projection of our full fiscal year results. Our effective tax rate was 25% and 29% for the first quarters of fiscal 2013 and fiscal 2012, respectively.

Our effective tax rate for the first quarter of fiscal 2013 was lower than the first quarter of fiscal 2012 primarily due to recognized tax benefits from the expiration of statute of limitations on some uncertain tax positions. In January 2013, the federal research credit was retroactively re-enacted through December 31, 2013. As a result, we expect that our income tax provision for the second quarter of fiscal 2013 will include an estimated discrete tax benefit of approximately $1.5 million.

Liquidity, Capital Resources, and Financial Condition

As of December 28, 2012, we had cash and cash equivalents of $316.2 million, which consisted of cash and highly-liquid money market funds. In addition, we had short-term and long-term investments of $427.0 million, which consisted primarily of municipal debt securities, corporate bonds, and U.S. agency securities. Of our total cash, cash equivalents, and investments held as of December 28, 2012, $203.9 million, or 27%, was held by our foreign subsidiaries. This represented a $30.5 million decrease from the $234.4 million that was held by our foreign subsidiaries as of September 28, 2012. A majority of the amounts held outside of the U.S. are generally utilized to support non-U.S. liquidity needs in order to fund operations and other growth of our non-U.S. subsidiaries and acquisitions. Our policy is to indefinitely reinvest a portion of our undistributed earnings in certain foreign subsidiaries. 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 applicable foreign tax credits.

	December 28, 2012	September 28, 2012
	(in thousands)	
Cash and cash equivalents	$ 316,193	$ 492,600
Short-term investments	118,681	302,693
Long-term investments	308,277	361,614
Accounts receivable, net	51,797	43,495
Accounts payable and accrued liabilities	108,919	130,923
Working capital[(a)]	474,093	813,446

	Fiscal Quarter Ended	
	December 28, 2012	December 30, 2011
	(in thousands)	
Net cash provided by operating activities	$ 67,009	$ 95,792
Capital expenditures [(b)]	(6,717)	(12,566)
Repurchase of common stock	(53,956)	(26,068)
Net cash provided by investing activities	222,512	31,601
Net cash used in financing activities	(465,866)	(24,228)

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

(b) Capital expenditures consist of purchases of land, building, building fixtures, office equipment, computer hardware and software, leasehold improvements, and production and test equipment.

Our principal sources of liquidity are our cash, cash equivalents, and investments, as well as cash flows from operations. We believe that our cash, cash equivalents, and potential cash flows from operations will be sufficient to satisfy our currently anticipated cash requirements through at least the next 12 months.

In July 2012, we purchased an approximately 354,000 square foot property in San Francisco, California for $109.8 million, using existing cash. We are in the process of making substantial improvements to the property in order to prepare the building for its intended use as our new worldwide headquarters.

On December 11, 2012, we announced the declaration by our Board of Directors of a one-time special dividend in the amount of $4.00 per share on our Class A and Class B Common Stock. Payment of the special dividend was made on December 27, 2012 to eligible stockholders of record as of the close of business on December 21, 2012 (the "Record Date"). Based on the 102,051,386 shares of Class A and Class B Common Stock outstanding as of the record date, the total special dividend payment was $408.2 million. To fund the dividend payment, we used existing cash along with cash generated from sales of investment securities.

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

Net cash provided by operating activities during the first quarter of fiscal 2013 decreased $28.8 million from the first quarter of fiscal 2012, primarily due to the following:

- A decrease in net income, as adjusted for non-cash items;
- An increase in accounts receivable primarily due to timing differences

Net cash provided by investing activities during the first quarter of fiscal 2013 increased $190.9 million from the first quarter of fiscal 2012, primarily due to the following:

- An increase in proceeds from the sales and maturities of available-for-sale securities; partially offset by
- An increase in purchases of available-for-sale securities;

Net cash used in financing activities during the first quarter of fiscal 2013 decreased $441.6 million from the first quarter of fiscal 2012, primarily due to the following:

- The payment of a one-time special dividend to holders of our Class A and Class B common stock;
- An increase in share repurchases of our Class A common stock; partially offset by

- An increase in net proceeds from the exercise of employee stock options and the related tax benefit.

Off-Balance-Sheet and Contractual Obligations

Our liquidity is not dependent on the use of off-balance sheet financing arrangements.

As of December 28, 2012, we had an accrued liability for unrecognized tax benefits and related interest and penalties, net of related deferred tax assets, totaling $16.4 million. We are unable to estimate when any cash settlement with a taxing authority might occur.

There has been no material change in our contractual obligations outside the ordinary course of business since the end of our last fiscal year ended September 28, 2012. For additional details regarding our contractual obligations, see Note 9 “Commitments and Contingencies” to our condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity

As of December 28, 2012, we had cash and cash equivalents of $316.2 million, which consisted of cash and highly-liquid money market funds. In addition, we had short-term and long-term investments of $427.0 million, which consisted primarily of municipal debt securities, corporate bonds, and U.S. agency securities. Our investment policy and strategy are focused on the preservation of capital and on supporting our liquidity requirements. We do not enter into investments for trading or speculative purposes, nor do we use leveraged financial instruments. Our holdings of cash and cash equivalents and marketable securities, the majority of which are managed by external managers, meet the guidelines of our investment policy. We invest in highly rated securities with a minimum credit rating of A- and our policy limits the amount of credit exposure to any one issuer other than the U.S. government. At December 28, 2012, our weighted average portfolio credit quality was AA- and the weighted average maturity of our investment portfolio was approximately fifteen months.

The investments within our fixed-income portfolio are subject to fluctuations in interest rates, which could affect our financial position, and to a lesser extent, results of operations. Based on our investment portfolio balance as of December 28, 2012, hypothetical changes in interest rates of 1% and 0.5% would have an impact on the carrying value of our portfolio of approximately $5.4 million and $2.7 million, respectively.

Foreign Currency Exchange Risk

We maintain sales, marketing, and business operations in foreign countries, most significantly in the United Kingdom, Australia, China, the Netherlands, and Germany. We also conduct a growing portion of our business outside of the U.S. through subsidiaries with functional currencies other than the U.S. dollar (primarily British Pound, Australian Dollar, Chinese Yuan Renminbi, and Euro). 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. Most of our revenue from international markets is denominated in U.S. dollars, while the operating expenses of our international subsidiaries are predominantly denominated in local currency. Therefore, if the U.S. dollar weakens against the local currency, we will have increased operating expenses. Conversely, if the U.S. dollar strengthens against the local currency, operating expenses will decrease. 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 condensed consolidated statements of operations. Our international operations are subject to risks typical of international business, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility.

We enter into foreign currency forward contracts to hedge against assets and liabilities for which we have foreign currency exchange rate exposure, in an effort to reduce the risk that our earnings will be adversely affected by foreign currency exchange rate fluctuations. These derivative instruments are carried at fair value with changes in the fair value recorded to other income, net, in our condensed consolidated statements of operations. Our foreign currency forward contracts which are not designated as hedging instruments 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 because gains and losses on these derivatives are intended to offset gains and losses on the related receivables and payables for which we have foreign currency exchange rate exposure. As of December 28, 2012 and September 28, 2012, the outstanding derivative instruments had maturities of 30 days or less and the total notional amounts of outstanding contracts were $6.8 million and $5.0 million, respectively. The fair values of these contracts were nominal as of December 28, 2012 and September 28, 2012, and were included in prepaids and other current assets and accrued liabilities in our condensed consolidated balance sheets.

A sensitivity analysis was performed on all of our foreign currency forward contracts as of December 28, 2012. This sensitivity analysis was based on a modeling technique that measures the hypothetical market value resulting from a 10% shift in the value of exchange rates relative to the U.S. dollar. For these forward contracts, duration modeling was used where hypothetical changes are made to the spot rates of the currency. A 10% increase in the value of the U.S. dollar would lead to an increase in the fair value of our financial instruments by $0.5 million. Conversely, a 10% decrease in the value of the U.S. dollar would result in a decrease in the fair value of these financial instruments by $0.5 million.

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 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized 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 Chief Executive Officer and Chief Financial Officer, 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 Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective to meet the objective for which they were designed and operate at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended December 28, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

We depend on the sale by our licensees of products that incorporate our technologies and any reduction in those sales would adversely affect our licensing revenue.

Licensing revenue constitutes the majority of our total revenue, representing 86%, 86%, and 83% in the first quarter of fiscal 2013, fiscal 2012, and fiscal 2011, respectively. We do not manufacture consumer entertainment products ourselves and we depend on licensees and customers, including software vendors and original equipment manufacturers (“OEM”), to incorporate our technologies into their products.

Although we have license agreements with many of these companies, these agreements generally do not have minimum purchase commitments, are typically non-exclusive, and frequently do not require incorporation or use of our technologies. Accordingly, our revenue will decline if our licensees choose not to incorporate our technologies in their products, or if they sell fewer products incorporating our technologies, or if they otherwise face significant economic difficulties. Changes in consumer tastes or trends, rapidly evolving technology, competing products, changes in industry standards or adverse changes in business and economic conditions, among other things, may result in lower sales of products incorporating our technologies which would adversely affect our licensing revenue.

We also face the risk that our licensees retain product channel inventory levels that exceed future anticipated sales. If such product sales do not occur in the time frame anticipated by our licensees for any reason, these licensees may substantially decrease the number of technologies they license from us in subsequent periods.

To the extent that sales of PCs with Dolby technologies decline, our licensing revenue will be adversely affected.

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, independent software vendors (“ISV”) media applications, or otherwise, and the terms of any royalties or other payments we receive from licensors of such software. We face many risks in the PC market that may affect our ability to successfully participate in that market, including, but not limited to the following:

- Purchasing trends away from traditional PCs and toward computing devices without optical disc drives, such as ultrabooks and tablets, which may not include our technologies;
- The prevalence of PC software that includes our technologies on an unauthorized and infringing basis, for which we receive no royalty payments; and
- Continued decreasing inclusion of ISV media applications by PC OEMs in their Windows 7- based PCs, as Windows 7 already incorporates DVD playback software.

In May 2012, we entered into an agreement with Microsoft relating to the inclusion of Dolby Digital Plus decoding and Dolby Digital Consumer Encoder in the Windows 8 operating system. There are no assurances that we will derive as much licensing revenue under this model as we did under our prior licensing arrangements with Microsoft. The ultimate financial impact of these licensing arrangements for Windows 8 on our licensing revenue is subject to various risks, including:

- The extent and rate at which Windows 8 is adopted in the marketplace;
- The extent to which OEMs include optical disc playback in Windows 8 devices;
- The extent to which earlier versions of Microsoft operating systems, including Windows 7, continue to be licensed after the release of Windows 8;
- Our ability to establish and extend licensing relationships directly with PC OEMs and ISVs;
- The rate at which entertainment content shifts from optical disc media to online media, thus reducing the need for PCs to have optical disc drives and DVD and Blu-ray Disc software players; and
- Our ability to extend the adoption of our technologies to online and mobile platforms and devices.

Any of these risks could adversely affect our licensing revenue.

General economic conditions may reduce our revenue and harm our business.

We continue to be cautious regarding future general economic conditions and their potential for suppressed consumer demand in the markets in which we license our technologies and sell our products. Our business could be affected by adverse changes in general economic conditions, because many of the products in which our technologies are incorporated are discretionary goods, such as PCs, digital televisions, set-top boxes, DVD players and recorders, Blu-ray Disc players, video game consoles, audio/video receivers, mobile devices, in-car entertainment systems, home-theater-in-a-box systems, camcorders, and portable media devices. The global economic environment has adversely affected consumer confidence, disposable income, and spending. While we cannot predict future general economic conditions, these conditions may persist or worsen.

Furthermore, continued weakness in general economic conditions may result in a greater likelihood that more of our licensees and customers will become delinquent on their obligations to us or be unable to pay, which in turn could result in a higher level of write-offs. Additionally, such economic conditions may result in increased underreporting and non-reporting of royalty-bearing revenue by our licensees as well as increased unauthorized use of our technologies, all of which would adversely affect our revenues.

Our future success depends upon the growth of new and existing markets for our technologies and our ability to develop and adapt our technologies for those markets.

The future growth of our licensing revenue will depend, in part, upon the growth of, and our successful participation in, new and existing markets for our technologies, such as digital broadcast, online and mobile media distribution, consumer video and voice. For example, growth of our broadcast revenue is dependent upon continued global growth of digital television broadcasting and the adoption of our technologies into emerging digital broadcast standards. In addition, our revenue is dependent upon the growth of the PC market and the continued adoption of our technologies into PCs as well as the adoption of our technologies into connected portable devices such as tablets and smartphones. Furthermore, our ability to drive OEM demand for our technologies depends in part on whether or not we are able to successfully participate in the online and mobile content delivery markets.

Our ability to penetrate new and existing markets for our technologies depends on increased consumer demand for products that contain our technologies, which may not occur. Some of these markets are ones in which we have not previously participated or have limited experience, such as voice and consumer video, and we may not adequately adapt our business and our technologies to consumer demand.

If new and existing markets for our technologies do not develop or consumer demand for products that contain our technologies does not grow, our business and prospects would be materially adversely affected.

If we do not continue to develop and deliver innovative technologies in response to industry and technology changes, our business could decline.

The markets for our technologies and products are defined by:

- Rapid technological change;
- New and improved technology and 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 existing technologies and products and to develop acceptable new technologies and products that address the needs of the market in a timely manner. The development of enhanced and new technologies and products is a complex and 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. For example, while we view the continued advancements in online and mobile media content delivery as an area of opportunity, if we are not able to competitively address the needs of the changing online and mobile markets, our ability to generate revenue from those markets would be limited. At times such changes can be dramatic, such as the shift from VHS tapes to DVDs for consumer playback of movies in homes and elsewhere.

We face many risks related to the 3D cinema market.

We face many risks in the 3D cinema market which may affect our ability to successfully participate in that market, including, but not limited to the following:

- We face risks that our customers maintain excess product inventory levels which could reduce future anticipated sales;
- At least one of our competitors has exclusive licensing arrangements for 3D products with theater exhibitors, which has in the past and we expect will in the future restrict our ability to compete in the 3D market;
- The 3D market has become increasingly competitive and we may lose further market share;
- With the industry transition to 3D enabled screens substantially complete, demand for new 3D enabled screens has dropped significantly and the industry has entered into a replacement cycle;
- Industry participants may perceive our up-front 3D equipment costs and reusable glasses business model or our 3D products as less attractive;
- Our participation in the 3D cinema market will be limited to the extent that theaters do not convert from analog to digital cinema;
- Demand for our 3D cinema products is driven by the number of 3D cinema releases and the commercial success of those releases;
- Our 3D glasses could become subject to regulation in the U.S. and other countries in the future, which could restrict how our 3D glasses are manufactured, used, or marketed; and
- There has been increased public scrutiny of potential health risks relating to viewing 3D movies. If these potential health risks are substantiated, the popularity of 3D movies could decline. In addition, if health risks associated with our 3D products materialize, we may become subject to government regulation or product liability claims, including personal injury claims.

If we are unable to manage these risks effectively, our ability to compete profitably in the 3D cinema market may be adversely affected.

Events and conditions in the cinema and broadcast industries may affect sales of our cinema products and other services.

Sales of our cinema products and services tend to fluctuate based on the underlying trends in the cinema industry. For example, when box office receipts for the cinema industry increase, we have typically seen a corresponding increase in sales of our cinema products, as cinema owners will be more likely to build new theaters and upgrade existing theaters with our more advanced products. Conversely, when box office receipts are down, cinema owners tend to scale back on plans to expand or upgrade their systems.

Our cinema product sales are also subject to fluctuations based on events and conditions in the cinema industry generally that may or may not be tied to box office receipts in particular time periods. For example, the growth in piracy of motion pictures adversely affects the construction of new screens, the renovation of existing theaters, and the continued production of new motion pictures.

Our services revenue, both in the U.S. and internationally, is tied to the number of movies being produced and distributed by studios and independent filmmakers. A number of factors can affect the number of movies that are produced, including strikes and work stoppages within the cinema industry, as well as tax incentive arrangements provided by many governments to promote local filmmaking. Services revenue is also impacted by the transition to digital cinema in some regions. For example, the 15% decrease in services revenue from the first quarter of fiscal 2012 to the first quarter of fiscal 2013 was attributable primarily to a decrease in film based production services in EMEA, and to a lesser extent, a decrease in film-based production services revenue in the U.S. as the cinema industry transitions to digital cinema.

The demand for our cinema products and services could decline as the cinema industry adopts digital cinema.

As cinema exhibitors have constructed new theaters or upgraded existing theaters, they have generally chosen digital cinema over traditional film cinema and we expect this trend to continue. Digital cinema, which is based on open standards, does not include our proprietary audio technologies. As the cinema industry continues to adopt digital cinema, the demand for our traditional film cinema products and services has declined significantly and we anticipate that the demand for film based products will decline in future periods. Furthermore, exhibitors adopting digital cinema can choose from multiple digital cinema playback servers and audio processors, many of which may not contain our technologies, and our competitive position in the digital cinema market is not as strong as our position in the traditional film cinema market. Decreases in demand for our traditional film cinema products and services accompanied by decreases in revenue from digital cinema products and services would adversely affect our revenue stream from the cinema industry.

A decrease in demand for our cinema products and services could adversely affect our consumer products licensing business.

A decrease in the demand for our cinema products and services could adversely affect licensing of our consumer technologies, because the strength of our brand and our ability to use professional product developments to introduce new technologies, which can later be licensed to OEMs and service providers, would be impaired. If, in such circumstances, we are unable to adapt our products and services or introduce new products for the digital cinema market successfully, our business could be materially adversely affected.

We face risks relating to the online and mobile content delivery markets and declines in optical disc media.

For nearly 20 years, movies have been distributed, purchased, and consumed through optical disc media, such as DVD and more recently Blu-ray Disc. However, the growth of the Internet and home computer usage, connected televisions, set-top boxes, tablets, smartphones, and other devices accompanied by the rapid advancement of online and mobile content delivery has resulted in the recent trend to movie download and streaming services in various parts of the world. We expect a further shift away from optical disc media to online and mobile media content consumption, which will result in declines in revenue from DVD and Blu-ray Disc players. Such declines would adversely affect our licensing revenue.

In addition, online and mobile media content services that compete with or replace DVD and Blu-ray Disc players as dominant media for consumer video entertainment may choose not to encode their content with our proprietary technologies, which could affect OEM and software vendor demand for our decoding technologies. Furthermore, our participation in online media content playback may be less profitable for us than DVD and Blu-ray Disc players. The online and mobile markets are characterized by intense competition, evolving industry standards and business and distribution models, disruptive software and hardware technology developments, frequent new product and service introductions, short product and service life cycles, and price sensitivity on the part of consumers, all of which may result in downward pressure on pricing. Any of the foregoing could adversely affect our business and operating results.

Our operating results may fluctuate depending upon the timing of when we receive royalty reports from our licensees, royalty report adjustments, and the satisfaction of our revenue recognition criteria.

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

- The timing of when we receive royalty reports from our licensees and when we have met all revenue recognition criteria;
- Royalty reports including positive or negative corrective adjustments;
- Retroactive royalties that cover extended periods of time;
- The recognition of unusually large amounts of licensing revenue from licensees in any given quarter because not all of our revenue recognition criteria were met in prior periods; and
- The recognition of large amounts of products and services revenue in any given quarter because not all of our revenue recognition criteria were met in prior periods.

This can result in the recognition of a large amount of revenue in a given quarter that is not necessarily indicative of the amounts of revenue to be received in future quarters, thus causing fluctuations in our operating results.

Inaccurate licensee royalty reporting could materially adversely affect our operating results.

We generate licensing revenue primarily from OEMs and software vendors 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 accurately report their shipments. However, we have difficulty independently determining whether or not 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. Most of our license agreements permit us to audit our licensees' records, but audits are generally expensive, time consuming, and potentially detrimental to our ongoing business relationships with our licensees.

In the past, licensees, particularly in emerging economies, such as China, 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, which could adversely affect our operating results. Conversely, to the extent that our licensees overstate the number of products incorporating our technologies, or report the products under the wrong categories, corrections of prior reports could result in reductions of royalty revenue in subsequent periods, which could also adversely affect our operating results.

Third parties from whom we license technologies may challenge our calculation of the royalties we owe them for inclusion of their technologies in our products and licensed technologies, which could adversely affect our operating results, business, and prospects.

In some cases, the products we sell and the technologies we license to our customers include intellectual property that we have licensed from third parties. Our agreements with these third parties generally require us to pay them royalties for that use, and give the third parties the right to audit our calculation of those royalties. A third party may disagree with our interpretation of the terms of a license agreement or, as a result of an audit, a third party could challenge the accuracy of our calculation. We have in the past been, and may in the future be, involved in disputes 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 increase the amount of royalties we have to pay to the third party, which would decrease our gross margin and adversely affect our operating results.

Unauthorized use of our intellectual property could materially adversely affect our operating results.

We have often experienced, and expect to continue to experience, problems with non-licensee OEMs and software vendors, particularly in emerging economies, such as China, incorporating our technologies and trademarks into their products without our authorization and without paying us any licensing fees. Manufacturers of integrated circuits, or ICs, containing our technologies occasionally sell these ICs to third parties who are not our system licensees. These sales, and the failure of such manufacturers to report the sales, facilitate the unauthorized use of our intellectual property. As emerging economies transition from analog to digital content, such as the transition from analog to digital broadcast, we expect to experience increased problems with this form of piracy, which would adversely affect our operating results.

We have limited experience in non-sound technology markets which could limit our future growth.

Our future growth will depend, in part, upon our expansion into areas beyond sound technologies. For example, in addition to our digital cinema and 3D digital cinema initiatives, we are exploring other areas that facilitate delivery of digital entertainment, such as video solutions for the consumer market. We will need to spend considerable resources in the future on research and development or acquisitions in order to deliver innovative non-sound products and technologies. However, we have limited experience in non-sound technology markets and, despite our efforts, non-sound products, technologies, and services we expect to develop or acquire and market may not achieve or sustain market acceptance, may not meet industry needs, and may not be accepted as industry standards. If we are unsuccessful in selling non-sound products, technologies, and services, the future growth of our business may be limited.

If our products and technologies are not adopted as industry standards, our business prospects could be limited and our operating results could be adversely affected.

The entertainment industry depends upon industry standards to ensure compatibility across delivery platforms and a wide variety of consumer entertainment products. Accordingly, 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 and to ensure that other industry standards are consistent with our products and technologies. If our technologies are not adopted or do not remain as industry standards, our business, operating results, and prospects could be materially and adversely affected.

Additionally, the market for broadcast technologies has traditionally been heavily based on industry standards, often set by governments or other standards-setting organizations, and we expect this to be the case in the future. If our technologies are not chosen as industry standards for broadcasting in particular geographic areas, this could adversely affect our ability to compete in these markets.

It may be more difficult for us, in the future, to have our technologies adopted as individual industry standards to the extent that entertainment industry participants collaborate on the development of industry standard technologies.

Standards-setting organizations are increasingly adopting or establishing technology standards for use in a wide range of consumer entertainment products. As a result, it is more difficult for individual companies to have their technologies adopted wholesale as an informal industry standard. We call this type of standard a "de facto" industry standard, meaning that the industry has widely adopted the technology, although no industry standards-setting organization has explicitly mandated such standard. Increasingly there are multiple companies, including ones that typically compete against one another, involved in the development of new technologies for use in entertainment-oriented products. As a result, these companies often license their collective intellectual property rights as a group, making it more difficult for any single company to have its technologies adopted widely as a de facto industry standard or to have its technologies adopted as an exclusive, explicit industry standard for consumer entertainment products.

Even if our technologies are adopted as an explicit industry standard for a particular market, market participants may not widely adopt our technologies.

Even when a standards-setting organization mandates our technologies for a particular market, which we call an "explicit" industry standard, our technologies may not be the sole technologies adopted for that market as an explicit industry standard. Accordingly, our operating results depend upon participants in that market choosing to adopt our technologies instead of competitive technologies that also may be acceptable under such standard. For example, the continued growth of our revenue from the broadcast market will depend upon both the continued global adoption of digital television generally and the choice to use our technologies where it is one of several accepted industry standards.

Our licensing revenue depends to a significant extent on patent royalties, and some of our key patents from which a significant portion of that revenue is derived have expired and will continue to expire.

Many of the technologies that we license to our system licensees are covered by patents, and the licensing revenue that we receive from those licenses depends in large part upon the life of such patents. In general, our agreements with our licensees require them to pay us a full royalty with respect to a particular technology only until the last patent covering that technology expires in a particular country. As of December 28, 2012, we had nearly 3,000 individual issued patents, and over 2,700 pending patent applications, in over 50 jurisdictions throughout the world. The currently issued patents expire at various times through November 2032.

We regularly look for opportunities to expand our patent portfolio both through organic development and acquisitions. However, to the extent that we are not able to obtain new patents or develop other proprietary technologies, or to the extent that we do not replace licensing revenue from technologies covered by expiring patents with licensing revenue based on non-expiring patents and other proprietary technologies, our operating results may be materially adversely affected.

In particular, some of our patents relating to Dolby Digital technologies, from which we derive a significant part of our licensing revenue, have expired and others will expire over the next several years. We have transitioned a number of our Dolby Digital licensees, and continue to make progress in transitioning other Dolby Digital licensees, to Dolby Digital Plus technologies, an extension of our Dolby Digital technologies, whose patents generally expire later than the Dolby Digital patents. We now derive a significant part of our licensing revenue from Dolby Digital Plus. To the extent that we are unsuccessful in having licensees continue to transition to Dolby Digital Plus, or to the extent that licensees of Dolby Digital Plus transition back to Dolby Digital as our original patents covering this technology expire, our operating results could be materially adversely affected.

The markets for our technologies are highly competitive, and if we are unable to compete successfully, our business will suffer.

The markets for entertainment industry technologies are highly competitive, and we face competitive threats and pricing pressure in our markets. Competitors for our licensed technologies include: Audyssey Laboratories, DTS, Fraunhofer Institute for Integrated Circuits, Microsoft, Monster Cable Products, Philips, RealNetworks, Sony, Technicolor, and Waves Audio. Competitors for our products include: Barco, Doremi, GDC, IMAX, MasterImage 3D, NEC, Panavision, QSC Audio Products, Qube Cinema, REALD, Rovi, Sony, Technicolor, USL, and XpanD. Competitors for our services include DTS and Sony. Consumers may perceive the quality of the audio experience produced by some of our competitors' technologies to be equivalent or superior to the audio experience produced by our technologies. Other companies may become competitors in one or more of these areas in the future.

Additionally, 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, particularly in the market for online media content. These competitors may also be able to offer integrated system solutions in markets for sound or non-sound entertainment technologies on a royalty-free basis or at a lower price than our technologies, including audio, video, and rights management technologies related to PCs or the Internet, which could make competing technologies that we develop unnecessary.

Our business and prospects depend on the strength of our brand, and if we do not maintain and strengthen our brand, our business will be materially harmed.

Maintaining and strengthening the Dolby brand is critical to maintaining and expanding our licensing, products, and services business, as well as to our ability to enter new markets for our sound and other technologies. Our continued success depends, in part, 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 and prospects 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 successfully enter into new markets, and to provide high quality products and services in these new markets, which we may not do successfully.

Our licensing of industry standard technologies can be subject to restrictions that could adversely affect our business and prospects.

When a standards-setting organization mandates our technologies as explicit industry standards, 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, which could adversely affect our revenue. Furthermore, we may be unable to limit to whom we license such technologies, and may be unable 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 in ways that could injure our reputation and otherwise materially and adversely affect our business, operating results, and prospects.

We face risks in conducting business in China and other emerging economies.

We believe that various trends will increase our exposure to the risks of conducting business in emerging economies. For example, we expect the number of OEMs in emerging economies, such as China, to increase due to the availability of lower manufacturing costs as compared to those of other industrial countries and the continued industry shift by retailers towards lower end DVD and more recently Blu-ray Disc player and television offerings. We have seen OEMs shift product manufacturing to these lower cost manufacturing countries and expect more OEMs to do so in the future. We also believe that our sales of products and services in emerging economies will expand in the future to the extent that the use of digital surround sound technologies increases in these countries, including in movies and broadcast television, and as consumers there become more affluent. We face many risks associated with operating in these emerging economies, in large part due to limited recognition and enforcement of contractual and intellectual property rights. As a result, we may experience difficulties in enforcing our intellectual property rights in these emerging economies, where intellectual property rights are not as respected as they are in the U.S., Japan, and Europe. We believe that it is critical that we strengthen existing relationships and develop new relationships with entertainment industry participants worldwide to increase our ability to enforce our intellectual property and contractual rights without relying solely on the legal systems in the countries in which we operate. If we are unable to develop, maintain, and strengthen these relationships, our revenue from these countries could be adversely affected.

We have limited or no patent protection for some of our technologies in particular countries, including China, Taiwan, and India, which could limit our ability to grow our business in these markets.

In China and Taiwan we have only limited patent protection, especially with respect to our Dolby Digital technologies. In India, we have no issued patents for Dolby Digital technologies. Consequently, maintaining or growing our licensing revenue will depend on our ability to obtain patent rights in these countries for existing and new technologies, which is uncertain. Furthermore, because of the limitations of the legal systems in many countries, the effectiveness of patents obtained or that may in the future be obtained, if any, is likewise uncertain.

Our licensing revenue depends in large part upon semiconductor manufacturers incorporating our technologies into integrated circuits.

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. 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 nor predict their success. As a result, if these IC manufacturers are unable or unwilling, for any reason, to implement our technologies into their ICs, or if, for any reason, they sell fewer ICs incorporating our technologies, our operating results will be adversely affected.

Pricing pressures on the system licensees who incorporate our technologies into their products could limit the licensing fees we charge for our technologies, which could adversely affect our revenue.

The markets for the consumer entertainment products in which our technologies are incorporated are intensely competitive and price sensitive. We expect to face increased royalty pricing pressure for our technologies as we seek to drive the adoption of our technologies into online content and portable devices, such as tablets and smartphones. Retail prices for consumer entertainment products that include our sound technologies, such as DVD players and home theater systems, have decreased significantly, and we expect prices to decrease for the foreseeable future. In response, OEMs have sought to reduce their product costs, which can result in downward pressure on the licensing fees we charge our customers who incorporate our technologies into the consumer entertainment products that they sell. Furthermore, while we have contractual rights with many of our licensees for cost of living adjustments to our royalty rights, we may not be able to negotiate those terms in our contracts with existing and new licensees. Additionally, downward cost of living adjustments would result in declines in the licensing fees that we charge. A decline in, or the modification or loss of the contractual right to increase, the licensing fees we charge could materially and adversely affect our operating results.

We have in the past, and may in the future be, subject to legal claims related to our intellectual property rights, which are costly to defend, could require us to pay damages, and could limit our ability to use particular technologies in the future.

Companies in the technology and entertainment industries own large numbers of patents, copyrights, trademarks, and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. We have faced such claims in the past and we expect to face similar claims in the future.

Any intellectual property claims, with or without merit, could be time consuming, expensive to litigate or settle, and could divert management resources and attention. In the past we have settled claims relating to infringement allegations and agreed to make payments in connection with such settlements. We expect that similar claims will be asserted against us in the future in the ordinary course of our business. An adverse determination in any intellectual property claim could require that we pay damages or stop using technologies found to be in violation of a third party's rights and could prevent us from offering our products and services to others. In order to avoid these restrictions, we may have to seek a license for the technology, which may not be available on reasonable terms or at all. Any license could also require us to pay significant royalties, and may significantly increase our operating expenses. As a result, we may be required to develop alternative non-infringing technologies, which could require significant effort and expense. If we cannot license or develop technologies for any aspects of our business found to be infringing, we may be forced to limit our product and service offerings and may be unable to compete effectively.

In some instances, we have contractually agreed to provide indemnifications to licensees relating to our intellectual property. Additionally, at times in the past, we have chosen to defend our licensees from third-party intellectual property infringement claims even where such defense was not contractually required, and we may choose to take on such defense in the future. Any of these results could harm our brand, our operating results, and our financial condition.

We have in the past and may in the future have disputes with our licensees regarding our licensing arrangements.

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

We face risks relating to the transition to digital cinema.

We face a number of risks relating to the transition to digital cinema, including:

- Exhibitors may perceive competing products to be potentially advantageous to our products or they may choose lower priced competing products or competing products with different features, such as support for high frame rate content or 4K presentation;
- At least one of our competitors has a significantly greater installed base of its digital cinema servers than we do, which has and likely will continue to limit our share of the digital cinema market, particularly in the U.S. market;
- Pricing and other competitive pressures have caused us to implement pricing strategies which have had an adverse effect on our products gross margins;
- As the industry transition to digital cinema becomes substantially complete, the demand for new digital cinema screens will drop significantly and the industry will enter into a replacement cycle.

These and other risks related to digital cinema could limit our future prospects in digital cinema and could materially and adversely affect our operating results.

Acquisition activities could result in operating difficulties and other harmful consequences.

We have evaluated, and expect to continue to 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 expand our business beyond sound technologies. Although we cannot predict whether or not we will complete any such acquisition or other transactions in the future, any of these transactions could be material 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 particular economic, political, and regulatory environment in specific countries. Also, the anticipated benefit 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.

Furthermore, acquisitions may have an adverse impact on our financial condition and results of operations, including a potential adverse impact on our gross margins.

Future acquisitions could result in dilutive equity issuances or the need to obtain debt or equity financing on unfavorable terms.

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, any of which could harm our operating results or financial condition. Future acquisitions may also require us to obtain additional equity or debt financing, which may not be available on favorable terms or at all.

We are dependent upon our relationships within the entertainment industry, and the failure to maintain such relationships could materially harm our business.

If we fail to maintain and expand our relationships with a broad range of entertainment industry participants, including film studios, broadcasters, video game designers, music producers, mobile media content producers, and OEMs, our business and prospects could be materially harmed. 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 the major film studios and broadcasters, and licensing of our technologies is particularly dependent upon our relationships with system licensees, software vendors, 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, which could materially harm our business and prospects. Additionally, if major entertainment industry participants form strategic relationships that exclude us, whether in licensing, products, or services, our business and prospects could be materially adversely affected.

We face diverse risks in our international business, which could adversely affect our operating results.

We are dependent on international sales for a substantial amount of our total revenue. For the first quarter of fiscal 2013, fiscal 2012, and fiscal 2011, revenue from outside the U.S. was 68%, 68%, and 68% of our total revenue, respectively. We expect that international and export sales will continue to represent a substantial portion of our revenue for the foreseeable future. This future revenue will depend to a large extent on the continued use and expansion of our technologies in entertainment industries worldwide.

Due to our reliance on sales to customers outside the U.S., we are subject to the risks of conducting business internationally, including:

- Our ability to enforce our contractual and intellectual property rights, especially in those foreign countries that do not recognize and enforce intellectual property rights to the same extent as do the U.S., Japan, and European countries, which increases the risk of unauthorized, and uncompensated, use of our technologies;
- 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.;
- Our ability to comply with applicable international laws and regulations governing our business and operations, including local consumer and safety laws, as well as license requirements;
- 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.;
- Burdens of complying with a variety of foreign laws;
- Changes in diplomatic and trade relationships;
- Difficulty in establishing, staffing, and managing foreign operations;
- Adverse fluctuations in foreign currency exchange rates and interest rates, including risks related to any interest rate swap or other hedging activities we undertake;
- Political or social instability, natural disasters, war or events of terrorism; and
- The strength of international economies.

Some of our business partners also have international operations and are subject to the risks described above. Even if we are able to successfully manage the risks of conducting business internationally, our business may be adversely affected if our business partners are not able to successfully manage these risks.

In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by U.S. regulations applicable to us such as the Foreign Corrupt Practices Act and U.S. export controls. Although we implement policies and procedures designed to ensure compliance with the Foreign Corrupt Practices Act 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. Any such violation could have an adverse effect on our business.

We face risks associated with complying with international employment laws.

A significant number of our employees are located outside the U.S. This means that we have exposure to changes in foreign laws governing our relationships with our employees, which could have a direct impact on our operating costs. Expansion into international markets has required, and will require, significant management attention and resources. We incur additional legal compliance costs associated with our international operations and could become subject to legal penalties in foreign countries if we do not comply with local employment laws and regulations, which may be substantially different from those in the U.S.

Revisions to patent laws and regulations in the U.S. and abroad may adversely impact our ability to obtain, license, and enforce our 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 adversely affect our ability to obtain, license, and enforce our patents. For example, recent rulings by the U.S. Supreme Court concerning injunctions may make it more difficult, under some circumstances, for us to obtain injunctive relief against a party that has been found to infringe one or more of our patents, and rulings regarding patent challenges by licensees could potentially make it easier for our licensees to challenge our patents even though they have already agreed to take a license.

Our stock repurchase program may be suspended or terminated at any time, which may result in a decrease in our stock price.

Our stock repurchase program, whereby we may continue to repurchase shares of our Class A common stock, 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 from time to time, 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.

Fluctuations in our operating results and other factors may contribute to the volatility of the market price of our stock.

A number of factors, many of which are outside our control, may cause or contribute to significant fluctuations in our quarterly and annual revenue and operating results. These fluctuations may make financial planning and forecasting more difficult. In addition, these fluctuations may result in unanticipated decreases in our available cash, which could negatively impact our business and prospects, and could increase the volatility of our stock price. Factors that may cause or contribute to fluctuations in our operating results and revenue or the volatility of the market price of our stock include those risks set forth in this section as well as the following:

- Fluctuations in demand for our products and for the digital entertainment products of our licensees;
- Adverse developments in general economic conditions;
- The amount and timing of our operating costs, capital expenditures, and related charges, including those related to the expansion or consolidation of our business, operations, and infrastructure;
- Changes in business cycles that affect the markets in which we sell our products and services or the markets for consumer entertainment products incorporating our technologies;
- Fluctuations in the timing of royalty reports we receive from our licensees, including late or sporadic reports;
- Variations in the time-to-market of our technologies in the entertainment industry markets in which we operate;
- Corrections to licensees' reports received in periods subsequent to those in which the original revenue was reported;
- The announcement, introduction, or enhancement of technologies, products, and services, by us, our licensees, and our competitors, and market acceptance of these new or enhanced technologies, products, and services;
- Rapid, wholesale changes in technology in the entertainment industries in which we compete;
- Events and conditions in the cinema industry, including box office receipts that affect the number of theaters constructed, the number of movies produced and exhibited, the general popularity of motion pictures, and strikes by cinema industry participants;
- The financial resources of cinema exhibitors available to buy our products or to equip their theaters to accommodate upgraded or new technologies;
- Consolidation by participants in the markets in which we compete, which could result among other things in pricing pressure;
- Seasonal electronics product shipment patterns by our system licensees, particularly in our first fiscal quarter, which generally result in revenue in our second fiscal quarter;
- The impact of, and our ability to react to, interruptions in the entertainment distribution process, including as a result of work stoppages at our facilities, our customers' facilities, and other points throughout the entertainment distribution process;
- Adverse outcomes of litigation or governmental proceedings, including any foreign, federal, state, or local tax assessments or audits;
- Repurchases we make of our common stock;
- Costs of litigation and intellectual property protection;
- Exchange rate fluctuations between the U.S. dollar and other currencies;
- Variations between our operating results and published analysts' expectations; and
- Announcements by our competitors or significant customers.

One or more of the foregoing or other factors may cause our operating expenses to be disproportionately higher or lower or may cause our revenue and operating results to fluctuate significantly in any particular quarterly or annual period. Consequently, results from prior periods are not necessarily indicative of the results of future periods.

Changes in tax rates and exposure for additional income tax liabilities or adverse outcomes resulting from examinations of our tax returns could adversely affect our operating results and financial condition.

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 all favorably or unfavorably 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 adversely affect our income taxes:

- Earnings being lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates;
- Changes in the valuation of our deferred tax assets and liabilities;
- Expiration of or lapses in the R&D tax credit laws;
- Fluctuations in tax exempt interest income;
- Transfer pricing adjustments;
- Tax effects of nondeductible compensation;
- Tax costs related to intercompany realignments;
- Changes in accounting principles; or
- Changes in tax laws and regulations, including possible U.S. changes to the taxation of earnings of our foreign subsidiaries, the deductibility of expenses attributable to foreign income, or the foreign tax credit rules.

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. There can be no assurance, however, that the outcomes from these continuous examinations will not have an adverse effect on our operating results and financial condition. 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 and adversely affect our results of operations, financial condition, and cash flows.

If securities or industry analysts publish inaccurate or unfavorable research about our business or if our operating results do not meet or exceed their projections, our stock price could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us or our industry downgrade our stock or the stock of other companies in our industry, or publish inaccurate or unfavorable research about our business or industry, or if our operating results do not meet or exceed their projections, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

Any inability to protect our intellectual property rights could reduce the value of our products, services, and brand.

Our business is dependent upon protecting our patents, trademarks, trade secrets, copyrights, and other intellectual property rights. Licensing revenue represented 86%, 86%, and 83% of our total revenue in the first quarter of fiscal 2013, fiscal 2012, and fiscal 2011, respectively. Effective intellectual property rights protection, however, may not be available under the laws of every country in which our products and services and those of our licensees are distributed. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete.

In addition, protecting our intellectual property rights is costly and time consuming. We have taken steps in the past to enforce our intellectual property rights and expect to do so in the future. However, it may not be practicable or cost effective for us to enforce our intellectual property rights fully, particularly in some countries or where the initiation of a claim might harm our business relationships. If we are unable to successfully identify and stop unauthorized use of our intellectual property, we could experience increased operational and enforcement costs, which could adversely affect our financial condition and results of operations.

We generally seek patent protection for our innovations. However, it is possible that some of these innovations may not be protectable, or we may choose not to protect particular innovations that later turn out to be important, due to the high costs of obtaining patent protection. Even where we do have patent protection, the scope of such protection may be insufficient to prevent third parties from designing around our particular patent claims. Furthermore, there is always the possibility that an issued patent may later be found to be invalid or unenforceable. We also seek to maintain select intellectual property as trade secrets. Third parties or our employees could intentionally or accidentally compromise the intellectual property that we maintain as trade secrets, which would cause us to lose the competitive advantage resulting from them.

Our customers who are also our current or potential competitors may choose to use their own or competing technologies rather than ours.

We face competitive risks in situations where our customers are also current or potential competitors. For example, Sony and Microsoft are significant licensee customers and Sony is a significant purchaser of our broadcast products and services, but Sony and Microsoft are also competitors with respect to some of our consumer, broadcast, and cinema technologies. To the extent that our customers choose to use competing technologies they have developed or in which they have an interest, rather than use our technologies, our business and operating results could be adversely affected.

We face competition from other audio formats.

We believe that the success we have had licensing our surround sound 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 surround sound. However, both free and proprietary sound technologies are becoming increasingly prevalent, and we expect competitors to continue to enter this field with other solutions. Furthermore, to the extent that customers perceive our competitors' solutions to provide the same advantages as our technologies at a lower or comparable price, there is a risk that these customers may treat sound encoding technologies such as ours as commodities, resulting in loss of status of our technologies, decline in their use, and significant pricing pressure. The commoditization of our audio technologies, as opposed to treatment as a premium solution, could adversely affect our business, operating results, and prospects.

The loss of or delay in operations of one or more of our key suppliers could materially delay or stop the production of our products and impair our ability to generate revenue.

Our reliance on outside 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 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 material delays in our production operations and increase our production costs. In addition, at times our suppliers have not been, and in the future 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 material production delays, increased costs, and reductions in shipments of our products, any of which could increase our operating costs, harm our customer relationships, or materially and adversely affect our business and operating results.

Revenue from our products may suffer if our production processes encounter problems or if we are not able to match our production capacity to fluctuating levels of demand.

Our products are highly complex and production difficulties or inefficiencies can interrupt production, resulting in our inability to deliver products on time in a cost effective manner, which could harm our competitive position. We have a single production facility and increasingly use contract manufacturers for a significant portion of our production capacity. Our reliance on contract manufacturers for the manufacture of our products involves risks, including limited control over timely delivery and quality of such products. If production of our products is interrupted, we may not be able to manufacture products on a timely basis. A shortage of manufacturing capacity for our products could adversely affect our operating results and damage our customer relationships. We are 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. Any inability to effectively respond to fluctuations in customer demand for our products or contract manufacturer interruptions may adversely affect our gross margins.

Our products, from time to time, experience quality problems that can result in decreased sales and higher operating expenses.

Our products are complex and sometimes contain undetected software or hardware errors, particularly when first introduced or when new versions are released. In addition, to the extent that we engage contract manufacturers, we do not have as much control over manufacturing which could result in quality problems. Furthermore, our products are sometimes combined with or incorporated into products from other vendors, sometimes making it difficult to identify the source of a problem. 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 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 liability for defective products to the cost of repairing or replacing these products, 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.

Licensee products that incorporate our technologies, from time to time, experience quality problems that could damage our brand, decrease revenue, and increase operating expenses.

Newly introduced and new versions of licensee products that incorporate our technologies are complex and may contain undetected software or hardware errors. In addition, the combination or incorporation of these newly introduced products with products from other companies can make it difficult to identify the source of a problem. Any negative publicity or negative impact relating to these product problems could adversely affect the perception of our brand. In addition, these errors could result in loss of, or delay in, market acceptance of those products or Dolby technologies, or cause delays in delivering them and meeting customer demands, any of which could reduce our revenue and raise significant customer relations issues. Although we generally attempt to contractually limit our liability for our licensees' defective products, we may elect to help re-engineer those products, which could adversely affect our operating results.

A loss of one or more of our key customers or licensees in any of our markets could adversely affect our operating results.

From time to time, one or a small number of our customers or licensees may represent a significant percentage of our products, services, or licensing revenue. For example, revenue from Microsoft represented approximately 12%, 14% and 13% of total revenue for the first quarter of fiscal 2013, fiscal 2012, and fiscal 2011, respectively. Additionally, revenue from Samsung represented approximately 11% of our total revenue in the first quarter of fiscal 2013. Although we have agreements with many of these customers, these agreements typically do not require any minimum purchases or minimum royalty fees and do not prohibit customers from purchasing products and services from competitors. A decision by any of our major customers or licensees not to use our technologies, or their failure or inability to pay amounts owed to us in a timely manner, or at all, whether due to strategic redirections or adverse changes in their businesses or for other reasons, could have a significant adverse effect on our operating results.

We are subject to various environmental laws and regulations that could impose substantial costs upon us and may adversely affect our business, operating results, and financial condition.

Some of our operations use substances regulated under various 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. 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. Liability under environmental laws can be joint and several and without regard to comparative fault. The ultimate costs under environmental laws and the timing of these costs are difficult to predict.

New environmental laws and regulations could impact our operating results.

We expect that new environmental laws and regulations, introduced on an ongoing basis, will have the potential to affect our manufacturing and licensing operations. Although we cannot predict the ultimate impact of any such new laws and regulations, they will likely result in additional costs or decreased revenue, and could require that we redesign or change how we manufacture our products, any of which could have a material adverse effect on our business.

We could incur substantial costs due to regulations regarding the composition of our products, which may adversely affect our business, operating results, and financial condition.

We face increasing complexity in our product design as we adjust to new and future requirements relating to the materials composition of our products. For example, we redesigned our products to comply with restrictions on lead and other hazardous substances so we could continue to offer them for sale within the European Union. For some products, substituting particular components containing regulated hazardous substances is more difficult or costly, and additional redesign efforts could result in production delays. Selected electronic products that we maintain in inventory may be rendered obsolete if not in compliance with the new environmental laws, which could negatively impact our ability to generate revenue from those products.

Continued global credit market weakness could negatively impact the value and liquidity of our investment portfolio.

We maintain an investment portfolio of various holdings, types, and maturities, including money market funds, U.S. treasury and agency securities, municipal debt securities, corporate bonds, and commercial paper. Although we follow an established investment policy and seek to minimize the credit risk associated with investments, these investments are subject to general credit, liquidity, and interest rate risks. Any downgrades, losses, or other significant deterioration in the fair value of our cash, cash equivalents, or investments could negatively impact our investments or our ability to meet our investment objectives. Such negative impact, should it arise, could require an impairment charge, which would adversely impact our financial results.

We face risks associated with international trade and currency exchange.

We maintain sales, marketing, and business operations in foreign countries. Consequently, we are exposed to fluctuations in exchange rates associated with the local currencies of our foreign business operations. While we derive nearly all of our revenue from transactions denominated in U.S. dollars, nearly all of our costs from our foreign operations are denominated in the currency of that foreign location. Consequently, exchange rate fluctuations between the U.S. dollar and other currencies could have a material impact on our profitability.

We rely on distributors that we do not control.

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. The loss of a major distributor or the inability or unwillingness of our distributors to dedicate the resources necessary to promote our portfolio of products could adversely affect our revenue. Furthermore, our distributors could retain product channel inventory levels that exceed future anticipated sales, which could adversely affect future sales to those distributors. In addition, failures of our distributors to adhere to our policies or other ethical practices could adversely affect us. For example, while we have implemented policies designed to promote compliance with the Foreign Corrupt Practices Act, export controls, and local laws, we do not have direct control over the business and risk management policies adopted by our distributors, and they could act contrary to our policies.

For the foreseeable future, Ray Dolby or his affiliates or family members will be able to control the selection of all members of our Board of Directors, as well as virtually every other matter that requires stockholder approval, which will severely limit the ability of other stockholders to influence corporate matters.

At December 28, 2012, Ray Dolby and his affiliates, including his family members, owned 7,101 shares of our Class A common stock and 54,943,049 shares of our Class B common stock. As of December 28, 2012, Ray Dolby and his affiliates, including his family members, had voting power of approximately 99.7% of our outstanding Class B common stock, which in the aggregate represented approximately 91.9% 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, Ray Dolby, his affiliates, and his family members and descendants 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. Ray Dolby, his affiliates, his family members, and descendants will maintain this control even if in the future 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 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.

Assuming conversion of all shares of Class B common stock held by persons not affiliated with Ray Dolby into shares of Class A common stock, so long as Ray Dolby and his affiliates, his family members, and descendants continue to hold shares of Class B common stock representing approximately 10% or more of the total number of outstanding shares of our Class A and Class B common stock, they will hold a majority of the combined voting power of the Class A and Class B common stock.

Future sales of shares by insiders could cause our stock price to decline.

If our founder, 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. As previously announced, (i) Ray and Dagmar Dolby, as Trustees of the Ray Dolby Trust under the Dolby Family Trust Instrument dated May 7, 1999, (ii) Ray and Dagmar Dolby, as Trustees of the Ray Dolby 2002 Trust A dated April 19, 2002, (iii) Ray and Dagmar Dolby, as Trustees of the Ray Dolby 2002 Trust B dated April 19, 2002, (iv) Ray and Dagmar Dolby, as Trustees of the Ray Dolby 2011 Trust A dated December 14, 2011, and (v) Ray and Dagmar Dolby, as Trustees of the Ray Dolby 2011 Trust B dated December 14, 2011, adopted Rule 10b5-1 trading plans in the third quarter of fiscal 2012 to sell up to 5.9 million shares of the Company's Class A common stock (or approximately 10.3% of Ray Dolby's direct and indirect holdings at the time). The trading plans were adopted during an “open window” in accordance with guidelines specified by Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, and as permitted by the Company's insider trading policy. Sales under the trading plans commenced in August 2012, are based upon pre-established stock price thresholds, are subject to daily volume limits and will expire once all of the shares have been sold or in August 2013, whichever is earlier.

We cannot predict the effect the trading plan sales may have on the future trading prices of our Class A common stock. As of December 28, 2012, we had a total of 101,819,992 shares of Class A and Class B common stock outstanding.

As of December 28, 2012, our directors and executive officers beneficially held 54,953,049 shares of Class B common stock, 173,313 shares of Class A common stock, vested options to purchase 22,274 shares of Class B common stock and vested options to purchase 525,045 shares of Class A common stock. We expect that any sale of our Class A common stock by our directors and executive officers would be subject to compliance with Rule 144 under the Securities Act.

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

Sales of Unregistered Securities

In the fiscal quarter ended December 28, 2012, we issued an aggregate of 42,543 shares of our Class B common stock to certain employees, officers, and directors upon the exercise of options awarded under our 2000 Stock Incentive Plan. We received aggregate proceeds of less than $0.1 million in the fiscal quarter ended December 28, 2012, as a result of the exercise of these options. We believe these transactions were exempt from the registration requirements of the Securities Act in reliance on Rule 701 thereunder as transactions pursuant to compensatory benefit plans and contracts relating to compensation as provided under Rule 701. As of December 28, 2012, options to purchase an aggregate of 157,700 shares of our Class B common stock remain outstanding. All issuances of shares of our Class B common stock pursuant to the exercise of these options will be made in reliance on Rule 701. All option grants made under the 2000 Stock Incentive Plan were made prior to the effectiveness of our initial public offering. No further option grants will be made under our 2000 Stock Incentive Plan.

None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, or any public offering.

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information regarding the Company's purchases of its Class A Common stock, $0.001 par value per share, during the first quarter of fiscal 2013:

	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (3)
September 29, 2012 - October 26, 2012	609,534	$ 31.94	609,534	$178.8 million
October 27, 2012 - November 23, 2012	414,005	32.51	414,005	$165.3 million
November 24, 2012 - December 28, 2012	651,109	32.26	651,109	$144.3 million
Total	**1,674,648**		**1,674,648**	

(1) Excludes commission costs.

(2) Shares of Class A common stock were purchased under a $250.0 million stock repurchase program announced on November 3, 2009, which was subsequently increased by $300.0 million, $250.0 million, and $100.0 million announced on July 27, 2010, August 4, 2011, and February 8, 2012, respectively. The stock repurchase program does not have an expiration date. 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.

(3) Amounts shown in this column reflect amounts remaining under the stock repurchase program.

ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporated by Reference Herein	
		Form	Date
10.1*	Amendment, dated as of December 19, 2012, to Kevin Yeaman Employment Agreement dated as of February 24, 2009.		
10.2*	2000 Stock Incentive Plan, as amended and restated.		
10.3*	2013 Dolby Executive Annual Incentive Plan.	Current Report on Form 8-K	November 15, 2012
31.1	Certification by the Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.		
31.2	Certification by the Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.		
32.1‡	Certification by the Chief Executive Officer and the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.		
101.INS‡	XBRL Instance Document		
101.SCH‡	XBRL Taxonomy Extension Schema Document		
101.CAL‡	XBRL Taxonomy Extension Calculation Linkbase Document		
101.DEF‡	XBRL Extension Definition		
101.LAB‡	XBRL Taxonomy Extension Label Linkbase Document		
101.PRE‡	XBRL Taxonomy Extension Presentation Linkbase Document		

* Denotes a management contract or compensatory arrangement
‡ Furnished herewith

SIGNATURES

Pursuant to the requirements 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: February 6, 2013

DOLBY LABORATORIES, INC.

By: /s/ Lewis Chew

Lewis Chew

Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 10.1

AMENDMENT TO KEVIN YEAMAN EMPLOYMENT AGREEMENT

This Amendment to the Employment Agreement dated February 24, 2009, (the "Employment Agreement") by and between Kevin Yeaman (the "Executive") and Dolby Laboratories, Inc., a Delaware corporation ("Dolby"), is made effective as of the last date signed below.

WHEREAS, the Employment Agreement requires Executive to sign a release of claims in order to receive certain severance benefits under the Employment Agreement; and

WHEREAS, it is the Internal Revenue Service's position that when certain severance benefits are conditioned upon an employee signing a release of claims, the severance agreement must contain certain provisions limiting the ability of the employee to defer severance payments from one year to another year; and

WHEREAS, Internal Revenue Notice 2010-6, as modified by Notice 2010-80, provides a procedure for correcting the Employment Agreement accordingly; and

NOW THEREFORE, in consideration of the continuing employment of Executive by the Company, the parties hereby agree to amend the Employment Agreement as follows:

1. The sentence of Section 8(a) of the Employment Agreement reading "Any payments that are delayed until the release of claims becomes effective shall be paid to Executive in a cash lump sum within sixty (60) days following Executive's termination of employment; provided that in no event shall severance payments or benefits be paid or provided until the release of claims actually becomes effective and irrevocable." is amended in its entirety to read as follows:

    > "Any payments that are delayed until the release of claims becomes effective shall be paid to Executive in a cash lump sum on the sixtieth (60^{th}) day following Executive's termination of employment; provided that in no event shall severance payments or benefits be paid or provided until the release of claims actually becomes effective and irrevocable."

Except as specifically amended above, the Employment Agreement remains in full force and effect.

IN WITNESS WHEREOF, each of the parties has executed this Amendment on the dates signed below.

DOLBY LABORATORIES, INC.

/s/ Andy Sherman_______________
Andy Sherman
Executive Vice President, General Counsel and Secretary
December 19, 2012

EXECUTIVE

/s/ Kevin Yeaman
Kevin Yeaman
December 19, 2012

Exhibit 10.2

DOLBY LABORATORIES, INC.

2000 STOCK INCENTIVE PLAN

(amended and restated effective as of December 27, 2012)

1. Purposes of the Plan. The purposes of this Stock Incentive Plan are to attract and retain the best available personnel, to provide additional incentive to Employees, Directors and Consultants and to promote the success of the Company's business.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of the Committees appointed to administer the Plan.

(b) "Applicable Laws" means the legal requirements relating to the administration of stock incentive plans, if any, under applicable provisions of federal and state securities laws, the corporate laws of California and, to the extent other than California, the corporate law of the state of the Company's incorporation, the Code, the rules of any applicable stock exchange or national market system, and the rules of any foreign jurisdiction applicable to Awards granted to residents therein.

(c) "Award" means the grant of an Option, Restricted Stock, or other right or benefit under the Plan.

(d) "Award Agreement" means the written agreement evidencing the grant of an Award executed by the Company and the Grantee, including any amendments thereto.

(e) "Board" means the Board of Directors of the Company.

(f) "Cause" means, with respect to the termination by the Company or a Related Entity of the Grantee's Continuous Service, that such termination is for "Cause" as such term is expressly defined in a then-effective written agreement between the Grantee and the Company or such Related Entity, or in the absence of such then-effective written agreement and definition, is based on, in the determination of the Administrator, the Grantee's: (i) refusal or failure to act in accordance with any specific, lawful direction or order of the Company or a Related Entity; (ii) unfitness or unavailability for service or unsatisfactory performance (other than as a result of Disability); (iii) performance of any act or failure to perform any act in bad faith and to the detriment of the Company or a Related Entity; (iv) dishonesty, intentional misconduct or material breach of any agreement with the Company or a Related Entity; or (v) commission of a crime involving dishonesty, breach of trust, or physical or emotional harm to any person. At least 30 days prior to the termination of the Grantee's Continuous Service pursuant to (i) or (ii) above, the Company shall provide the Grantee with notice of the Company's or such Related Entity's intent to terminate, the reason therefore, and an opportunity for the Grantee to cure such defects in his or her service to the Company's or such Related Entity's satisfaction. During this 30 day (or longer) period, no Award issued to the Grantee under the Plan may be exercised or purchased.

(g) "Code" means the Internal Revenue Code of 1986, as amended.

(h) "Committee" means any committee appointed by the Board to administer the Plan.

(i) "Common Stock" means the common stock of the Company.

(j) "Company" means Dolby Laboratories, Inc., a Delaware corporation.

(k) "Consultant" means any person (other than an Employee or a Director, solely with respect to rendering services in such person's capacity as a Director) who is engaged by the Company or any Related Entity to render consulting or advisory services to the Company or such Related Entity.

(l) "Continuous Service" means that the provision of services to the Company or a Related Entity in any capacity of Employee, Director or Consultant, is not interrupted or terminated. Continuous Service shall not be considered interrupted in the case of (i) any approved leave of absence, (ii) transfers among the Company, any Related Entity, or any successor, in any capacity of Employee, Director or Consultant, or (iii) any change in status as long as the individual remains in the service of the

Company or a Related Entity in any capacity of Employee, Director or Consultant (except as otherwise provided in the Award Agreement). An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave. For purposes of each Incentive Stock Option granted under the Plan, if such leave exceeds ninety (90) days, and reemployment upon expiration of such leave is not guaranteed by statute or contract, then the Incentive Stock Option shall be treated as a Non-Qualified Stock Option on the day three (3) months and one (1) day following the expiration of such ninety (90) day period.

(m) "Corporate Transaction" means any of the following transactions to which the Company is a party:

(i) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the state in which the Company is incorporated;

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company (including the capital stock of the Company's subsidiary corporations);

(iii) approval by the Company's shareholders of any plan or proposal for the complete liquidation or dissolution of the Company;

(iv) any reverse merger in which the Company is the surviving entity but in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from those who held such securities immediately prior to such merger; or

(v) acquisition by any person or related group of persons (other than the Company or by a Company-sponsored employee benefit plan) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities, but excluding any such transaction that the Administrator determines shall not be a Corporate Transaction.

(n) "Director" means a member of the Board or the board of directors of any Related Entity.

(o) "Disability" means a Grantee would qualify for benefit payments under the long-term disability policy of the Company or the Related Entity to which the Grantee provides services regardless of whether the Grantee is covered by such policy. If the Company or the Related Entity to which the Grantee provides service does not have a long-term disability plan in place, "Disability" means that a Grantee is permanently unable to carry out the responsibilities and functions of the position held by the Grantee by reason of any medically determinable physical or mental impairment. A Grantee will not be considered to have incurred a Disability unless he or she furnishes proof of such impairment sufficient to satisfy the Administrator in its discretion.

(p) "Employee" means any person, including an Officer or Director, who is an employee of the Company or any Related Entity. The payment of a director's fee by the Company or a Related Entity shall not be sufficient to constitute "employment" by the Company.

(q) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(r) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) Where there exists a public market for the Common Stock, the Fair Market Value shall be (A) the closing price for a Share for the last market trading day prior to the time of the determination (or, if no closing price was reported on that date, on the last trading date on which a closing price was reported) on the stock exchange determined by the Administrator to be the primary market for the Common Stock or the Nasdaq National Market, whichever is applicable or (B) if the Common Stock is not traded on any such exchange or national market system, the average of the closing bid and asked prices of a Share on the Nasdaq Small Cap Market for the day prior to the time of the determination (or, if no such prices were reported on that date, on the last date on which such prices were reported), in each case, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(ii) In the absence of an established market for the Common Stock of the type described in (i), above, the Fair Market Value thereof shall be determined by the Administrator in good faith and in a manner consistent with Section 260.140.50 of Title 10 of the California Code of Regulations.

(s) "Good Reason" means the occurrence after a Corporate Transaction or Related Entity Disposition of any of the following events or conditions unless consented to by the Grantee:

(i) a change in the Grantee's responsibilities or duties which represents a material and substantial diminution in the Grantee's responsibilities or duties as in effect immediately preceding the consummation of a Corporate Transaction or Related Entity Disposition;

(ii) a reduction in the Grantee's base salary to a level below that in effect at any time within six (6) months preceding the consummation of a Corporate Transaction or Related Entity Disposition or at any time thereafter; or

(iii) requiring the Grantee to be based at any place outside a 50-mile radius from the Grantee's job location or residence prior to the Corporate Transaction or Related Entity Disposition except for reasonably required travel on business which is not materially greater than such travel requirements prior to the Corporate Transaction or Related Entity Disposition.

(t) "Grantee" means an Employee, Director or Consultant who receives an Award under the Plan.

(u) "Immediate Family" means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the Grantee's household (other than a tenant or employee), a trust in which these persons (or the Grantee) have more than fifty percent (50%) of the beneficial interest, a foundation in which these persons (or the Grantee) control the management of assets, and any other entity in which these persons (or the Grantee) own more than fifty percent (50%) of the voting interests.

(v) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(w) "Non-Qualified Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

(x) "Officer" means a person who is an officer of the Company or a Related Entity within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(y) "Option" means an option to purchase Shares pursuant to an Award Agreement granted under the Plan.

(z) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(aa) "Plan" means this 2000 Stock Incentive Plan.

(bb) "Post-Termination Exercise Period" means the period specified in the Award Agreement of not less than three (3) months commencing on the date of termination (other than termination by the Company or any Related Entity for Cause) of the Grantee's Continuous Service, or such longer period as may be applicable upon death or Disability.

(cc) "Registration Date" means the first to occur of (i) the closing of the first sale to the general public of (A) the Common Stock or (B) the same class of securities of a successor corporation (or its Parent) issued pursuant to a Corporate Transaction in exchange for or in substitution of the Common Stock, pursuant to a registration statement filed with and declared effective by the Securities and Exchange Commission under the Securities Act of 1933, as amended; and (ii) in the event of a Corporate Transaction, the date of the consummation of the Corporate Transaction if the same class of securities of the successor corporation (or its Parent) issuable in such Corporate Transaction shall have been sold to the general public pursuant to a registration statement filed with and declared effective by the Securities and Exchange Commission under the Securities Act of 1933, as amended, on or prior to the date of consummation of such Corporate Transaction.

(dd) "Related Entity" means any Parent, Subsidiary and any business, corporation, partnership, limited liability company or other entity in which the Company, a Parent or a Subsidiary holds a substantial ownership interest, directly or indirectly.

(ee) "Related Entity Disposition" means the sale, distribution or other disposition by the Company, a Parent or a Subsidiary of all or substantially all of the interests of the Company, a Parent or a Subsidiary in any Related Entity effected by a sale, merger or consolidation or other transaction involving that Related Entity or the sale of all or substantially all of the assets of that Related Entity, other than any Related Entity Disposition to the Company, a Parent or a Subsidiary.

(ff) "Restricted Stock" means Shares issued under the Plan to the Grantee for such consideration, if any, and subject to such restrictions on transfer, rights of first refusal, repurchase provisions, forfeiture provisions, and other terms and conditions as established by the Administrator.

(gg) "Share" means a share of the Common Stock.

(hh) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan.

(a) Subject to the provisions of Section 11(a) below, the maximum aggregate number of Shares which may be issued pursuant to all Awards (including Incentive Stock Options) is three million forty-six thousand three hundred and forty-six (3,046,346) Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

(b) Any Shares covered by an Award (or portion of an Award) which is forfeited or canceled, expires or is settled in cash, shall be deemed not to have been issued for purposes of determining the maximum aggregate number of Shares which may be issued under the Plan. Shares that actually have been issued under the Plan pursuant to an Award shall not be returned to the Plan and shall not become available for future issuance under the Plan, except that if unvested Shares are forfeited, or repurchased by the Company at their original purchase price, such Shares shall become available for future grant under the Plan.

4. Administration of the Plan.

(a) Plan Administrator. With respect to grants of Awards to Employees, Directors, or Consultants, the Plan shall be administered by (A) the Board or (B) a Committee (or a subcommittee of the Committee) designated by the Board, which Committee shall be constituted in such a manner as to satisfy Applicable Laws. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board.

(b) Powers of the Administrator. Subject to Applicable Laws and the provisions of the Plan (including any other powers given to the Administrator hereunder), and except as otherwise provided by the Board, the Administrator shall have the authority, in its discretion:

(i) to select the Employees, Directors and Consultants to whom Awards may be granted from time to time hereunder;

(ii) to determine whether and to what extent Awards are granted hereunder;

(iii) to determine the number of Shares or the amount of other consideration to be covered by each Award granted hereunder;

(iv) to approve forms of Award Agreements for use under the Plan;

(v) to determine the terms and conditions of any Award granted hereunder;

(vi) to establish additional terms, conditions, rules or procedures to accommodate the rules or laws of applicable foreign jurisdictions and to afford Grantees favorable treatment under such rules or laws; provided, however, that no Award shall be granted under any such additional terms, conditions, rules or procedures with terms or conditions which are inconsistent with the provisions of the Plan;

(vii) to amend the terms of any outstanding Award granted under the Plan, provided that any amendment that would adversely affect the Grantee's rights under an outstanding Award shall not be made without the Grantee's written consent;

(viii) to construe and interpret the terms of the Plan and Awards, including without limitation, any notice of award or Award Agreement, granted pursuant to the Plan; and

(ix) to take such other action, not inconsistent with the terms of the Plan, as the Administrator deems appropriate.

5. Eligibility. Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants. Incentive Stock Options may be granted only to Employees of the Company, a Parent or a Subsidiary. An Employee, Director or Consultant who has been granted an Award may, if otherwise eligible, be granted additional Awards. Awards may be granted to such Employees, Directors or Consultants who are residing in foreign jurisdictions as the Administrator may determine from time to time.

6. Terms and Conditions of Awards.

(a) Type of Awards. The Administrator is authorized under the Plan to award any type of arrangement to an Employee, Director or Consultant that is not inconsistent with the provisions of the Plan and that by its terms involves or might involve the issuance of (i) Shares, (ii) an Option, or similar right with a fixed or variable price related to the Fair Market Value of the Shares and with an exercise or conversion privilege related to the passage of time, the occurrence of one or more events, or the satisfaction of performance criteria or other conditions, or (iii) any other security with the value derived from the value of the Shares. Such awards include, without limitation, Options, or sales or bonuses of Restricted Stock, and an Award may consist of one such security or benefit, or two (2) or more of them in any combination or alternative.

(b) Designation of Award. Each Award shall be designated in the Award Agreement. In the case of an Option, the Option shall be designated as either an Incentive Stock Option or a Non-Qualified Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of Shares subject to Options designated as Incentive Stock Options which become exercisable for the first time by a Grantee during any calendar year (under all plans of the Company or any Parent or Subsidiary) exceeds $100,000, such excess Options, to the extent of the Shares covered thereby in excess of the foregoing limitation, shall be treated as Non-Qualified Stock Options. For this purpose, Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares shall be determined as of the grant date of the relevant Option.

(c) Conditions of Award. Subject to the terms of the Plan, the Administrator shall determine the provisions, terms, and conditions of each Award including, but not limited to, the Award vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment (cash, Shares, or other consideration) upon settlement of the Award, payment contingencies, and satisfaction of any performance criteria. The performance criteria established by the Administrator may be based on any one of, or combination of, increase in share price, earnings per share, total shareholder return, return on equity, return on assets, return on investment, net operating income, cash flow, revenue, economic value added, personal management objectives, or other measure of performance selected by the Administrator. Partial achievement of the specified criteria may result in a payment or vesting corresponding to the degree of achievement as specified in the Award Agreement.

(d) Acquisitions and Other Transactions. The Administrator may issue Awards under the Plan in settlement, assumption or substitution for, outstanding awards or obligations to grant future awards in connection with the Company or a Related Entity acquiring another entity, an interest in another entity or an additional interest in a Related Entity whether by merger, stock purchase, asset purchase or other form of transaction.

(e) Deferral of Award Payment. The Administrator may establish one or more programs under the Plan to permit selected Grantees the opportunity to elect to defer receipt of consideration upon exercise of an Award, satisfaction of performance criteria, or other event that absent the election would entitle the Grantee to payment or receipt of Shares or other consideration under an Award. The Administrator may establish the election procedures, the timing of such elections, the mechanisms for payments of, and accrual of interest or other earnings, if any, on amounts, Shares or other consideration so deferred, and such other terms, conditions, rules and procedures that the Administrator deems advisable for the administration of any such deferral program.

(f) Award Exchange Programs. The Administrator may establish one or more programs under the Plan to permit selected Grantees to exchange an Award under the Plan for one or more other types of Awards under the Plan on such terms and conditions as determined by the Administrator from time to time.

(g) Separate Programs. The Administrator may establish one or more separate programs under the Plan for the purpose of issuing particular forms of Awards to one or more classes of Grantees on such terms and conditions as determined by the Administrator from time to time.

(h) Early Exercise. The Award Agreement may, but need not, include a provision whereby the Grantee may elect at any time while an Employee, Director or Consultant to exercise any part or all of the Award prior to full vesting of the Award. Any unvested Shares received pursuant to such exercise may be subject to a repurchase right in favor of the Company or a

Related Entity or to any other restriction the Administrator determines to be appropriate.

(i) Term of Award. The term of each Award shall be the term stated in the Award Agreement, provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. However, in the case of an Incentive Stock Option granted to a Grantee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Award Agreement.

(j) Transferability of Awards. Incentive Stock Options may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Grantee, only by the Grantee. Non-Qualified Stock Options and other Awards shall be transferable (i) by will or by the laws of descent and distribution, or (ii) to the extent and in the manner authorized by the Administrator by gift or pursuant to a domestic relations order to members of the Grantee's Immediate Family. Notwithstanding the foregoing, the Grantee may designate one or more beneficiaries of the Grantee's Incentive Stock Option or Non-Qualified Stock Option in the event of the Grantee's death on a beneficiary designation form provided by the Administrator.

(k) Time of Granting Awards. The date of grant of an Award shall for all purposes be the date on which the Administrator makes the determination to grant such Award, or such other date as is determined by the Administrator. Notice of the grant determination shall be given to each Employee, Director or Consultant to whom an Award is so granted within a reasonable time after the date of such grant.

7. Award Exercise or Purchase Price, Consideration and Taxes.

(a) Exercise or Purchase Price. The exercise or purchase price, if any, for an Award shall be as follows:

(i) In the case of an Incentive Stock Option:

(A) granted to an Employee who, at the time of the grant of such Incentive Stock Option owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be not less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of grant; or

(B) granted to any Employee other than an Employee described in the preceding paragraph, the per Share exercise price shall be not less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Non-Qualified Stock Option:

(A) granted to a person who, at the time of the grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be not less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of grant; or

(B) granted to any person other than a person described in the preceding paragraph, the per Share exercise price shall be not less than eighty-five percent (85%) of the Fair Market Value per Share on the date of grant.

(iii) In the case of the sale of Shares:

(A) granted to a person who, at the time of the grant of such Award, or at the time the purchase is consummated, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share purchase price shall be not less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant; or

(B) granted to any person other than a person described in the preceding paragraph, the per Share purchase price shall be not less than eighty-five percent (85%) of the Fair Market Value per Share on the date of grant.

(iv) In the case of other Awards, such price as is determined by the Administrator.

(v) Notwithstanding the foregoing provisions of this Section 7(a), in the case of an Award issued pursuant to Section 6(d), above, the exercise or purchase price for the Award shall be determined in accordance with the principles of Section 424(a) of the Code.

(b) Consideration. Subject to Applicable Laws, the consideration to be paid for the Shares to be issued upon exercise or purchase of an Award including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant). In addition to any other types of consideration the Administrator may determine, the Administrator is authorized to accept as consideration for Shares issued under the Plan the following:

(i) cash;

(ii) check;

(iii) delivery of Grantee's promissory note with such recourse, interest, security, and redemption provisions as the Administrator determines as appropriate;

(iv) if the exercise or purchase occurs on or after the Registration Date, surrender of Shares or delivery of a properly executed form of attestation of ownership of Shares as the Administrator may require (including withholding of Shares otherwise deliverable upon exercise of the Award) which have a Fair Market Value on the date of surrender or attestation equal to the aggregate exercise price of the Shares as to which said Award shall be exercised (but only to the extent that such exercise of the Award would not result in an accounting compensation charge with respect to the Shares used to pay the exercise price unless otherwise determined by the Administrator);

(v) with respect to Options, if the exercise occurs on or after the Registration Date, payment through a broker-dealer sale and remittance procedure pursuant to which the Grantee (A) shall provide written instructions to a Company designated brokerage firm to effect the immediate sale of some or all of the purchased Shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased Shares and (B) shall provide written directives to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale transaction; or

(vi) any combination of the foregoing methods of payment.

(c) Taxes. No Shares shall be delivered under the Plan to any Grantee or other person until such Grantee or other person has made arrangements acceptable to the Administrator for the satisfaction of any foreign, federal, state, or local income and employment tax withholding obligations, including, without limitation, obligations incident to the receipt of Shares or the disqualifying disposition of Shares received on exercise of an Incentive Stock Option. Upon exercise of an Award the Company shall withhold or collect from Grantee an amount sufficient to satisfy such tax obligations.

8. Exercise of Award.

(a) Procedure for Exercise; Rights as a Shareholder.

(i) Any Award granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator under the terms of the Plan and specified in the Award Agreement but in the case of an Option, in no case at a rate of less than twenty percent (20%) per year over five (5) years from the date the Option is granted, subject to reasonable conditions such as continued employment. Notwithstanding the foregoing, in the case of an Option granted to an Officer, Director or Consultant, the Award Agreement may provide that the Option may become exercisable, subject to reasonable conditions such as such Officer's, Director's or Consultant's Continuous Service, at any time or during any period established in the Award Agreement.

(ii) An Award shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Award by the person entitled to exercise the Award and full payment for the Shares with respect to which the Award is exercised, including, to the extent selected, use of the broker-dealer sale and remittance procedure to pay the purchase price as provided in Section 7(b)(v). Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to Shares subject to an Award, notwithstanding the exercise of an Option or other Award. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in the Award Agreement or Section 11(a), below.

(b) Exercise of Award Following Termination of Continuous Service. In the event of termination of a Grantee's Continuous Service for any reason other than Disability or death (but not in the event of a Grantee's change of status from Employee to Consultant or from Consultant to Employee), such Grantee may, but only during the Post-Termination Exercise Period (but in no event later than the expiration date of the term of such Award as set forth in the Award Agreement), exercise the Award to the extent that the Grantee was entitled to exercise it at the date of such termination or to such other extent as may be determined by the Administrator. The Grantee's Award Agreement may provide that upon the termination of the Grantee's Continuous Service for Cause, the Grantee's right to exercise the Award shall terminate concurrently with the termination of Grantee's Continuous Service. In the event of a Grantee's change of status from Employee to Consultant, an Employee's Incentive Stock Option shall convert automatically to a Non-Qualified Stock Option on the day three (3) months and one day following such change of status. To the extent that the Grantee is not entitled to exercise the Award at the date of termination, or if the Grantee does not exercise such Award to the extent so entitled within the Post-Termination Exercise Period, the Award shall terminate.

(c) Disability of Grantee. In the event of termination of a Grantee's Continuous Service as a result of his or her Disability, Grantee may, but only within twelve (12) months from the date of such termination (and in no event later than the expiration date of the term of such Award as set forth in the Award Agreement), exercise the Award to the extent that the Grantee was otherwise entitled to exercise it at the date of such termination; provided, however, that if such Disability is not a "disability" as such term is defined in Section 22(e)(3) of the Code, in the case of an Incentive Stock Option such Incentive Stock Option shall automatically convert to a Non-Qualified Stock Option on the day three (3) months and one day following such termination. To the extent that the Grantee is not entitled to exercise the Award at the date of termination, or if Grantee does not exercise such Award to the extent so entitled within the time specified herein, the Award shall terminate.

(d) Death of Grantee. In the event of a termination of the Grantee's Continuous Service as a result of his or her death, or in the event of the death of the Grantee during the Post- Termination Exercise Period or during the twelve (12) month period following the Grantee's termination of Continuous Service as a result of his or her Disability, the Grantee's estate or a person who acquired the right to exercise the Award by bequest or inheritance may exercise the Award, but only to the extent that the Grantee was entitled to exercise the Award as of the date of termination, within twelve (12) months from the date of death (but in no event later than the expiration of the term of such Award as set forth in the Award Agreement). To the extent that, at the time of death, the Grantee was not entitled to exercise the Award, or if the Grantee's estate or a person who acquired the right to exercise the Award by bequest or inheritance does not exercise such Award to the extent so entitled within the time specified herein, the Award shall terminate.

9. Conditions Upon Issuance of Shares.

(a) Shares shall not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares pursuant thereto shall comply with all Applicable Laws, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any Applicable Laws.

10. Repurchase Rights. If the provisions of an Award Agreement grant to the Company the right to repurchase Shares upon termination of the Grantee's Continuous Service, the Award Agreement shall (or may, with respect to Awards granted or issued to Officers, Directors or Consultants) provide that:

(a) the right to repurchase must be exercised, if at all, within ninety (90) days of the termination of the Grantee's Continuous Service (or in the case of Shares issued upon exercise of Awards after the date of termination of the Grantee's Continuous Service, within ninety (90) days after the date of the Award exercise);

(b) the consideration payable for the Shares upon exercise of such repurchase right shall be made in cash or by cancellation of purchase money indebtedness within the ninety (90) day periods specified in Section 10(a);

(c) the amount of such consideration shall (i) be equal to the original purchase price paid by Grantee for each such Share; provided, that the right to repurchase such Shares at the original purchase price shall lapse at the rate of at least twenty percent (20%) of the Shares subject to the Award per year over five (5) years from the date the Award is granted (without respect to the date the Award was exercised or became exercisable), and (ii) with respect to Shares, other than Shares subject to repurchase at the original purchase price pursuant to clause (i) above, not less than the Fair Market Value of the Shares to be repurchased on the date of termination of Grantee's Continuous Service; and

(d) the right to repurchase Shares, other than the right to repurchase Shares at the original purchase price pursuant to clause (i) of Section 10(c), shall terminate on the Registration Date.

11. Adjustments Upon Changes in Capitalization or Corporate Transaction/Related Entity Disposition.

(a) Adjustments upon Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of Shares covered by each outstanding Award, and the number of Shares which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan, the exercise or purchase price of each such outstanding Award, as well as any other terms that the Administrator determines require adjustment shall be proportionately adjusted for (i) any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Shares, or similar transaction affecting the Shares, (ii) any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company, or (iii) as the Administrator may determine in its discretion, any other transaction with respect to Common Stock to which Section 424(a) of the Code applies or a similar transaction; provided, however that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Administrator and its determination shall be final, binding and conclusive. Except as the Administrator determines, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason hereof shall be made with respect to, the number or price of Shares subject to an Award.

(b) Corporate Transaction.

(i) Termination of Award if Not Assumed. In the event of a Corporate Transaction, each Award will terminate upon the consummation of the Corporate Transaction, unless the Award is assumed by the successor corporation or Parent thereof in connection with the Corporate Transaction, including affirmation of the Award by the Company in the event of a Corporate Transaction as defined in Section 2(m)(iv) and 2(m)(v), above ("Assumed").

(ii) Acceleration of Award Upon Corporate Transaction. Except as provided otherwise in an individual Award Agreement, in the event of a Corporate Transaction and:

(A) for the portion of each Award that is (x) Assumed, (y) replaced with a comparable Award with respect to shares of the capital stock of the successor corporation or Parent thereof, or (z) replaced with a cash incentive program of the successor corporation, Parent thereof, or of the Company, in the case of a Corporate Transaction as defined in Sections 2(m)(iv) and 2(m)(v), which preserves the compensation element of such Award existing at the time of the Corporate Transaction and provides for subsequent payout in accordance with the same vesting schedule applicable to such Award ("Assumed or Replaced"), then such Award (if assumed), the replacement Award (if replaced), or the cash incentive program automatically shall become fully vested, exercisable and payable and be released from any restrictions on transfer (other than transfer restrictions applicable to Options) and repurchase or forfeiture rights for all of the Shares at the time represented by such Assumed of Replaced portion of the Award, immediately upon termination of the Grantee's Continuous Service (substituting the successor employer corporation, if any, for "Company or Related Entity" for the definition of "Continuous Service") if such Continuous Service is terminated by the successor company or the Company without Cause or voluntarily by the Grantee with Good Reason within twelve (12) months of the Corporate Transaction; and

(B) for the portion of each Award that is not Assumed or Replaced, such portion of the Award shall automatically become fully vested and exercisable and be released from any restrictions on transfer (other than transfer restrictions applicable to Incentive Stock Options) and repurchase or forfeiture rights for all of the Shares at the time represented by such portion of the Award, immediately prior to the specified effective date of such Corporate Transaction. The determination of Award comparability above shall be made by the Administrator, and its determination shall be final, binding and conclusive.

(c) Related Entity Disposition.

(i) Termination of Award if Not Assumed. Effective upon the consummation of a Related Entity Disposition, for purposes of the Plan and all Awards, there shall be a deemed termination of Continuous Service of each Grantee who is at the time engaged primarily in service to the Related Entity involved in such Related Entity Disposition and each Award of such Grantee which is at the time outstanding under the Plan shall be exercisable in accordance with the terms of the Award Agreement evidencing such Award. However, such Continuous Service shall not be deemed to terminate as to any portion of such Award that is Assumed or Replaced by the successor entity or its Parent in connection with the Related Entity Disposition.

(ii) Acceleration of Award upon Related Entity Disposition. Except as provided otherwise in an individual Award Agreement, in the event of a Related Entity Disposition and:

(A) for the portion of each Award that is Assumed or Replaced, then such Award (if assumed), the replacement Award (if replaced), or the cash incentive program automatically shall become vested, exercisable and payable and be released from any restrictions on transfer (other than transfer restrictions applicable to Options) and repurchase or forfeiture rights for all of the Shares at the time represented by such Assumed or Replaced portion of the Award, immediately upon termination of the Grantee's Continuous Service (substituting the successor employer corporation, if any, for "Company or Related Entity" for the definition of "Continuous Service") if such Continuous Service is terminated by the successor company without Cause or voluntarily by the Grantee with Good Reason within twelve (12) months of the Related Entity Disposition; and

(B) for the portion of each Award of a Grantee who is at the time engaged primarily in service to the Related Entity involved in such Related Entity Disposition that is not Assumed or Replaced, such portion of the Award of such Grantee automatically shall become fully vested and exercisable and be released from any restrictions on transfer (other than transfer restrictions applicable to Options) and repurchase or forfeiture rights for all of the Shares at the time represented by such portion of the Award, immediately prior to the specified effective date of such Related Entity Disposition.

The determination of Award comparability above shall be made by the Administrator, and its determination shall be final, binding and conclusive.

(d) Effective upon the date the Board determines not to proceed with an initial public offering of Shares or terminates the Plan prior to the Registration Date, the Company shall have the right exercisable at any time to terminate all Awards outstanding under the Plan in exchange for a payment to each Grantee whose Continuous Service has not terminated and who holds a partially or fully vested Award as of the date the Company exercises this right an amount in cash (or cash equivalents) equal to the difference in the aggregate exercise price of the vested Shares subject to the Grantee's Award and the Fair Market Value of such vested Shares (as determined by the Board) as of the date of such exercise by the Company. All Awards held by a Grantee whose Continuous Service terminated for any reason prior to the Company's exercise of its right under this Section 11(d) shall terminate automatically upon the Company's exercise of such right and the Company shall have no obligation to make any payment to such Grantee.

(e) In connection with (i) a Corporate Transaction, (ii) a Related Entity Disposition or (iii) the Board's determination not to proceed with an initial public offering of Shares or the Board's termination of the Plan prior to the Registration Date pursuant to Section 11(d), above, the Company shall have the right to repurchase all Shares issued under the Plan whether held by a Grantee or such other person at a purchase price equal to the Fair Market Value of the Shares (as determined by the Board) to be repurchased on the date the Company's repurchase right is exercised.

12. Effective Date and Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board or its approval by the shareholders of the Company. It shall continue in effect for a term of ten (10) years unless sooner terminated. Subject to Section 17, below, and Applicable Laws, Awards may be granted under the Plan upon its becoming effective.

13. Amendment, Suspension or Termination of the Plan.

(a) The Board may at any time amend, suspend or terminate the Plan. To the extent necessary to comply with Applicable Laws, the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) No Award may be granted during any suspension of the Plan or after termination of the Plan.

(c) Any amendment, suspension or termination of the Plan (including termination of the Plan under Section 12, above) shall not affect Awards already granted, except to the extent provided in Section 11, above, and such Awards shall remain in full force and effect as if the Plan had not been amended, suspended or terminated, unless mutually agreed otherwise between the Grantee and the Administrator, which agreement must be in writing and signed by the Grantee and the Company.

14. Reservation of Shares.

(a) The Company, during the term of the Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

(b) The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

15. No Effect on Terms of Employment/Consulting Relationship. The Plan shall not confer upon any Grantee any right with respect to the Grantee's Continuous Service, nor shall it interfere in any way with his or her right or the Company's right to terminate the Grantee's Continuous Service at any time, with or without Cause, and with or without notice. The Company's ability to terminate the employment of a Grantee who is employed at will is in no way affected by its determination that the Grantee's Continuous Service has been terminated for Cause for the purposes of this Plan.

16. No Effect on Retirement and Other Benefit Plans. Except as specifically provided in a retirement or other benefit plan of the Company or a Related Entity, Awards shall not be deemed compensation for purposes of computing benefits or contributions under any retirement plan of the Company or a Related Entity, and shall not affect any benefits under any other benefit plan of any kind or any benefit plan subsequently instituted under which the availability or amount of benefits is related to level of compensation. The Plan is not a "Retirement Plan" or "Welfare Plan" under the Employee Retirement Income Security Act of 1974, as amended.

17. Plan Approval. The Plan was adopted by the Board and the shareholders of the Company in 2000. In April 2004, the Board adopted and approved an amendment and restatement of the Plan to amend the transferability provisions with respect to Awards granted under the Plan, which amendment and restatement of the Plan is not subject to approval by the Company's shareholders. In September 2004, the Board adopted and approved an amendment and restatement of the Plan to increase the number of Shares reserved for issuance under the Plan, which amendment and restatement of the Plan is subject to approval by the Company's shareholders. In December 2012, the Board adopted and approved an amendment and restatement of the Plan to increase the number of Shares reserved for issuance under the Plan by 20,000 Shares, which amendment and restatement of the Plan is not subject to approval by the Company's shareholders.

18. Information to Grantees. The Company shall provide to each Grantee, during the period for which such Grantee has one or more Awards outstanding, copies of financial statements at least annually.

DOLBY LABORATORIES, INC.

2000 STOCK INCENTIVE PLAN

UK APPROVED SUB-PLAN RULES ("this Sub-Plan")

1) Purpose.

a) This Sub-Plan to the Dolby Laboratories, Inc. 2000 Stock Incentive Plan (the "Plan") is for the benefit of employees who are, or may become, resident in the United Kingdom, of Dolby Laboratories, Inc. and of companies of which it has control (as defined in Section 840 of the United Kingdom Income and Corporation Taxes Act 1988 ("the Act")).

b) This Sub-Plan has been established in order to ensure Options granted under the Plan are capable of being granted under a share option plan approved under Schedule 9 of the Act ("Schedule 9"). An Option for the purposes of this Sub-Plan shall be defined as an option to acquire shares in the Company which is approved under Schedule 9 of the Act and issued under the terms of this Sub-Plan, (the "Option"), and all references to options being Incentive Stock Options in the Plan shall be disregarded.

c) The rules of this Sub-Plan should be read in conjunction with the Plan and are subject to the terms and conditions of the Plan except to the extent that the terms and conditions of the Plan differ from or conflict with the terms set out in this Sub-Plan (in which case the terms of this Sub-Plan shall prevail). In this Sub-Plan words defined in the Plan shall have their same meaning except to the extent the context requires otherwise.

d) This Sub-Plan applies to any grant of Options made under the Plan to individuals who are resident, or may become resident, in the United Kingdom if, at the date of grant ("Date of Grant"), such Options are specified as having been granted subject to the terms and conditions of this Sub-Plan.

2) Eligibility.

a) A UK Individual shall not be entitled to be granted Options under this Sub-Plan unless he is an Eligible Person (as defined in Section 2(b) below) on the Date of Grant.

b) For the purposes of this Sub-Plan an individual is an Eligible Person if he is:

i) an employee (but not an employee who is also a director) of a Participating Company (as defined in Section 2(c) below); or

ii) a director of a Participating Company who devotes substantially the whole of his working time to his duties and is required, under the terms of his office or employment with a Participating Company, to work not less than 25 hours per week excluding meal breaks; and

iii) in either case, not precluded from participation by Paragraph 8 of Schedule 9 (material interests in close companies).

c) A Participating Company means the Company and all companies that are subsidiaries and which are under the control of the Company (within the meaning of Section 840 of the Act) excluding those which the Plan Administrator has determined shall not participate for the time being in this Sub-Plan.

3) Stock subject to this Sub-Plan.

a) The shares over which Options may be granted under this Sub-Plan must form part of the ordinary share capital (as defined in Section 832(1) of the Act) of the Company. The stock must at all times, including the time of grant and the time of exercise, comply with the terms of the Plan and comply with the requirements of Paragraphs 10 to 14 of Schedule 9. Shares issued or transferred pursuant to this Sub-Plan shall rank pari passi in all respects with the Shares then in issue, except that they shall not rank for any right attaching to Shares by reference to a record date preceding the date of exercise.

b) The Company shall, at all times, keep available sufficient authorised and unissued Shares to satisfy to the fullest extent still possible all Options which have neither lapsed nor been fully exercised, taking account of any other obligations of the Company to issue Shares, or shall procure that sufficient Shares are available for transfer.

4) <u>Award Limitations under the Plan</u>.

a) No Option shall be granted to an Eligible Person under this Sub-Plan at any time if it would result in the aggregate Market Value (as defined in Section 5(b) below) of the Shares which he may acquire in pursuance of rights obtained under this Sub-Plan and the aggregate Market Value of Shares which the Eligible Person could acquire by the exercise of an option under any other plan approved under Schedule 9 (not being a savings-related plan) and established by the Company or by any associated company (as defined in Section 416 of the Act) and not exercised, to exceed or further exceed lb.30,000 or such other limit contained from time to time in Paragraph 28(1) of Schedule 9.

b) For the purpose of Section 4(a):

i) in respect of Options previously granted under this Sub-Plan, the Market Value of the Shares shall be the Market Value originally determined under Section 5 at the time that the Option was granted; and

ii) in the case of rights obtained under any other plan approved under Schedule 9 (not being a savings-related plan), the Market Value of Shares shall be calculated as at the time when the option to acquire those Shares was obtained, or such earlier time as may have been agreed with the United Kingdom Inland Revenue.

c) If the Market Value of the Shares is expressed in a currency other than pounds sterling it shall be converted into pounds sterling at the appropriate exchange rate for that currency as published by the Wall Street Journal on the business day on which the relevant options were granted.

d) If the Plan Administrator attempts to grant an Option under this Sub-Plan which is inconsistent with Section 4(a), the Option granted under this Sub-Plan will be limited and take effect on a basis consistent with the provisions of Section 4 (a).

5) <u>Option Exercise Price</u>.

a) The Option exercise price per Share shall be determined in accordance with Section 5(b) and shall be specified in the Award Agreement. In no circumstance shall the Option exercise price be less than the Market Value of a Share on the Date of Grant of the Option, or if that day is not a dealing day, the business day immediately preceding the Date of Grant of the Option, or if the Company and the Board of the Inland Revenue agree in writing at such earlier time or times as may be provided in that agreement.

b) Market Value of a Share shall mean on any day, its market value determined in accordance with Part VIII of the United Kingdom Taxation of Chargeable Gains Act 1992 and agreed with the Inland Revenue on the Date of Grant, or such earlier date as may be agreed with the Shares Valuation Division of the United Kingdom Inland Revenue.

6) <u>Adjustments upon Changes in Capitalisation</u>.

a) The price at which Shares may be acquired on the exercise of any Option and the number of Shares thereunder may be adjusted as described in Section 11(a) of the Plan only in the event of a variation in the share capital of the Company within the meaning of Paragraph 29(7) of Schedule 9 and only if the prior approval of the United Kingdom Inland Revenue has been obtained for such adjustment.

7) <u>Exercise of Option</u>.

a) A Grantee will not be able to exercise his Option granted under this Sub-Plan if he is ineligible to participate in the Sub-Plan by virtue of Paragraph 8 of Schedule 9 (material interests in close companies).

b) Notwithstanding Section 7(b) of the Plan, Options granted under this Sub-Plan may only be exercised by paying the Option exercise price in cash, by cheque or bank transfer.

c) Notwithstanding Section 9(a) of the Plan, the Company shall not later than 30 days after the effective receipt of the notice of exercise of an Option (given in accordance with the provisions of the Plan) together with the payment of the aggregate Option exercise price in respect of the Shares to be issued or transferred pursuant to the exercise of an Option, allot and issue or procure the transfer of credited as fully paid to the Participant and cause to be registered in his name the number of Shares specified in the written notice or procure the transfer of such Shares.

d) An Option may be subject to a vesting requirement which shall be set out in the Award Agreement and such vesting may apply in all circumstances, or only following a termination of the Grantee's Continuous Service or as otherwise provided.

8) Limit on Transfer of Awards.

a) Subject to the rights of exercise by the Grantee's personal representatives, every Option granted under this Sub-Plan shall be personal to the Grantee and may not be sold, transferred or disposed of in any way, and Section 6(j) of the Plan shall be construed accordingly.

9) Corporate Change.

Subject to Section 9.2 (below) for the purposes of this Sub-Plan, a Grantee who has been granted an Option under the Sub-Plan shall be entitled if the Grantee so agrees to receive an Option over shares of a successor company (or another company on any consolidation, merger or amalgamation with or into another company) in consideration of the release of his or her rights under an Option provided that a company:

a) obtains control of the Company as a result of making a general offer to acquire the whole of the issued ordinary share capital of the Company which is made on the condition such that if it is satisfied the company will have control of the Company; or

b) obtains control of the Company as a result of making a general offer to acquire all the Shares in the Company which are of the same class as the shares which may be acquired by the exercise of Options granted under this Sub-Plan, (ignoring any shares which are already owned by it or a member of the same group of companies); or

c) obtains control of the Company in pursuance of Section 425 of the United Kingdom Companies Act 1985 ("the 1985 Act") or the local legislation which the Board of the United Kingdom Inland Revenue accepts is the equivalent of the same; or

d) becomes bound or entitled to acquire shares in the Company under Sections 428 to 430 of the 1985 Act or the local legislation which the Board of the United Kingdom Inland Revenue accepts is the equivalent of the same.

9.2 Where Rule 9.1 above applies:

a) a Grantee may, at any time within the appropriate period (within the meaning of Paragraph 15(2) of Schedule 9) and by agreement with the successor company, release any Option which has not lapsed ("the old option") in consideration for the grant of a new option (the "new option"). The new option must be equivalent to the old option (within the meaning of Paragraph 15(3) of Schedule 9) but relate to shares in a different company (whether the successor corporation itself or some other company falling within Paragraph 10(b) or 10(c) of Schedule 9); and

b) for the purposes of the application of the provisions of this Sub-Plan, where any Grantee has released an old option, any new option granted shall be regarded as having been granted at the same time as the old option. With effect from the date of release, the new option shall be subject to the same provisions of this Sub-Plan as applied to the old option except that the following terms have the meaning assigned to them in this Section and not the meanings in the Plan:

"Board" means the Board of Directors of the company in respect of whose shares the new options have been granted;

"Committee" means the Committee of the board of directors of the company in respect of whose shares new options have been granted;

"Company" means the company in respect of whose shares the new options have been granted; and

"Shares" means fully paid ordinary shares in the capital of the company over whose shares the new options have been granted and which satisfy the conditions specified in Paragraphs 10 to 14 of Schedule 9.

c) notwithstanding anything contained in the Plan, if the company merges or is consolidated with another company under circumstances where the company is not the surviving company, no Options may be granted under this Sub-Plan following such merger or consolidation apart from new options granted by the successor company.

9.3 For the purposes of this Section 9, 'control' has the meaning set out in Section 840 of the Act.

10) Legal Entitlement.

10.1 Nothing in the Plan or this Sub-Plan nor in any instrument executed pursuant to it will confer on any person any right to continue in an office, or consultancy employment, nor will it affect the right of the provider of any service relationship to terminate the employment or office of any person without liability at any time with or without cause, nor will it impose upon the Committee or any other person any duty or liability (whether in contract, tort or otherwise) whatsoever in connection with:

a) the lapsing of any Option pursuant to the Plan or this Sub-Plan;

b) the failure or refusal to exercise any discretion under the Plan or this Sub-Plan; and/or

c) a holder of an Option ceasing to be a person who has a service relationship for any reason whatsoever.

10.2 Options shall not (except as may be required by taxation law) form part of the emoluments of individuals or count as wages or remuneration for pension or other purposes.

10.3 Any person who ceases to have the status or relationship of an employee or director with the Company or any Participating Company as a result of the termination of his employment or office for any reason and however that termination occurs, whether lawfully or otherwise, shall not be entitled and shall be deemed irrevocably to have waived any entitlement by way of damages for dismissal or by way of compensation for loss of employment, office or consultancy or otherwise to any sum, damages or other benefits to compensate that person for the loss or alteration of any rights, benefits or expectations in relation to any Option, the Plan, this Sub-Plan or any instrument executed pursuant to it.

10.4 The benefit of this Section 10 is given to the Company for itself and as trustee and agent of each Participating Company. To the extent that this Section benefits any company which is not a party to the Plan or this Sub-Plan, the benefit shall be held on trust and as agent by the Company for such company and the Company may, at its discretion, assign the benefit of this Section 10 to any such company.

11) Amendment to this Sub-Plan.

If this Sub-Plan is and is to remain approved under Schedule 9 no amendment shall be made to:

a) any Option granted under this Sub-Plan;

b) the terms of this Sub-Plan;

c) the Plan, if it shall effect this Sub-Plan except to the extent that the United Kingdom Inland Revenue has approved such amendments, and Section 4(b)(vii) and Section 13 of the Plan shall be construed accordingly. No such amendment shall take effect before the date on which it is approved by the United Kingdom Inland Revenue.

12) Other Amendments to the Plan.

12.1 When the Board, Committee or Administrator, under the powers conferred by the Plan, determines the terms and conditions of any Option granted under this Sub-Plan, such terms and conditions (including vesting restrictions) shall notwithstanding Sections 6(a), (c) and 8(a) of the Plan:

a) be objective, specified at the date the Option is granted and set out in full, in, or details given with, the written Award Agreement; and

b) be such that rights to exercise such Options after the fulfillment or attainment of any terms and conditions so specified shall not be dependent upon the further discretion of any person; and

c) not be capable of amendment, variation or waiver under Section 4(b)(vii) of the Plan unless an event occurs which causes the Board, Committee or Administrator to reasonably consider that a waived, varied or amended term and condition would be a fairer measure of performance and would be no more difficult to satisfy.

12.2 Within 28 days of the Date of Grant, an Eligible Person who has been granted an Option shall be given an Award

Agreement and Section 6(k) of the Plan shall be construed accordingly.

12.3 The following Sections of the Plan shall be deleted or amended for the purposes of construing this Sub-Plan:

a) In Section 2 (c) of the Plan, the words "Restricted Stock, or other right or benefit under the Plan" shall be deleted.

b) The definition of "Continuous Services" as defined in Section 2(l) of the Plan, shall, for the purposes of the application of this Sub-Plan be defined as "the provision of services to the Company or a related entity in any capacity of Employee or Director, that is not terminated".

c) In Section 2(t) of the Plan, the words "Employee, Director or Consultant" shall be replaced with "Employee or Director".

d) In Section 4, 5, 6 and 8 of the Plan, all references to Awards made to Consultants shall be ignored for the purpose of this Sub-Plan.

e) For the purpose of this Sub-Plan, Section 6(a) of the Plan shall be replaced with the words "The Administrator is authorised under the Plan to award any type of arrangement to an Eligible Person that is not inconsistent with the provisions of the Plan and that by its terms involves the issuance of an Option".

f) In Section 6(c) of the plan, the words "repurchase provisions" shall be deleted from the first sentence.

g) In Section 6(c) of the Plan, the words "forfeiture provisions, forms of payment" until "of the Award, payment contingencies" shall be deleted.

h) In Section 6(c) of the Plan, the words "Partial achievement of the specified criteria" until "as specified in the Award Agreement" shall be deleted.

i) Section 6 (d), (e), (f) and (g) of the Plan, shall be deleted.

j) In Section 6(h) of the Plan, the words from "Any invested Shares received" until "Administrator determines to be appropriate" shall be deleted.

k) Notwithstanding Section 6(h)(i) and 8(b) and (c) of the Plan, no Option shall be exercisable after the expiration of ten (10) years after the effective Date of Grant of such Option.

l) In the event of the death of a Grantee, the Grantee's personal representative may exercise the Option during the period ending not later than the earlier of 12 months from the date of death and the expiration of the term of the Option.

m) Section 9(b) of the Plan, shall be deleted.

n) Section 10 of the Plan, shall be deleted.

o) Section 11(e) of the Plan, shall be deleted.

p) Section 7(a) of the Plan, shall be deleted and Section 5 of this Sub-Plan shall apply to determine the exercise price.

q) For the purposes of this Sub-Plan, the definition of Disability shall include the inability, in the opinion of a qualified physician, of a Grantee to perform the major duties of his position with the Participating Company because of injury.

r) In Section 8(a)(i) of the Plan, the words "over five (5) years from the date the Option is granted" shall be replaced with the words "over five (5) years from the date the Option is granted or such earlier date as specified in the Award Agreement".

s) In Section 8(b) of the Plan the words "for any reason other than Disability or death", shall be replaced with the words "for any reason other than Disability, death, redundancy (within the meaning of the Employment Rights Act 1996) ("Redundancy"), or retirement (on the date of the participant's 65th birthday) ("Retirement")".

t) In Section 8(c) of the Plan the first sentence shall be replaced with the words "In the event of termination of the Grantee's Continuous Service as a result of his or her Disability, Redundancy, Retirement and death, the Grantee may, but only within the Post Termination Exercise Period (or in the case of death the period specified in Section 12(m) above), exercise the Award to the extent that the Grantee was otherwise entitled to exercise it at the date of such termination".

u) Section 8(d) of the Plan shall be deleted.

v) The rules of this Sub-Plan shall be governed by and construed in accordance with the laws of England and the definition of "Applicable Laws" in section 2(b) of the Plan shall be construed accordingly".

Adopted on behalf of the Company_______________________________

Name of Signatory _______________________________

Date _______________________________

DOLBY LABORATORIES, INC.

2000 STOCK INCENTIVE PLAN

2000 UK UNAPPROVED RULES ("UK UNAPPROVED PLAN")

The rules of this UK Unapproved Plan should be read in conjunction with the rules of the Dolby Laboratories, Inc. 2000 Stock Incentive Plan - 2000 UK Approved Rules (the "Sub-Plan"), except to the extent that the terms and conditions of the Sub-Plan differ from or conflict with the terms set out in this UK Unapproved Plan (in which case the terms of this Unapproved Plan shall prevail). In this Unapproved Plan words defined in the Sub-Plan shall have the same meaning except to the extent that the context requires otherwise.

1. Grant of Options.

(a) For the purpose of Options granted under this 2000 UK Unapproved Plan, the Sub-Plan shall apply except that:

(i) An Eligible Person shall be an Employee, Director or Consultant, as defined in the Dolby Laboratories, Inc. 2000 Stock Incentive Plan (the "US Plan") and paragraph 2 of the Sub-Plan shall be read accordingly. In addition the Board shall have the discretion to make an award of Options to any other person at its sole discretion.

(ii) Options issued under this Unapproved Plan shall not be approved under Schedule 9.

(iii) The Stock over which Options may be granted is not required to comply with Paragraphs 10 - 14 of Schedule 9.

(iv) Section 4 of the Sub-Plan ("Award Limitations under the Plan") shall not apply for the purposes of Options granted under this Unapproved Plan.

(v) Section 7(a) and 7(b) of the Sub-Plan shall not apply.

(vi) Section 8 of the Sub-Plan shall be deleted and Section 6(j) of the US Plan shall apply to this Unapproved Plan.

(vii) Section 9.2(a) of the Sub-Plan shall be amended so that references to Paragraphs 15(2) and (3) of Schedule 9 and Paragraphs 10(b) and (c) of Schedule 9 are deleted.

(viii) The definition of "Shares" at Section 9.2(b) and (c) of the Sub-Plan shall be deleted for the purpose of this UK Unapproved Plan. For the purpose of this UK Unapproved Plan, the definition of "Shares" shall be defined as a share of the Company's Common Stock.

(ix) References in the Sub-Plan to approval by or agreement of the Inland Revenue shall be deleted.

(x) Section 11 of the Sub-Plan shall be deleted and Sections 4(b)(vii) and Section 13 of the US Plan shall apply to this Unapproved Plan.

(xi) Section 12.3 of the Sub-Plan shall be deleted with the exception of Paragraphs 12.3(k) and (q).

(xii) Options issued under this Unapproved Plan may be terminated by the Board at its sole discretion.

2. Condition of Exercise.

(a) In the event that any taxes and/or social security contributions ("PAYE") which a Participating Company would be required to account for to the Inland Revenue, or other taxation authority (to the extent that the same may be lawfully recovered from Grantee), becomes due on the Grantee's exercise of an Option, the Option may not be exercised unless:

(i) the Participating Company is able to deduct an amount equal to the whole of the PAYE liability from the Grantee's net pay for the relevant pay period; or

(ii) the Grantee has paid to the Participating Company an amount equal to the PAYE liability; or

(iii) the sum of the amount that the Grantee has paid to the Participating Company in respect of the Participating Company's obligation to satisfy PAYE liability and the total amount that the Participating Company is able to deduct from the Grantee's net pay for the relevant pay period is equal to or more than the PAYE liability; or

(iv) the Grantee has given irrevocable instructions to the Company's brokers (or any other person acceptable to the Company) for the sale of sufficient shares acquired on the exercise of the Option to release an amount equal to the PAYE liability and the payment of the PAYE liability to the Participating Company; or

(v) the Company determines otherwise.

(b) The Option may not be exercised until the Grantee has jointly elected and agrees with the Company in respect of Secondary Class 1 National Insurance that becomes due on the exercise, assignment, release or cancellation of the Option (whether in whole or in part) pursuant to Section 4(4)(a) of the Social Security Contributions and Benefits Act 1992 ("the SSCBA 1992") to be transferred to the Grantee as permitted by Paragraph 3B of Schedule 1 to the SSCBA 1992, in a manner prescribed by the Company and approved in advance by the United Kingdom Inland Revenue.

(c) The Secondary Class 1 National Insurance that becomes due on the exercise, assignment, release or cancellation of an Option, arising under Section 4(4)(1) SSCBA 1992 shall be included within the definition of PAYE for the purposes of Section 2 of this UK Unapproved Plan.

Exhibit 31.1

CERTIFICATION

I, Kevin J. Yeaman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Dolby Laboratories, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 6, 2013

/s/ KEVIN J. YEAMAN

Kevin J. Yeaman

President and Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Lewis Chew, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Dolby Laboratories, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 6, 2013

/s/ LEWIS CHEW

Lewis Chew

Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Dolby Laboratories, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended December 28, 2012, as filed with the Securities and Exchange Commission (the "Report"), Kevin J. Yeaman, President and Chief Executive Officer of the Company and Lewis Chew, Executive Vice President and Chief Financial Officer of the Company, respectively, do each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- The information in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 6, 2013

/s/ KEVIN J. YEAMAN

Kevin J. Yeaman
President and Chief Executive Officer (Principal Executive Officer)

/s/ LEWIS CHEW

Lewis Chew
Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)