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

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FORM 10-Q

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

For the Quarterly Period Ended July 1, 2011  
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**

*(State or other jurisdiction of incorporation or organization)*

**100 Potrero Avenue  
San Francisco, CA**

*(Address of principal executive offices)*

**90-0199783**

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

**94103-4813**

*(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 July 21, 2011 the registrant had 52,655,614 shares of Class A common stock, par value \$0.001 per share, and 57,773,454 shares of Class B common stock, par value \$0.001 per share, outstanding.

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**PART I – FINANCIAL INFORMATION**  
**ITEM 1 – CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

	September 24, 2010	July 1, 2011
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 545,861	\$ 594,604
Short-term investments	302,269	309,067
Accounts receivable, net	54,257	39,370
Inventories	28,338	23,416
Deferred taxes	102,758	91,401
Prepaid expenses and other current assets	26,930	36,058
<b>Total current assets</b>	<b>1,060,413</b>	<b>1,093,916</b>
Long-term investments	190,837	280,380
Property, plant and equipment, net	94,097	108,334
Intangible assets, net	67,019	55,463
Goodwill	264,580	268,009
Deferred taxes	19,948	18,811
Other non-current assets	14,878	6,314
<b>Total assets</b>	<b>\$ 1,711,772</b>	<b>\$ 1,831,227</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 3,606	\$ 5,621
Accrued liabilities	144,608	114,344
Income taxes payable	7,895	3,675
Deferred revenue	9,647	12,976
<b>Total current liabilities</b>	<b>165,756</b>	<b>136,616</b>
Long-term deferred revenue	12,775	14,850
Deferred taxes	11,547	621
Other non-current liabilities	27,015	23,274
<b>Total liabilities</b>	<b>217,093</b>	<b>175,361</b>
Stockholders' equity:		
Class A common stock	53	53
Class B common stock	59	58
Additional paid-in capital	329,902	255,575
Retained earnings	1,135,922	1,366,118
Accumulated other comprehensive income	7,801	11,895
<b>Total stockholders' equity – Dolby Laboratories, Inc.</b>	<b>1,473,737</b>	<b>1,633,699</b>
Controlling interest	20,942	22,167
<b>Total stockholders' equity</b>	<b>1,494,679</b>	<b>1,655,866</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,711,772</b>	<b>\$ 1,831,227</b>

*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)*

	Fiscal Quarter Ended		Fiscal Year-to-Date Ended	
	June 25, 2010	July 1, 2011	June 25, 2010	July 1, 2011
<b>Revenue:</b>	<b>(unaudited)</b>			
Licensing	\$ 170,326	\$ 181,790	\$ 532,045	\$ 584,593
Products	52,651	28,395	140,147	100,769
Services	7,292	8,814	22,714	26,375
Total revenue	<u>230,269</u>	<u>218,999</u>	<u>694,906</u>	<u>711,737</u>
<b>Cost of revenue:</b>				
Cost of licensing	3,719	4,095	13,282	13,827
Cost of products <sup>(1)</sup>	23,336	20,320	72,042	62,549
Cost of services <sup>(1)</sup>	3,407	3,518	10,554	9,153
Impairment of products provided under operating leases	9,594	-	9,594	-
Total cost of revenue	<u>40,056</u>	<u>27,933</u>	<u>105,472</u>	<u>85,529</u>
Gross margin	<u>190,213</u>	<u>191,066</u>	<u>589,434</u>	<u>626,208</u>
<b>Operating expenses:</b>				
Research and development <sup>(1)</sup>	27,513	34,086	75,561	90,812
Sales and marketing <sup>(1)</sup>	36,527	36,726	93,635	112,488
General and administrative <sup>(1)</sup>	29,165	32,397	86,677	104,594
Restructuring charges, net	1,068	(48)	1,371	737
Total operating expenses	<u>94,273</u>	<u>103,161</u>	<u>257,244</u>	<u>308,631</u>
<b>Operating income</b>	<u>95,940</u>	<u>87,905</u>	<u>332,190</u>	<u>317,577</u>
Interest income	1,879	1,670	5,665	5,237
Interest expense	(392)	690	(589)	322
Other income, net	655	186	1,124	875
Income before provision for income taxes	98,082	90,451	338,390	324,011
Provision for income taxes	(34,394)	(28,404)	(118,890)	(92,717)
Net income including controlling interest	63,688	62,047	219,500	231,294
Less: net income attributable to controlling interest	(236)	(299)	(1,064)	(1,098)
<b>Net income attributable to Dolby Laboratories, Inc.</b>	<u>\$ 63,452</u>	<u>\$ 61,748</u>	<u>\$ 218,436</u>	<u>\$ 230,196</u>
<b>Earnings per share attributable to Dolby Laboratories, Inc.:</b>				
Basic	\$ 0.56	\$ 0.55	\$ 1.92	\$ 2.06
Diluted	\$ 0.55	\$ 0.55	\$ 1.89	\$ 2.03
<b>Weighted-average shares outstanding:</b>				
Basic	113,254	111,494	113,775	111,893
Diluted	115,282	112,349	115,780	113,165
Related party rent expense included in general and administrative expenses	\$ 343	\$ 343	\$ 1,029	\$ 1,029
(1) Stock-based compensation was classified as follows:				
Cost of products	\$ 126	\$ 169	\$ 305	\$ 483
Cost of services	36	47	99	129
Research and development	1,869	2,632	4,613	7,566
Sales and marketing	2,573	3,429	6,522	9,792
General and administrative	3,540	4,639	9,476	14,946

*See accompanying notes to unaudited condensed consolidated financial statements*

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

	Fiscal Year-to-Date Ended	
	June 25, 2010	July 1, 2011
<b>Operating activities:</b>	<b>(unaudited)</b>	
Net income including controlling interest	\$ 219,500	\$ 231,294
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,545	33,975
Stock-based compensation	21,015	32,916
Amortization of premium on investments	6,384	12,375
Excess tax benefit from exercise of stock options	(16,890)	(12,643)
Provision for doubtful accounts	(181)	828
Losses on Put Rights	6,506	-
Gains on auction rate certificates	(7,601)	-
Deferred income taxes	(21,782)	1,573
Impairment of products provided under operating leases	9,594	-
Payment on litigation settlement	(3,000)	(3,000)
Other non-cash items affecting net income	2,007	175
Changes in operating assets and liabilities:		
Accounts receivable	(24,595)	14,065
Inventories	(4,087)	4,927
Prepaid expenses and other assets	15,730	(6,718)
Accounts payable and accrued liabilities	23,759	(27,789)
Income taxes, net	31,903	6,386
Deferred revenues	(24,282)	5,400
Other non-current liabilities	(74)	395
Net cash provided by operating activities	<u>259,451</u>	<u>294,159</u>
<b>Investing activities:</b>		
Purchases of available-for-sale securities	(556,172)	(454,795)
Proceeds from sales and maturities of available-for-sale securities	519,857	345,619
Purchases of property, plant and equipment	(24,882)	(30,334)
Acquisitions, net of cash acquired	-	(3,350)
Other investments	(825)	-
Proceeds from sales of property, plant and equipment and assets held for sale	-	3,077
Net cash used in investing activities	<u>(62,022)</u>	<u>(139,783)</u>
<b>Financing activities:</b>		
Repayment of long-term debt	(1,192)	-
Proceeds from issuance of Class A common stock (Employee Stock Purchase Plan)	4,060	5,429
Net proceeds from exercise of stock options	32,948	17,491
Repurchase of common stock	(177,648)	(142,500)
Excess tax benefit from exercise of stock options	16,890	12,643
Net cash used in financing activities	<u>(124,942)</u>	<u>(106,937)</u>
Effect of foreign exchange rate changes on cash	(5,067)	1,304
Net decrease in cash and cash equivalents	67,420	48,743
Cash and cash equivalents at beginning of period	451,678	545,861
<b>Cash and cash equivalents at end of period</b>	<b><u>\$ 519,098</u></b>	<b><u>\$ 594,604</u></b>
<b>Supplemental disclosure:</b>		
Cash paid for income taxes	\$ 108,598	\$ 84,689
Cash paid for interest	546	242

*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. (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 U.S. 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 24, 2010 and include all adjustments necessary for fair presentation. The accompanying condensed consolidated financial statements should be read in conjunction with our consolidated financial statements for the fiscal year ended September 24, 2010, which are included in our Annual Report on Form 10-K filed with the SEC.

The results for the fiscal quarter and fiscal year-to-date period ended July 1, 2011 are not necessarily indicative of the results to be expected for any subsequent quarterly or annual financial period, including the fiscal year ending September 30, 2011.

*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 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 have eliminated all intercompany accounts and transactions upon consolidation.

*Use of Estimates*

The preparation of the consolidated financial statements in accordance with U.S. GAAP requires management to make certain estimates and assumptions that affect the amounts reported and disclosed in our 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 June 25, 2010 and July 1, 2011, and the 39 week period ended June 25, 2010 and the 40 week period ended July 1, 2011. Our fiscal year ended September 24, 2010 (fiscal 2010) consisted of 52 weeks, while our fiscal year ending September 30, 2011 (fiscal 2011) consists of 53 weeks.

*Reclassifications*

Certain prior period amounts have been reclassified to conform to current year presentation.

**2. Summary of Significant Accounting Policies**

There have been no material changes to our significant accounting policies as compared to those described in our Annual Report on Form 10-K for the fiscal year ended September 24, 2010.

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**3. Composition of Certain Financial Statement Captions**

***Cash, Cash Equivalents, and Investments***

Cash, cash equivalents, and investments as of September 24, 2010 and July 1, 2011 consist of the following:

	<b>September 24, 2010</b>	<b>July 1, 2011</b>
	<b>(in thousands)</b>	
Cash and cash equivalents:		
Cash	\$ 156,440	\$ 361,005
Cash equivalents:		
Money market funds	354,428	218,600
U.S. agency securities	10,000	-
Commercial paper	19,993	14,999
Municipal debt securities	5,000	-
Total cash and cash equivalents	<u>545,861</u>	<u>594,604</u>
Short-term investments:		
Corporate bonds	3,788	38,230
Commercial paper	9,990	-
Municipal debt securities	188,123	253,585
U.S. agency securities	70,376	17,252
U.S. and foreign government bonds	29,992	-
Total short-term investments	<u>302,269</u>	<u>309,067</u>
Long-term investments:		
Corporate bonds	25,870	76,267
Municipal debt securities	127,458	194,111
U.S. agency securities	27,522	10,002
U.S. government bonds	9,987	-
Total long-term investments	<u>190,837</u>	<u>280,380</u>
<b>Total cash, cash equivalents and investments</b>	<u><b>\$ 1,038,967</b></u>	<u><b>\$ 1,184,051</b></u>

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Our investment portfolio, which is recorded as cash equivalents, short-term investments, and long-term investments, was as follows:

	September 24, 2010			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(in thousands)			
Commercial paper	\$ 29,983	\$ -	\$ -	\$ 29,983
Corporate bonds	29,238	420	-	29,658
Money market funds	354,428	-	-	354,428
Municipal debt securities	318,825	1,781	(25)	320,581
U.S. agency securities	107,512	390	(4)	107,898
U.S. government bonds	39,949	30	-	39,979
<b>Cash equivalents and investments</b>	<b>\$ 879,935</b>	<b>\$ 2,621</b>	<b>\$ (29)</b>	<b>\$ 882,527</b>

	July 1, 2011			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(in thousands)			
Commercial paper	\$ 14,999	\$ -	\$ -	\$ 14,999
Corporate bonds	113,979	546	(28)	114,497
Money market funds	218,600	-	-	218,600
Municipal debt securities	446,314	1,456	(74)	447,696
U.S. agency securities	27,073	181	-	27,254
<b>Cash equivalents and investments</b>	<b>\$ 820,965</b>	<b>\$ 2,183</b>	<b>\$ (102)</b>	<b>\$ 823,046</b>

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

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

	September 24, 2010					
	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)					
Municipal debt securities	\$ 62,494	\$ (25)	\$ -	\$ -	\$ 62,494	\$ (25)
U.S. agency securities	30,112	(4)	-	-	30,112	(4)
<b>Total</b>	<b>\$ 92,606</b>	<b>\$ (29)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 92,606</b>	<b>\$ (29)</b>

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	July 1, 2011					
	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)					
Corporate bonds	\$ 10,957	\$ (28)	\$ -	\$ -	\$ 10,957	\$ (28)
Municipal debt securities	82,873	(74)	-	-	82,873	(74)
<b>Total</b>	<b>\$ 93,830</b>	<b>\$ (102)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 93,830</b>	<b>\$ (102)</b>

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 July 1, 2011, we owned 31 securities that were in an unrealized loss position. We do not intend to sell, nor do we believe we will 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 September 24, 2010 or July 1, 2011 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 July 1, 2011:

	Amortized Cost	July 1, 2011
		Fair Value
	(in thousands)	
Due within 1 year	\$ 308,099	\$ 309,067
Due in 1 to 2 years	247,738	248,715
Due in 2 to 3 years	31,529	31,665
<b>Total</b>	<b>\$ 587,366</b>	<b>\$ 589,447</b>

***Accounts Receivable***

Accounts receivable consists of the following:

	September 24, 2010	July 1, 2011
	(in thousands)	
Trade accounts receivable	\$ 45,651	\$ 36,379
Accounts receivable related to patent administration program	10,646	5,603
Accounts receivable, gross	56,297	41,982
Less: allowance for doubtful accounts	(2,040)	(2,612)
<b>Accounts receivable, net</b>	<b>\$ 54,257</b>	<b>\$ 39,370</b>

***Inventories***

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

	September 24, 2010	July 1, 2011
	(in thousands)	
Raw materials	\$ 10,314	\$ 10,042
Work in process	3,109	3,606
Finished goods	14,915	9,768
<b>Inventories</b>	<b>\$ 28,338</b>	<b>\$ 23,416</b>

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*Prepaid Expenses and Other Current Assets*

Prepaid expenses and other current assets consist of the following:

	September 24, 2010	July 1, 2011
	(in thousands)	
Prepaid assets	\$ 16,191	\$ 17,980
Other current assets	1,650	6,233
Income tax receivable	3,497	9,854
Assets held for sale	5,592	1,991
<b>Prepaid expenses and other current assets</b>	<b>\$ 26,930</b>	<b>\$ 36,058</b>

Assets held for sale represent digital cinema equipment that we leased to exhibitors beginning in fiscal 2005 in an effort to encourage the cinema industry to transition to digital cinema. In fiscal 2010, management committed to a plan to sell some of this leased equipment, which required us to classify these assets as held for sale as of September 24, 2010. We have reviewed the carrying value of remaining assets classified as held for sale against recent sales prices and expect to recover the current carrying value of the assets.

We also hold digital cinema equipment that we leased to exhibitors with a carrying value of approximately \$1.0 million that is not yet classified as held for sale since it does not meet all the held for sale criteria. These assets are classified as products provided under operating leases and held for use, and remain within property, plant and equipment.

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**Property, Plant and Equipment**

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

	September 24, 2010	July 1, 2011
	(in thousands)	
Land	\$ 12,835	12,890
Buildings	27,029	27,163
Leasehold improvements	33,264	39,704
Machinery and equipment	16,080	20,749
Computer systems and software	43,611	64,465
Furniture and fixtures	9,440	9,661
Products provided under operating leases	1,209	1,045
	143,468	175,677
Less: accumulated depreciation	(49,371)	(67,343)
<b>Property, plant and equipment, net</b>	<b>\$ 94,097</b>	<b>\$ 108,334</b>

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 the accompanying 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 24, 2010	\$ 264,580
Acquired goodwill	182
Translation adjustments	3,247
<b>Balance at July 1, 2011</b>	<b>\$ 268,009</b>

Intangible assets consist of the following:

	September 24, 2010			July 1, 2011		
	Cost	Accumulated Amortization	Net (in thousands)	Cost	Accumulated Amortization	Net
Intangible assets subject to amortization:						
Acquired patents and technology	\$ 61,767	\$ (24,986)	\$ 36,781	\$ 61,748	\$ (30,156)	\$ 31,592
Customer relationships	30,790	(10,095)	20,695	30,749	(12,027)	18,722
Customer contracts	5,973	(4,483)	1,490	6,063	(6,063)	-
Other intangibles	20,307	(12,254)	8,053	20,308	(15,159)	5,149
<b>Total</b>	<b>\$ 118,837</b>	<b>\$ (51,818)</b>	<b>\$ 67,019</b>	<b>\$ 118,868</b>	<b>\$ (63,405)</b>	<b>\$ 55,463</b>

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

As of July 1, 2011, we expect amortization expense in future periods to be as follows:

Fiscal Year	Amortization Expense (in thousands)
Remainder of 2011	\$ 3,825
2012	12,711
2013	11,937
2014	10,293
2015	7,833
Thereafter	8,864
<b>Total</b>	<b>\$ 55,463</b>

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***Accrued Liabilities***

Accrued liabilities consist of the following:

	September 24, 2010	July 1, 2011
	(in thousands)	
Accrued royalties	\$ 4,140	\$ 3,225
Amounts payable to joint licensing program partners	42,837	50,643
Accrued compensation and benefits	62,044	28,952
Accrued professional fees	8,078	5,732
Current portion of litigation settlement	2,890	-
Accrued customer refunds	4,120	6,143
Other accrued liabilities	20,499	19,649
<b>Accrued liabilities</b>	<b>\$ 144,608</b>	<b>\$ 114,344</b>

***Other Non-Current Liabilities***

Other non-current liabilities consist of the following:

	September 24, 2010	July 1, 2011
	(in thousands)	
Supplemental retirement plan obligations	\$ 2,118	\$ 2,158
Non-current tax liabilities	20,036	15,259
Other liabilities	4,861	5,857
<b>Other non-current liabilities</b>	<b>\$ 27,015</b>	<b>\$ 23,274</b>

***Accumulated Other Comprehensive Income***

Accumulated other comprehensive income consists of the following:

	September 24, 2010	July 1, 2011
	(in thousands)	
Accumulated foreign currency translation gains, net of tax of (\$2,655) and (\$2,804)	\$ 6,195	\$ 10,603
Accumulated unrealized gains on available-for-sale securities, net of tax of (\$986) and (\$789)	1,606	1,292
<b>Total accumulated other comprehensive income</b>	<b>\$ 7,801</b>	<b>\$ 11,895</b>

***Per Share Data***

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.:

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	Fiscal Quarter Ended		Fiscal Year-to-Date Ended	
	June 25, 2010	July 1, 2011	June 25, 2010	July 1, 2011
(in thousands, except per share amounts)				
<b>Numerator:</b>				
Net income attributable to Dolby Laboratories, Inc.	\$ 63,452	\$ 61,748	\$ 218,436	\$ 230,196
<b>Denominator:</b>				
Weighted-average shares outstanding - basic	113,254	111,494	113,775	111,893
Potential common shares from options to purchase Class A and Class B common stock	1,817	757	1,835	1,076
Potential common shares from restricted stock units	211	98	170	196
Weighted-average shares outstanding - diluted	115,282	112,349	115,780	113,165
<b>Net income per share attributable to Dolby Laboratories, Inc. - basic</b>	<b>\$ 0.56</b>	<b>\$ 0.55</b>	<b>\$ 1.92</b>	<b>\$ 2.06</b>
<b>Net income per share attributable to Dolby Laboratories, Inc. - diluted</b>	<b>\$ 0.55</b>	<b>\$ 0.55</b>	<b>\$ 1.89</b>	<b>\$ 2.03</b>
Anti-dilutive options excluded from calculation	1,414	3,563	1,950	3,043
Anti-dilutive restricted stock units excluded from calculation	29	384	403	471

***Withholding and Sales Tax***

We recognize licensing revenue gross of withholding taxes, which our licensees remit directly to their local tax authorities, and for which we receive a related foreign tax credit in our income tax provision. Withholding tax remittances were \$8.0 million and \$7.6 million in the fiscal quarters ended June 25, 2010 and July 1, 2011, respectively. Withholding tax remittances were \$24.1 million and \$23.4 million in the fiscal year-to-date periods ended June 25, 2010 and July 1, 2011, respectively. We account for sales tax on a net basis by excluding sales tax from our revenue.

***Revenue from Material Customer***

In the fiscal quarters ended June 25, 2010 and July 1, 2011, revenue from one customer was \$28.9 million and \$28.7 million, respectively, or 13% of revenue for each quarter, respectively. In the fiscal year-to-date periods ended June 25, 2010 and July 1, 2011, the same customer accounted for \$84.2 million and \$95.0 million, respectively, or 12% and 13% of total revenue, respectively.

***Income Taxes***

Our effective tax rate is based on a projection of our annual fiscal year results. Our effective tax rate was 35% and 31% for the fiscal quarters ended June 25, 2010 and July 1, 2011, respectively, and 35% and 29% for the fiscal year-to-date periods ended June 25, 2010 and July 1, 2011, respectively.

In the fiscal quarter ended December 31, 2010, we made an election to indefinitely reinvest a portion of our undistributed earnings in a foreign subsidiary, which resulted in a reduction to the fiscal year 2011 tax rate. Additionally, in the same quarter, a change in the tax law retroactively reinstated the federal research and development tax credits for a portion of fiscal 2010. As a result, we recognized an increase in federal research and development tax credits for fiscal 2011 compared to fiscal 2010, thereby further lowering our effective tax rate.

In the fiscal quarter ended December 31, 2010, we also completed the restructuring of our international operations, which resulted in the release of a deferred tax liability of \$11.0 million related to the amortization of an intangible asset from a prior year acquisition.

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### Release of Value-Added Tax (VAT) Reserves

During the fiscal quarter ended July 1, 2011, we completed our analysis of recent VAT law changes enacted in the European Union. Based on this analysis, we released \$2.1 million of VAT reserves and related estimated penalties which were recorded as a reduction of general and administrative expense. Additionally, we released \$0.8 million of VAT-related interest reserves, which was recorded as a reduction of interest expense. These liabilities were previously recorded in other accrued liabilities.

### 4. Fair Value Measurements

Fair value is the exchange price that would be received for an asset or that would be 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 on 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 as of September 24, 2010 are classified below:

	Level 1	Level 2	Level 3	Total
	(in thousands)			
<b>Assets:</b>				
Investments held in supplemental retirement plan (1)	\$ 2,200	\$ -	\$ -	\$ 2,200
Money market funds (2)	354,428	-	-	354,428
Commercial paper (2)	-	29,983	-	29,983
Corporate bonds (2)	-	29,658	-	29,658
Municipal debt securities (2)	-	320,581	-	320,581
U.S. agency securities (2)	-	107,898	-	107,898
U.S. government bonds (2)	-	39,979	-	39,979
<b>Total</b>	<b>\$ 356,628</b>	<b>\$ 528,099</b>	<b>\$ -</b>	<b>\$ 884,727</b>

(1) These assets are included within prepaid expenses and other current assets and other non-current assets.

(2) These assets are included within cash and cash equivalents, short-term investments, and long-term investments.

	Level 1	Level 2	Level 3	Total
	(in thousands)			
<b>Liabilities:</b>				
Investments held in supplemental retirement plan (1)	\$ 2,200	\$ -	\$ -	\$ 2,200
<b>Total</b>	<b>\$ 2,200</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,200</b>

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

Financial assets and liabilities carried at fair value as of July 1, 2011 are classified below:

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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(in thousands)			
<b>Assets:</b>				
Investments held in supplemental retirement plan (1)	\$ 2,349	\$ -	\$ -	\$ 2,349
Money market funds (2)	218,600	-	-	218,600
Commercial paper (2)	-	14,999	-	14,999
Corporate bonds (3)	-	114,497	-	114,497
Municipal debt securities (3)	-	447,696	-	447,696
U.S. agency securities (3)	-	27,254	-	27,254
<b>Total</b>	<b>\$ 220,949</b>	<b>\$ 604,446</b>	<b>\$ -</b>	<b>\$ 825,395</b>

(1) These assets are included within prepaid expenses and other current assets and other non-current assets.

(2) These assets are included within cash and cash equivalents.

(3) These assets are included within short-term investments and long-term investments.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(in thousands)			
<b>Liabilities:</b>				
Investments held in supplemental retirement plan (1)	\$ 2,349	\$ -	\$ -	\$ 2,349
<b>Total</b>	<b>\$ 2,349</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,349</b>

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

We base the fair value of our Level 1 financial instruments, which are in active markets, using quoted market prices for identical instruments. Our Level 1 financial instruments include money market funds and mutual fund investments held in our supplemental retirement plan.

We obtain the fair value of our Level 2 financial instruments, which are not in active markets, from a third-party professional pricing service using quoted market prices for identical or comparable instruments, rather than direct observations of quoted prices in active markets. Our professional pricing service gathers observable inputs for all of our fixed income securities from a variety of industry data providers (e.g. large custodial institutions) and other third-party sources. Once the observable inputs are gathered, all data points are considered and an average price is determined.

We validate the quoted market prices provided by our primary pricing service by comparing their assessment of the fair values of our Level 2 investment portfolio balance against the fair values of our Level 2 investment portfolio balance provided by our investment managers. Our investment managers use similar techniques to our professional pricing service to derive pricing as described above.

We did not own any Level 3 financial assets or liabilities as of September 24, 2010 or July 1, 2011.

## 5. Stock-Based Compensation

We have adopted compensation plans that provide for grants of stock-based awards as a form of compensation to employees, officers, and directors. We have issued stock-based awards in the form of stock options, restricted stock units, stock appreciation rights, and shares issued under our employee stock purchase plan. Stock-based compensation expense for the fiscal quarters and fiscal year-to-date periods ended June 25, 2010 and July 1, 2011 was as follows:

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	Fiscal Quarter Ended		Fiscal Year-to-Date Ended	
	June 25, 2010	July 1, 2011	June 25, 2010	July 1, 2011
	(in thousands)			
Stock-based compensation				
Stock options	\$ 5,133	\$ 5,930	\$ 13,348	\$ 18,957
Restricted stock units	2,735	4,805	6,676	13,526
Employee stock purchase plan	165	227	477	593
Stock appreciation rights	111	(46)	514	(160)
<b>Total stock-based compensation</b>	<b>\$ 8,144</b>	<b>\$ 10,916</b>	<b>\$ 21,015</b>	<b>\$ 32,916</b>

During the fiscal quarters and fiscal year-to-date periods ended June 25, 2010 and July 1, 2011, grants of stock-based awards were as follows:

	Fiscal Quarter Ended		Fiscal Year-to-Date Ended	
	June 25, 2010	July 1, 2011	June 25, 2010	July 1, 2011
Stock options granted	106,710	98,155	1,446,881	1,529,468
Weighted average exercise price of options granted	\$ 64.13	\$ 46.35	\$ 51.91	\$ 64.09
Restricted stock units granted	22,580	26,540	406,030	456,165
Weighted average grant price of restricted stock units granted	\$ 64.21	\$ 46.35	\$ 51.82	\$ 63.24

## 6. Restructuring

During the fiscal quarter ended June 25, 2010, we informed approximately 60 general and administrative employees of our plans to reorganize certain aspects of our global business infrastructure. As a result of this action, we offered severance benefits to the affected employees. The majority of these employees were required to render service through November 15, 2010 to receive these severance benefits. We recognized the total severance and other associated costs of approximately \$3.9 million for these employees on a ratable basis through termination dates for each employee. These expenses are recognized in restructuring charges, net, in the condensed consolidated statements of operations.

Changes in our restructuring accruals, which are included within accrued liabilities on our condensed consolidated balance sheets, were as follows:

	Severance	Other associated costs	Total
	(in thousands)		
Balance at September 24, 2010	\$ 2,804	\$ 230	\$ 3,034
Restructuring charges	836	(99)	737
Cash payments	(3,640)	(131)	(3,771)
<b>Balance at July 1, 2011</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

## 7. 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 effect on our operating results or financial condition. However, 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. Other than as described in Note 11 "Subsequent Events", there has been no material change in the status of legal proceedings since our fiscal year ended September 24, 2010.

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## 8. Guarantees and Contingencies

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 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.

## 9. Common Stock Repurchase Program

In November 2009, we announced a stock repurchase program, whereby we may repurchase up to \$250.0 million of our Class A common stock. In July 2010, our Board of Directors approved an additional \$300.0 million for our stock repurchase program, for a total authorization of up to \$550.0 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, 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.

Stock repurchase activity under the stock repurchase program during the fiscal year-to-date period ended July 1, 2011 is summarized as follows:

	Shares Repurchased	Cost (in thousands) (1)	Average Price Paid per Share (2)
Repurchase activity for the fiscal quarter ended December 31, 2010	732,665	\$ 45,966	\$ 62.72
Repurchase activity for the fiscal quarter ended April 1, 2011	546,940	29,158	\$ 53.30
Repurchase activity for the fiscal quarter ended July 1, 2011	1,465,264	67,376	\$ 45.97
<b>Total</b>	<b>2,744,869</b>	<b>\$ 142,500</b>	

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

(2) Excludes commission costs.

## 10. Comprehensive Income and Supplemental Equity Information

### *Comprehensive Income*

The components of comprehensive income were as follows:

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	Fiscal Quarter Ended		Fiscal Year-to-Date Ended	
	June 25, 2010	July 1, 2011	June 25, 2010	July 1, 2011
	(in thousands)			
Net income including controlling interest	\$ 63,688	\$ 62,047	\$ 219,500	\$ 231,294
Other comprehensive income:				
Foreign currency translation adjustment, net of tax	(975)	1,191	(5,101)	4,535
Unrealized gains / (losses) on available-for-sale securities, net of tax	91	342	(532)	(314)
Comprehensive income	62,804	63,580	213,867	235,515
Less: comprehensive income attributable to controlling interest	(361)	(292)	(414)	(1,225)
<b>Comprehensive income attributable to Dolby Laboratories, Inc.</b>	<b>\$ 62,443</b>	<b>\$ 63,288</b>	<b>\$ 213,453</b>	<b>\$ 234,290</b>

**Supplemental Equity Information**

The following tables present the consolidated statements of changes in stockholders' equity attributable to Dolby Laboratories, Inc. and the controlling interest:

Dolby Laboratories, Inc. (in thousands)								
	Shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total Dolby Laboratories, Inc.	Controlling Interest	Total
<b>Balance at September 25, 2009</b>	<b>113,849</b>	<b>\$ 113</b>	<b>\$ 478,979</b>	<b>\$ 852,475</b>	<b>\$ 9,541</b>	<b>\$ 1,341,108</b>	<b>\$ 21,997</b>	<b>\$ 1,363,105</b>
Net income	-	-	-	218,436	-	218,436	1,064	219,500
Translation adjustments, net of taxes of \$2,882	-	-	-	-	(4,451)	(4,451)	(650)	(5,101)
Unrealized losses on available-for-sale securities, net of taxes of \$324	-	-	-	-	(532)	(532)	-	(532)
Distributions to controlling interest	-	-	-	-	-	-	(127)	(127)
Stock-based compensation expense	-	-	20,501	-	-	20,501	-	20,501
Repurchase of common stock	(3,099)	-	(177,648)	-	-	(177,648)	-	(177,648)
Tax benefit from the exercise of Class A and Class B stock options and vesting of restricted stock units	-	-	16,401	-	-	16,401	-	16,401
Class A common stock issued under employee stock plans, net of stock withheld for taxes	1,289	-	34,814	-	-	34,814	-	34,814
Exercise of Class B stock options	887	-	2,194	-	-	2,194	-	2,194
<b>Balance at June 25, 2010</b>	<b>112,926</b>	<b>\$ 113</b>	<b>\$ 375,241</b>	<b>\$ 1,070,911</b>	<b>\$ 4,558</b>	<b>\$ 1,450,823</b>	<b>\$ 22,284</b>	<b>\$ 1,473,107</b>

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Dolby Laboratories, Inc. (in thousands)

	Shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total Dolby Laboratories, Inc.	Controlling Interest	Total
<b>Balance at September 24, 2010</b>	<b>112,084</b>	<b>112</b>	<b>329,902</b>	<b>1,135,922</b>	<b>7,801</b>	<b>\$ 1,473,737</b>	<b>20,942</b>	<b>1,494,679</b>
Net income	-	-	-	230,196	-	230,196	1,098	231,294
Translation adjustments, net of taxes of (\$149)	-	-	-	-	4,408	4,408	127	4,535
Unrealized losses on available-for-sale securities, net of taxes of \$197	-	-	-	-	(314)	(314)	-	(314)
Distributions to controlling interest	-	-	-	-	-	-	-	-
Stock-based compensation expense	-	-	32,575	-	-	32,575	-	32,575
Capitalized stock-based compensation expense	-	-	445	-	-	445	-	445
Repurchase of common stock	(2,745)	(3)	(142,497)	-	-	(142,500)	-	(142,500)
Tax benefit from the exercise of Class A and Class B stock options and vesting of restricted stock units	-	-	12,232	-	-	12,232	-	12,232
Class A common stock issued under employee stock plans, net of stock withheld for taxes	963	1	21,845	-	-	21,846	-	21,846
Exercise of Class B stock options	450	1	1,073	-	-	1,074	-	1,074
<b>Balance at July 1, 2011</b>	<b>110,752</b>	<b>\$ 111</b>	<b>\$ 255,575</b>	<b>\$ 1,366,118</b>	<b>\$ 11,895</b>	<b>\$ 1,633,699</b>	<b>\$ 22,167</b>	<b>\$1,655,866</b>

**11. Subsequent Events**

During the fiscal quarter ended July 1, 2011, we filed patent infringement lawsuits in the United States and in Germany against Research in Motion Ltd. (RIM), a previously unlicensed user of certain of our patented technologies. After July 1, 2011, RIM signed a license agreement with Via, our wholly-owned subsidiary and the licensing administrator for the patent pool which includes Dolby's essential AAC patents, which entitles us to back royalties for Dolby technologies used in RIM's products. Based on this license agreement, we expect to recognize back royalties related to the Dolby patents and Via administration fees of approximately \$15.2 million as revenue during the fourth quarter of fiscal 2011. We also expect to receive interest related to these back royalties of approximately \$2.2 million, which is expected to be recognized as interest income.

On August 4, 2011, we announced an additional \$250.0 million authorization for repurchases of our Class A Common Stock under our existing stock repurchase program to offset dilution from the Company's equity compensation programs. Stock repurchases under this program may be made through open market transactions, negotiated purchases, or otherwise, at times and in such amounts as we consider appropriate. The timing of repurchases and the number of shares repurchased will depend on a variety of factors including price, regulatory requirements, the rate of dilution from the Company's equity compensation programs, and other market conditions. We may limit, suspend or terminate the stock repurchase program at any time without prior notice. Any shares repurchased under the program will be returned to the status of authorized but unissued shares of Class A Common Stock.

**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 Form 10-Q. These discussions contain forward-looking statements reflecting our current expectations that 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 measures of results of operations; our expectations regarding demand and acceptance for our technologies; growth opportunities and trends in the market in which we operate; our plans, strategies and expected opportunities in general, and with respect to our PC market in particular; the deployment of and demand for our products and 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 the section entitled "Risk Factors" in Part II, Item 1A 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 actual results.*

**Overview**

Dolby Laboratories develops and delivers innovative products and technologies that are used throughout the entertainment industry to produce immersive and enjoyable experiences. Over the years, Dolby has introduced innovations that have significantly improved audio entertainment, such as noise reduction for the recording and cinema industries and surround sound for cinema and home entertainment. As a result of these innovations, we believe the Dolby brand has come to symbolize a superior entertainment experience.

Our audio technologies are used throughout the global entertainment industry to deliver a premium audio experience to consumers. Use of our technologies in each step of the entertainment creation, distribution, and playback process enables the creator, the producer, and the distributor to develop and present their content to consumers in the manner they intended.

There are a number of current industry trends that provide us with opportunities for future growth, such as the transition to digital television from analog television, and the delivery of media content online and via mobile devices. These trends present us with an opportunity to extend the adoption of our technologies to new devices, as the methods by which content can be delivered and the number of devices capable of playing back content increase.

We are developing and marketing video technologies that we believe can improve the quality of video presentation. Our offerings include video products aimed at the cinema market, such as our digital cinema server and our Dolby 3D Digital Cinema products. We also offer our Dolby PRM-4200 Professional Reference Monitor, which we market to video professionals. In addition, we are developing and marketing multiparty voice technologies for use in online gaming and other markets.

We view the voice market and certain areas of the video market, such as our Professional Reference Monitor, as early-stage opportunities for us. We believe that our well-recognized brand, our existing customer relationships, and our history of introducing successful, innovative technologies are important strengths that will help us pursue these opportunities.

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### **Business Model**

Dolby Laboratories is a global organization that generates revenue by licensing technologies to original equipment manufacturers (OEM) of consumer entertainment (CE) products and to software vendors, and by selling products and related services to entertainment content creators and to distributors.

We work with the global entertainment industry in three principal ways:

- First, we offer products and services to content creators and distributors, such as studios, television broadcasters, cable television operators, satellite television operators and increasingly, content streaming and download service providers. These content creators and distributors use our products and services to encode content using our technologies, allowing them to deliver a rich and immersive audio experience for consumers.
- Second, we license our technologies, such as Dolby Digital, Dolby Digital Plus and Dolby Pulse, to OEMs and to software vendors to decode and play back audio content so that consumers can enjoy the content that has been encoded with our proprietary technologies. In so doing, we develop and deliver innovations directly to OEMs and to software vendors.
- Third, we work directly with standards-setting organizations in an effort to have our technologies adopted in their specifications to ensure a common standard across devices that improves the overall consumer experience. Today, our technologies are standard in a wide range of CE products, including virtually all DVD players, audio/video receivers, and personal computer (PC) software DVD players.

We have licensed our technologies to OEMs and to software vendors in 40 countries and our licensees distribute their products incorporating our technologies throughout the world. We sell our products and provide services in over 85 countries. In fiscal 2009, 2010, and the fiscal year-to-date period ended July 1, 2011, revenue from outside of the U.S. was 65%, 66%, and 67% 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 end location where we ship our products, while services revenue is based on the location where services are performed.

### **Opportunities, Challenges, and Risks**

Our revenue increased 2% in the fiscal year-to-date period ended July 1, 2011 when compared to the same period in the prior fiscal year, driven by increased licensing revenue which more than offset decreased products revenue. Our licensing and products markets are characterized by rapid technological changes, new and improved product introductions, changing customer demands, evolving industry standards, changing licensee needs, and product obsolescence. Additionally, as described below, our licensing revenue is subject to uncertainties and market and technology trends relating to market growth as well as the mix of CE products containing our technologies. Our licensing business could be affected by adverse changes in general economic conditions because our technologies are incorporated in CE products, many of which are discretionary goods. Furthermore, as described below, our products business and revenue are subject to intense competition and uncertainties relating to the transition to 3D cinema, and events and uncertainties relating to purchasing decisions by our customers.

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Licensing revenue constitutes the majority of our total revenue, representing 83%, 77%, and 82% of total revenue in fiscal 2009, fiscal 2010, and the fiscal year-to-date period ended July 1, 2011, respectively. We categorize our licensing revenue into the following markets (items listed in each market incorporate our technologies):

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

The growth of the internet, accompanied by a shift to online content consumption, has resulted in a consumer trend toward an array of online streaming and download services around the world. With this shift, online content is now being delivered to a universe of playback devices beyond the PC, such as connected TVs, set-top boxes, and gaming consoles as well as tablets and mobile devices. We view this shift as an opportunity to provide additional value to the entertainment ecosystem by improving the audio experience for content delivered online and by increasing compatibility across these devices. In particular, we view this as an opportunity to deliver high quality audio experiences across a wider range of playback devices and online services while reducing the likelihood of inconsistent playback experiences.

In the area of content creation and delivery, in addition to our formats being standard in DVD, Blu-ray and broadcast, we are working to extend our formats to online delivery services. To achieve this we are working to get more online content encoded with our technologies. For example, we work with aggregators of online content, such as Netflix, Amazon, VUDU, Apple, and the Roxio Now platform, to encode content and with leading music services, such as Rhapsody and Omnifone, to adopt our encoding tools for a rich music experience.

Our PC market represented approximately 35%, 36%, and 31% of our licensing revenue in fiscal 2009, fiscal 2010, and the fiscal year-to-date period ended July 1, 2011, respectively. Our technologies are a common ingredient in most PCs today, primarily due to the popularity of DVD and Blu-ray playback being incorporated into PCs as well as the inclusion of Dolby technologies in the DVD and Blu-ray standards. We expect the growth of the internet and online content consumption to provide an opportunity to deliver additional value on the PC and to increase our addressable market by improving the audio experience for content delivered online and by increasing the compatibility across these devices.

Over time, we have licensed our technologies to a range of PC licensees including independent software vendors (ISVs), PC manufacturers (OEMs), and operating system providers. The release of major operating systems has historically resulted in changes in the mix of our PC licensees. In 2007, Microsoft introduced its Windows Vista operating system, which included our technologies within two of its operating system editions to enable DVD audio playback. In fiscal 2009, Microsoft released its current operating system, Windows 7, which includes our technologies within four editions to enable DVD audio playback. Over this period of time, the mix of our PC licensing revenue from operating systems has increased relative to that from OEMs and ISVs. Currently, we 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. We also license our technologies through ISVs such as Cyberlink and Corel.

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Our technologies are not included in the current software build of the Windows 8 operating system under development. If our technologies are not included in the commercial version of the Windows 8 operating system, we expect to support DVD playback functionality by increasingly licensing our technologies directly to OEMs and ISVs and we will seek to extend our technologies to support online content playback. Given the anticipated release date of Windows 8, we would not expect these changes to have a financial impact until fiscal 2013, as we expect that Microsoft will continue to license its Windows 7 operating systems with our technologies at least until the release of Windows 8. Beyond this, the financial impact is uncertain and would depend on several factors, including:

- The extent and rate at which Windows 8 is adopted in the marketplace;
- The extent to which earlier versions of Microsoft operating systems, including Windows 7, continues to be licensed after the release of Windows 8;
- Our ability to establish and extend direct licensing relationships with OEMs and ISVs, as we have done in the past;
- The rate at which disc-based media shifts to online media content resulting in fewer PCs with optical disc drives and declines in PC DVD and Blu-ray Disc players;
- If we license our technologies on a per device basis, rather than on a per application basis, we will no longer collect multiple royalties per PC which may impact our results of operations; and
- Our ability to extend the adoption of our technologies in online and mobile platforms.

In the short term, revenue from our PC market continues to be 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:

- Unauthorized and infringing PC software with our technologies for which we do not receive royalty payments;
- Purchasing trends for netbooks, low-cost PCs, and tablets, which may not include operating systems or ISV media applications with our technologies;
- We may not realize positive effects to the extent we anticipate, or the positive effects may be delayed, from the inclusion of our technologies in business-oriented editions of Windows 7;
- The inclusion of our technologies in business-oriented editions of Windows 7 could result in our technologies residing in a greater percentage of PCs, resulting in substantial discounts and reducing the average per unit royalty we receive from Microsoft over time; and
- Certain PC OEMs have excluded, and we expect others will exclude in the future, ISV media applications from their product offerings, because Windows 7 incorporates DVD playback software.

Our broadcast market, driven by demand for our technologies in televisions and set-top boxes, represented approximately 25%, 27%, and 30% of our licensing revenue in fiscal 2009, fiscal 2010, and the fiscal year-to-date period ended July 1, 2011, respectively. We view the broadcast market as an area for potential continued growth, primarily driven by geographic markets outside of the U.S. We also view broadcast services, such as terrestrial broadcast or IPTV services, which operate under particular bandwidth constraints, as another area of opportunity for us to offer Dolby Digital Plus, HE AAC, and Dolby Pulse, which enable the delivery of high-quality audio content at reduced bit rates, thereby conserving bandwidth. Notwithstanding our success in the broadcast market to date, we may not be able to capitalize on these opportunities and actual results may differ from our expectations.

Our CE market, driven primarily by revenue attributable to sales of DVD players and recorders and Blu-ray Disc players, represented approximately 25%, 22%, and 22% of licensing revenue in fiscal 2009, fiscal 2010, and the fiscal year-to-date period ended July 1, 2011, respectively. Blu-ray Disc continues to represent an important source of revenue within our CE market, as Blu-ray Disc players are required to support Dolby Digital for primary audio content and Dolby Digital Plus for secondary audio content, and Dolby TrueHD is an optional audio standard. However, there is a risk that revenue from Blu-ray Disc players may not offset future declines in revenue from DVD players and that Blu-ray Disc revenue could decline.

Revenue generated from our other markets was driven by gaming, mobile, licensing services, and automotive. Gaming and automotive revenue was primarily driven by sales of video game consoles and in-car entertainment systems with Dolby Digital, Dolby TrueHD, Dolby Digital Plus and ATRAC technologies. Mobile revenue was primarily driven by demand for the AAC, HE AAC, and Dolby Pulse audio compression technologies incorporated into mobile devices and Dolby Mobile, our suite of post processing technologies optimized for mobile devices. We

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view the mobile market as an area of opportunity to increase revenue, however actual results may differ from our expectations. Revenue from licensing services was primarily driven by demand for standards-based audio compression technologies used in broadcast, PC, CE, and mobile products.

During the fiscal quarter ended July 1, 2011, we filed patent infringement lawsuits in the United States and in Germany against Research in Motion Ltd. (RIM), a previously unlicensed user of certain of our patented technologies. After July 1, 2011, RIM signed a license agreement with Via, our wholly-owned subsidiary and the licensing administrator for the patent pool which includes Dolby's essential AAC patents, which entitles us to back-royalties for Dolby technologies used in RIM's products. See Note 11, "*Subsequent Events*" for additional information.

Consumer entertainment products throughout the world incorporate our technologies. We expect that sales of products incorporating our technologies in emerging economies, such as Brazil, China, India, and Russia, will increase as consumers in these markets have more disposable income to purchase entertainment products, although there can be no assurance that this will occur. We also expect that OEMs in lower cost manufacturing countries, including China, will increase production of consumer entertainment products in the future to satisfy this increased demand. Additionally, we have seen OEMs shift product manufacturing to these lower cost manufacturing countries. There are risks associated with the opportunities of doing business in emerging economies that have affected, and will continue to affect, our operating results, such as OEMs failing to report or underreporting product shipments containing our technologies.

We continue to monitor the situation in Japan in light of the March 2011 earthquake and tsunami to determine any potential risks of disruption which would adversely affect our operating results. While we are unable to predict the effect of the recent earthquake and tsunami on our licensee's global supply chains and on demand in Japan, if the situation in Japan does not improve or worsens, it could adversely affect our future operating results. While we have not identified any significant disruptions to our business or supply chains to date, the situation remains uncertain.

Products revenue, driven primarily by sales of equipment to cinema operators and broadcasters, represented 13%, 20%, and 14% of our total revenue in fiscal 2009, fiscal 2010, and the fiscal year-to-date period ended July 1, 2011, respectively.

Our cinema products represented approximately 82%, 90%, and 88% of total products revenue in fiscal 2009, fiscal 2010, and the fiscal year-to-date period ended July 1, 2011, respectively. Sales of our cinema products tend to fluctuate based on the underlying trends in the cinema industry including the popularity of individual films, as cinema owners often purchase equipment to meet expected box office demand.

There is a trend in the cinema industry to transition to digital cinema. Digital cinema offers motion picture studios a means to achieve cost savings in printing and distributing movies, to combat piracy, and to enable repeated movie playback without degradation in image and audio quality. We offer our Dolby Digital Cinema screen server and central library server, which allow for the storage and playback of digital content, as well as our digital audio processor. We expect most cinema owners who are either constructing new theaters or upgrading existing theaters to choose digital cinema products over traditional film cinema products. 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 in the digital cinema products market than we have experienced with our traditional film cinema products.

Digital cinema standards are defined by the Digital Cinema Initiative ("DCI") specifications. Our currently available digital cinema server software does not comply with the current DCI specifications. We are developing software upgrades and expect to be able to comply with the current DCI specifications in early fiscal 2012. In the meantime, cinema owners may delay or choose not to purchase our digital cinema products. If cinema owners do purchase our digital cinema products, they may require contractual provisions that obligate us to comply with the current DCI specifications within a certain period of time. Should Dolby systems not be in compliance within the timeframe, we may be contractually obligated for selected customers to replace the non-compliant systems with compliant systems.

The transition to digital cinema has been driven, in part, by the recent transition to 3D enabled screens, which require digital servers for 3D playback. Our digital 3D products provide 3D image capabilities when combined with a digital cinema projector and server. While we believe the success of certain 3D cinema releases has led to the creation and distribution of more 3D cinema content, we are uncertain at what point demand for 3D enabled screens will be substantially satisfied. Additionally, the 3D market has become increasingly competitive, leading to our loss

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of market share. We also face risks that our customers maintain excess product inventory levels which could reduce future anticipated sales.

Several competitors have introduced digital cinema products that support the presentation of movies with higher resolution “4K” digital cinema projectors. Certain major exhibitors have begun installing 4K digital cinema equipment into their theaters. In the future, other exhibitors may feel that they need to outfit some or all of their theaters with 4K digital cinema equipment to compete in the same markets where competitors are promoting 4K products. Dolby currently does not offer a 4K digital cinema solution. We are developing a 4K digital cinema solution and if we encounter delays or cancel the development of the solution, our future prospects in digital cinema may be limited and our business could be adversely affected.

Our traditional film cinema products are primarily used to read and decode a film’s soundtrack, to calibrate cinema sound systems, and to adapt analog cinema audio systems to digital audio formats. As the cinema industry has invested more in digital cinema, revenue from our traditional film cinema products has declined. We expect this decline to continue.

Our broadcast products represented approximately 13%, 9%, and 10% of products revenue in fiscal 2009, fiscal 2010, and the fiscal year-to-date period ended July 1, 2011. 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.

In the fiscal quarter ended December 31, 2010, we began selling our Professional Reference Monitor product, which is a flat-panel video reference display for video professionals. Professionals use the monitor for color critical tasks, such as calibrating color accuracy to professional reference standards. Our Professional Reference Monitor uses our dynamic range imaging technologies, which enable enhanced contrast, extended brightness and dynamic range, along with reduced power consumption in LED backlit LCD televisions. We do not anticipate generating significant revenue from this product in fiscal 2011.

Our services revenue, which represented approximately 4%, 3%, and 4% of total revenue in fiscal 2009, fiscal 2010, and the fiscal year-to-date period ended July 1, 2011, respectively, is primarily tied to the cinema industry and, in particular, to the number of movies being made 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 that many governments provide filmmakers to promote local filmmaking.

### **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., or U.S. GAAP, and with Securities and Exchange Commission (SEC) rules and regulations. U.S. 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 and estimate to be critical if it is both important to a company’s financial condition and/or results of operations and if it requires significant judgment on the part of management in its application. On a regular basis, we evaluate our assumptions, judgment, and estimates. We have discussed the selection and development of the critical accounting policies and estimates with the audit committee of our board of directors. There have been no material changes to our critical accounting policies and estimates as compared to those described in our Annual Report on Form 10-K for the fiscal year ended September 24, 2010. Although we believe that our judgments and estimates are appropriate and correct, actual results may differ from these estimates.

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 they 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. Some of our revenue arrangements 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 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 this combined single unit.

If the unit separation criteria are met, we account for each element within a ME arrangement separately and we allocate the arrangement fees based on the relative selling price of each element. For some arrangements, customers receive certain elements over a period 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 over either 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.

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.

Revenue recognition for transactions which involve software, such as fees we earn from integrated software vendors, requires judgment, including whether a software arrangement includes multiple elements, and if so, whether vendor specific objective evidence (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.

For ME arrangements involving tangible products, we allocate consideration to each element 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 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 have established VSOE for a majority of the undelivered elements in our ME arrangements. For these arrangements, the VSOE and the ESP values are essentially the same. For arrangements where VSOE does not exist, we use ESP.

We account for the majority of our digital cinema server sales as ME arrangements that have two 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

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hardware element and is typically delivered over a service period subsequent to the initial sale. The application of 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, which we recognize as revenue at the time of sale. A small portion of the arrangement fees are allocated to the undelivered support and maintenance element, based on its VSOE or ESP, and is recognized as revenue ratably over the estimated service period, which is typically three years.

### ***Goodwill, Intangible Assets, and Long-Lived Assets***

We evaluate and test our goodwill for impairment at a reporting unit level. A reporting unit is an operating segment or one level below. Our operating segments are aligned with the management principles of our business. The goodwill impairment test is a two-step process. In the first step, we compare the carrying value of the net assets of a reporting unit, including goodwill, to its fair value. If we determine that the fair value of the reporting unit is less than its carrying value, we move to the second step to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, we would record an impairment loss equal to the difference. We test goodwill for impairment annually during our third fiscal quarter and if an event occurs or circumstances change such that there is an indication of a reduction in the fair value of a reporting unit below its carrying value.

We use the income approach to determine the fair value of our reporting units, which is based on the present value of estimated future cash flows for each reporting unit. Fair value reflects the price a market participant would be willing to pay in a potential sale of the reporting unit. During our annual goodwill impairment test performed during the third quarter of fiscal 2011, we had two reporting units—Via, which has no assigned goodwill, and Dolby Entertainment Technology (DET), with goodwill of \$268.0 million. The cash flow model was based on our best estimate of future revenue and operating costs. We estimated our future revenue by applying growth rates consistent with those used in our internal forecasts to our current revenue forecasts. The revenue and cost estimates were based on several sources including our historical information, third-party industry data, and review of our internal operations. The cash flow forecasts were adjusted by a discount rate of approximately 13.5% based on our weighted average cost of capital derived by using the capital asset pricing model. The primary components of this model include weighting our total asset structure between our equity and debt, the risk-free rate of return on U.S. Treasury bonds, market risk premium based on a range of historical returns and forward-looking estimates, and the beta of our common stock. Our model used an effective tax rate of approximately 30%.

Based on the methodology described above, the fair value of our DET reporting unit exceeds its carrying value; therefore, we did not recognize an impairment charge related to goodwill in the third quarter of fiscal 2011. Our market capitalization at the end of our third quarter of fiscal 2011 was approximately \$4.8 billion, which exceeded the aggregate carrying value of our reporting units by approximately 190%.

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 comparison of its carrying amount 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 amount 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

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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 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 that would be 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. Authoritative guidance 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 that are not in active markets from a primary professional pricing service using quoted market prices for identical or comparable instruments, rather than direct observations of quoted prices in active markets.

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 unobservable 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 awards by estimating their fair value and by recognizing that value as an expense, on a ratable basis, in the 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 awards, the expected future volatility of our stock price over the expected term of the awards, and the risk-free interest rate over the expected term of the awards. 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.

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**Results of Operations**

*Revenue*

	Fiscal Quarter Ended		Change		Fiscal Year-to-Date Ended		Change	
	June 25, 2010	July 1, 2011	\$	%	June 25, 2010	July 1, 2011	\$	%
(\$ in thousands)								
Licensing	\$ 170,326	\$181,790	\$ 11,464	7%	\$ 532,045	\$ 584,593	\$ 52,548	10%
<i>Percentage of total revenue</i>	74%	83%			77%	82%		
Products	52,651	28,395	(24,256)	-46%	140,147	100,769	(39,378)	-28%
<i>Percentage of total revenue</i>	23%	13%			20%	14%		
Services	7,292	8,814	1,522	21%	22,714	26,375	3,661	16%
<i>Percentage of total revenue</i>	3%	4%			3%	4%		
<b>Total revenue</b>	<b>\$ 230,269</b>	<b>\$218,999</b>	<b>\$ (11,270)</b>	<b>-5%</b>	<b>\$ 694,906</b>	<b>\$ 711,737</b>	<b>\$ 16,831</b>	<b>2%</b>

*Licensing.* The 7% increase in licensing revenue from the third quarter of fiscal 2010 to the third quarter of fiscal 2011 was primarily driven by an increase in revenue from our broadcast market and to a lesser extent, by increases in revenue from our other markets, which was partially offset by a decrease in revenue from our PC market. The increase in revenue from our broadcast market was primarily driven by shipments of set-top boxes and digital televisions that incorporate our technologies in the third quarter of fiscal 2011 when compared to the third quarter of fiscal 2010. The increase in revenue from our other markets was primarily due to an increase in our mobile market. The decreases in our PC market were primarily due to decreased ISV media applications in PC shipments. We expect that the decreases in ISV-related revenue will continue in the future, although the effect on our future PC licensing revenue is uncertain.

The 10% increase in licensing revenue from the fiscal year-to-date period ended June 25, 2010 to the fiscal year-to-date period ended July 1, 2011 was primarily driven by increases in our broadcast and CE markets, in addition to increases in revenue from our other markets, partially offset by declines in PC. The increase in revenue from our broadcast market was primarily driven by shipments of digital televisions and set-top boxes that incorporate our technologies in the fiscal year-to-date period ended July 1, 2011 when compared to the fiscal year-to-date period ended June 25, 2010.

The increase in revenue from our CE market is primarily driven by an increase in revenue from shipments of Blu-ray Disc players and home-theater-in-a-box systems incorporating our technologies. The increase in revenue from our other markets was primarily driven by an increase in our mobile market, due to sales of products containing Dolby Mobile technology. The decrease in revenue from PC is due to the same reasons discussed above.

*Products.* The 46% decrease in products revenue from the third quarter of fiscal 2010 to the third quarter of fiscal 2011 was primarily driven by a decrease in revenue from our 3D products and to a lesser extent by a decrease in revenue from our digital cinema video and traditional cinema products. Additionally, in the third quarter of fiscal 2010, revenue included recognition of \$5.1 million of deferred revenue related to sales prior to the beginning of fiscal 2010, which were accounted for under previous revenue accounting standards. In the third quarter of fiscal 2011, substantially all products revenue resulted from current period sales accounted for under the new accounting standards.

Decreased 3D product sales in the third quarter of fiscal 2011 resulted from increased competition and reduced demand from a significant 3D customer. Our product sales are likely to be materially affected if demand for our 3D products does not improve. Decreases in our digital cinema video products revenue resulted from increased competition and reduced pricing, while decreases in traditional cinema products revenue were primarily due to lower units shipments as more exhibitors convert to digital cinema.

Products revenue decreased 28% from the fiscal year-to-date period ended June 25, 2010 to the fiscal year-to-date period ended July 1, 2011. The year-to-date period ended June 25, 2010 included recognition of \$27.1 million

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of deferred revenue related to sales prior to the beginning of fiscal 2010, which were accounted for under previous revenue accounting standards. Additionally, we saw decreased sales of 3D products from the fiscal year-to-date period ended June 25, 2010 to the fiscal year-to-date period ended July 1, 2011, for the same reasons discussed above.

*Services.* The 21% increase in services revenue from the third quarter of fiscal 2010 to the third quarter of fiscal 2011 was primarily attributable to increases in revenue from mastering services on digital and traditional films and other engineering services.

The 16% increase in services revenue from the fiscal year-to-date period ended June 25, 2010 to the fiscal year-to-date period ended July 1, 2011 was due to engineering services, support and maintenance, and content protection services.

### **Gross Margin**

	Fiscal Quarter Ended		Fiscal Year-to-Date Ended	
	June 25, 2010	July 1, 2011	June 25, 2010	July 1, 2011
	(\$ in thousands)			
Cost of licensing	\$ 3,719	\$ 4,095	\$ 13,282	\$ 13,827
<i>Licensing gross margin percentage</i>	98%	98%	98%	98%
Cost of products	23,336	20,320	72,042	62,549
<i>Products gross margin percentage</i>	56%	28%	49%	38%
Cost of services	3,407	3,518	10,554	9,153
<i>Services gross margin percentage</i>	53%	60%	54%	65%
Impairment of products provided under operating leases	9,594	-	9,594	-
<b>Total gross margin percentage</b>	<b>83%</b>	<b>87%</b>	<b>85%</b>	<b>88%</b>

*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 third quarter of fiscal 2010 to the third quarter of fiscal 2011, and from the fiscal year-to-date period ended June 25, 2010 when compared to the fiscal year-to-date period ended July 1, 2011.

*Products Gross Margin.* Cost of products primarily consists of the cost of materials related to the products sold, applied labor, 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 28 points from the third quarter of fiscal 2010 to the third quarter of fiscal 2011, primarily due to increased promotional pricing on 3D and reduced pricing on digital cinema products during the third quarter of fiscal 2011. Additionally, as exhibitors continue to transition to digital cinema, we are realizing reduced margins on traditional cinema products.

Products gross margin decreased 11 points from the fiscal year-to-date period ended June 25, 2010 to the fiscal year-to-date period ended July 1, 2011. This decrease is primarily due to \$4.2 million of discrete charges in the second quarter of fiscal 2011, as well as an additional \$0.5 million of net discrete charges in the third quarter related to inventory adjustments partially offset by retroactive third-party royalty reductions. The decrease in margin is also partially attributable to increased promotional pricing on 3D products during the second and third quarters of fiscal 2011, as well as recognition in the fiscal year-to-date period ended June 25, 2010 of \$27.1 million of deferred revenue and associated costs related to digital cinema and 3D product sales prior to the beginning of fiscal 2010,

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which had higher margins than our current digital cinema and 3D product sales.

*Services Gross Margin.* Cost of services primarily consists of personnel and personnel-related costs for employees performing our professional services, the cost of outside consultants, and reimbursable expenses incurred on behalf of customers. Services gross margin increased 7 points from the third quarter of fiscal 2010 to the third quarter of fiscal 2011 due to a higher percentage of security certificate and support and maintenance revenue, which have higher gross margins due to lower associated costs, in the third quarter of fiscal 2011. These increases were partially offset by a lower percentage of virtual print fee revenue. While we continue to recognize revenue related to our digital cinema equipment that we leased to exhibitors, the majority of these assets were classified as held for sale. Accordingly, depreciation was not recorded for these assets in fiscal 2011.

Services gross margin increased 11 points from the fiscal year-to-date period ended June 25, 2010 to the fiscal year-to-date period ended July 1, 2011, due to the same reasons discussed above.

### *Operating Expenses*

	Fiscal Quarter Ended		Change		Fiscal Year-to-Date Ended		Change		
	June 25, 2010	July 1, 2011	\$	%	June 25, 2010	July 1, 2011	\$	%	
	(\$ in thousands)								
Research and development	\$ 27,513	\$ 34,086	\$ 6,573	24%	\$ 75,561	\$ 90,812	\$ 15,251	20%	
<i>Percentage of total revenue</i>	12%	16%			11%	13%			
Sales and marketing	36,527	36,726	199	1%	93,635	112,488	18,853	20%	
<i>Percentage of total revenue</i>	16%	17%			13%	16%			
General and administrative	29,165	32,397	3,232	11%	86,677	104,594	17,917	21%	
<i>Percentage of total revenue</i>	13%	15%			12%	15%			
Restructuring charges, net	1,068	(48)	(1,116)	-104%	1,371	737	(634)	-46%	
<i>Percentage of total revenue</i>	n/a	n/a			n/a	n/a			
	<b>\$ 94,273</b>	<b>\$103,161</b>	<b>\$ 8,888</b>	<b>9%</b>	<b>\$ 257,244</b>	<b>\$ 308,631</b>	<b>\$ 51,387</b>	<b>20%</b>	

The fiscal year-to-date periods presented herein include the 39 week period ended June 25, 2010, and the 40 week period ended July 1, 2011. This additional week in the first quarter of fiscal 2011 resulted in additional expenses, primarily related to personnel and personnel-related costs.

*Research and Development.* Research and development expenses consist primarily of personnel and personnel-related costs, facility costs, stock-based compensation expense, consulting and temporary help, and depreciation of property, plant and equipment. The 24% increase in research and development expenses from the third quarter of fiscal 2010 to the third quarter of fiscal 2011 was primarily driven by increases in personnel costs due to increased headcount, accelerated amortization due to a change in estimated useful life of certain acquired intangible assets, and stock-based compensation expense, partially offset by decreases in performance-based compensation expenses.

The 20% increase in research and development expenses for the fiscal year-to-date period ended June 25, 2010 to the fiscal year-to-date period ended July 1, 2011 is primarily due to the same reasons discussed above.

*Sales and Marketing.* Sales and marketing expenses consist primarily of personnel and personnel-related expenses, advertising and promotion expenses, stock-based compensation expense, travel-related expenses for our sales and marketing functions, and facility costs. Sales and marketing expenses increased 1% from the third quarter of fiscal 2010 to the third quarter of fiscal 2011. This slight increase is due to increases in personnel and personnel-related costs, as well as stock-based compensation expense, offset by decreases in performance-based compensation expenses and outside marketing expenses.

The 20% increase in sales and marketing expenses from the fiscal year-to-date period ended June 25, 2010 to the fiscal year-to-date period ended July 1, 2011 was primarily driven by increases in personnel costs due to increased headcount, and decreases in gains on settlements, which are reductions to operating expenses, due to payments received from implementation licensees in the amount of \$7.6 million in the year-to-date period ended June 25, 2010

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as compared to less than \$0.7 million in the year-to-date period ended July 1, 2011. There were further increases in stock-based compensation expense and depreciation expense related to new offices resulting from worldwide expansion. These increases were partially offset by decreases in performance-based compensation expenses.

*General and Administrative.* General and administrative expenses consist primarily of personnel and personnel-related expenses, professional fees, stock-based compensation expense, consulting and temporary help, and depreciation of property, plant and equipment. The 11% increase in general and administrative expenses from the third quarter of fiscal 2010 to the third quarter of fiscal 2011 was primarily due to increases in consulting and temporary help expense, professional fees related to litigation and patent filings, stock-based compensation expense, lower capitalized labor related to prior year infrastructure projects, and higher facilities costs related to new offices resulting from worldwide expansion. These increases were partially offset by decreases in performance-based compensation expenses and the release of \$2.1 million of value-added tax reserves and related estimated penalties resulting from completion of our analysis of recent tax changes in the European Union.

The 21% increase in general and administrative expenses from the fiscal year-to-date period ended June 25, 2010 to the fiscal year-to-date period ended July 1, 2011 is primarily due to the same reasons discussed above.

*Restructuring Charges, net.* Restructuring charges for the fiscal quarter and fiscal year-to-date period ended July 1, 2011 include severance charges attributable to the reorganization of our global business infrastructure. See Note 6 “Restructuring” for additional details.

### *Other Income, Net*

	Fiscal Quarter Ended		Change		Fiscal Year-to-Date Ended		Change	
	June 25, 2010	July 1, 2011	\$	%	June 25, 2010	July 1, 2011	\$	%
	(in thousands)							
Interest income	\$ 1,879	\$ 1,670	\$ (209)	(11%)	\$ 5,665	\$ 5,237	\$ (428)	(8%)
Interest expense	(392)	690	1,082	276%	(589)	322	911	155%
Other income, net	655	186	(469)	(72%)	1,124	875	(249)	(22%)
<b>Total other income, net</b>	<b>\$ 2,142</b>	<b>\$ 2,546</b>	<b>\$ 404</b>	<b>19%</b>	<b>\$ 6,200</b>	<b>\$ 6,434</b>	<b>\$ 234</b>	<b>4%</b>

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. Interest expense recorded in the third quarter of fiscal 2011 was driven primarily by the release of \$0.8 million of value-added tax interest reserves resulting from completion of our analysis of recent tax changes in the European Union.

### *Income Taxes*

	Fiscal Quarter Ended		Fiscal Year-to-Date Ended	
	June 25, 2010	July 1, 2011	June 25, 2010	July 1, 2011
	(\$ in thousands)			
Provision for income taxes	\$34,394	\$28,404	\$118,890	\$92,717
<i>Effective tax rate</i>	35%	31%	35%	29%

Our effective tax rate is based on a projection of our annual fiscal year results. Our effective tax rate was 35% and 31% for the fiscal quarters ended June 25, 2010 and July 1, 2011, respectively. In the fiscal quarter ended December 31, 2010, we made an election to indefinitely reinvest a portion of our undistributed earnings in a foreign subsidiary, which resulted in a reduction to the fiscal year 2011 tax rate. This election may result in additional decreases to the effective tax rate in future years, but the decreases, if any, cannot yet be determined. Additionally,

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in the fiscal quarter ended December 31, 2010, a change in the tax law retroactively reinstated the federal research and development tax credits. As a result, we recognized an increase in federal research and development tax credits for fiscal 2011 compared to fiscal 2010, thereby further lowering our effective tax rate.

As of July 1, 2011, the Company had gross unrecognized tax benefits of \$9.7 million, of which \$3.6 million would impact the effective tax rate from continuing operations if recognized. During the year-to-date period ended July 1, 2011, there was a \$5.3 million decrease in unrecognized tax benefits resulting from the Company's settlement of an audit during the period, of which \$0.3 million favorably impacted the effective tax rate.

Our effective tax rate was 35% for the year-to-date period ended June 25, 2010 and 29% for the fiscal year-to-date period ended July 1, 2011. The decrease in the effective tax rate is primarily due to the release in the first quarter of fiscal 2011 of a deferred tax liability of \$11.0 million related to the amortization of an intangible asset from a prior year acquisition, which was the result of the restructuring of our international operations. Additionally, the same reasons discussed above with respect to the changes from the third quarter of fiscal 2010 to the third quarter of fiscal 2011 also decreased the effective tax rate for the year-to-date period ended July 1, 2011 when compared to the year-to-date period ended June 25, 2010.

### Liquidity, Capital Resources, and Financial Condition

	September 24, 2010	July 1, 2011
	(in thousands)	
Cash and cash equivalents	\$ 545,861	\$ 594,604
Short-term investments	302,269	309,067
Long-term investments	190,837	280,380
Accounts receivable, net	54,257	39,370
Accounts payable and accrued liabilities	148,214	119,965
Working capital <sup>(a)</sup>	894,657	957,300
	June 25, 2010	July 1, 2011
Net cash provided by operating activities	\$ 259,451	\$ 294,159
Capital expenditures <sup>(b)</sup>	(24,882)	(30,334)
Net cash used in investing activities	(62,022)	(139,783)
Net cash used in financing activities	(124,942)	(106,937)

<sup>(a)</sup> Working capital consists of total current assets less total current liabilities.

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

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

Net cash provided by operating activities during the fiscal year-to-date period ended July 1, 2011 increased \$34.7 million when compared to the fiscal year-to-date period ended June 25, 2010, primarily due to the following:

- An increase in net income, as described above in *Results of Operations*, and
- Increases in non-cash expenses including depreciation and amortization, as well as stock-based compensation expense.

Net cash used in investing activities during the fiscal year-to-date period ended July 1, 2011 increased \$77.8 million when compared to the fiscal year-to-date period ended June 25, 2010, primarily due to the following:

- An increase in net purchases of available-for-sale investments, and

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- An increase in capital expenditures in the fiscal year-to-date period ended July 1, 2011.

Net cash used in financing activities during the fiscal year-to-date period ended July 1, 2011 decreased \$18.0 million when compared to the fiscal year-to-date period ended June 25, 2010, primarily due to the following:

- Fewer share repurchases and a lower average price paid per share in the fiscal year-to-date period ended July 1, 2011; offset by
- Reduced net proceeds from the exercise of employee stock awards.

### ***Off-Balance-Sheet and Contractual Obligations***

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

As of September 24, 2010, the Company had total outstanding commitments on noncancelable operating leases of approximately \$24.9 million. As a result of worldwide expansion and additional leased facilities, total outstanding commitments on noncancelable operating leases rose to approximately \$47.2 million as of July 1, 2011.

Other than described above, there has been no material change in our contractual obligations other than in the ordinary course of business since our fiscal year ended September 24, 2010. See our Annual Report on Form 10-K for the fiscal year ended September 24, 2010 for additional information regarding our contractual obligations.

## **ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### ***Interest Rate Sensitivity***

#### ***Cash, Cash Equivalents and Investments.***

As of July 1, 2011, we had cash and cash equivalents of \$594.6 million, which consisted of cash and highly-liquid money market funds. In addition, we had short-term and long-term investments of \$589.4 million, which consisted primarily of municipal debt securities, corporate bonds, and U.S. agency securities. These investments are subject to fluctuations in interest rates, which could impact our results. At July 1, 2011 the weighted-average effective maturity of our investment portfolio was less than one year. Based on our investment portfolio balance as of July 1, 2011, a hypothetical change in interest rates of 1% would have approximately a \$5.4 million impact, and a change of 0.5% would have approximately a \$2.7 million impact on the carrying value of our portfolio.

We do not use financial instruments for trading or other speculative purposes, nor do we use leveraged financial instruments.

### ***Foreign Currency Exchange Risk***

We maintain sales, marketing, and business operations in foreign countries, most significantly in the United Kingdom, Australia, China and Europe. 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 Pounds, 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 would have increased operating expenses, which would only be partially offset by net revenue. Conversely, if the U.S. dollar strengthens against the local currency, operating expenses will decrease, which would only be partially offset by net revenue. 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 statement 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.

## 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 is also based in part on 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 operated at the reasonable assurance level.

### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during the fiscal quarter ended July 1, 2011 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 proceedings is not expected to have a material adverse effect on our operating results or financial condition. However, 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.

#### 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 occur, 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 83%, 77%, and 82% in fiscal 2009, 2010, and the fiscal year-to-date period ended July 1, 2011, respectively. We do not manufacture consumer entertainment products ourselves and we depend on licensees and customers, including software vendors and original equipment manufacturers (OEMs), to incorporate our technologies into their products.

Although we have license agreements with many of these companies, these agreements do not have minimum purchase commitments, are non-exclusive, and do not generally 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.

We continue to monitor the situation in Japan in light of the March 2011 earthquake and tsunami to determine any potential risks of disruption which would adversely affect our operating results. While we are unable to predict the effect of the recent earthquake and tsunami on our licensee's global supply chains and on demand in Japan, if the situation in Japan does not improve or worsens, it could adversely affect our future operating results. While we have not identified any significant disruptions to our business or supply chains to date, the situation remains uncertain.

**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 in operating systems and independent software vendors (ISV) media applications, and the terms of any royalties or other payments we receive from licensors of such software. In the short term, 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:

- Unauthorized and infringing PC software with our technologies for which we do not receive royalty payments;

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- Purchasing trends for netbooks, low-cost PCs, and tablets, which may not include operating systems or ISV media applications with our technologies;
- We may not realize positive effects to the extent we anticipate, or the positive effects may be delayed, from the inclusion of our technologies in business-oriented editions of Windows 7;
- The inclusion of our technologies in business-oriented editions of Windows 7 could result in our technologies residing in a greater percentage of PCs, resulting in substantial discounts and reducing the average per unit royalty we receive from Microsoft over time; and
- Certain PC OEMs have excluded, and we expect others will exclude in the future, ISV media applications from their product offerings, because Windows 7 incorporates DVD playback software.

In the long term, we face additional risks, including, but not limited to the following:

- Whether our technologies will be included in future PC operating systems, such as Windows 8;
- The extent and rate at which Windows 8 is adopted in the marketplace;
- The extent to which earlier versions of Microsoft operating systems, including Windows 7, continues to be licensed after the release of Windows 8;
- Our ability to establish and extend direct licensing relationships with OEMs and ISVs, as we have done in the past;
- The rate at which disc-based media shifts to online media content resulting in fewer PCs with optical disc drives and declines in PC DVD and Blu-ray Disc players;
- If we license our technologies on a per device basis, rather than on a per application basis, we will no longer collect multiple royalties per PC which may impact our results of operations; and
- Our ability to extend the adoption of our technologies in online and mobile platforms.

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 our technologies are incorporated in consumer entertainment products, which are generally 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. 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 PC revenue is dependent upon the growth of the PC market and the continued adoption of our technologies into PC operating systems as well as the adoption of our technologies into emerging types of devices such as tablets. 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 content delivery market.

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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, 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 emerging 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 are uncertain at what point demand for new 3D enabled screens will be substantially satisfied;
- 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;
- Industry participants may perceive our up-front 3D equipment costs and reusable glasses business model or our 3D products as less attractive;

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- Our participation in the 3D cinema market will be limited to the extent 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 made by major film 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 by the tax incentive arrangements that many foreign governments provide filmmakers to promote local filmmaking.

### **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. If the demand for our traditional film cinema products and services continues to decrease without a meaningful increase in revenue from digital cinema products and services, our revenue stream from the cinema industry would be adversely affected.

### **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.

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### **We face risks relating to the online content delivery market and declines in disc-based media.**

For nearly 20 years movies have been distributed, purchased, and consumed through disc-based 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, and other devices accompanied by a shift to home network and online content has resulted in the recent trend to movie download and streaming services in various parts of the world. A further shift away from disc-based media to online media content consumption could result in declines in revenue from DVD and Blu-ray Disc players. Such declines would adversely affect our licensing revenue.

In addition, online 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. 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 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

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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 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 initiative, we are exploring other areas that facilitate delivery of digital entertainment, such as technologies for processing digital moving images. 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

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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.

### **If we do not obtain new patents or proprietary technologies as our existing patents expire, our licensing revenue could decline.**

We hold patents covering much of the technologies that we license to system licensees, and our licensing revenue is tied in large part to the life of those patents. Our right to receive royalties related to our patents terminates with the expiration of the last patent covering the relevant technologies in a particular country. Accordingly, to the extent that we do not replace licensing revenue from technologies covered by expiring patents with licensing revenue based on new patents and proprietary technologies, our revenue could decline.

As of July 1, 2011, we had over 2,200 individual issued patents and nearly 2,300 pending patent applications in over 60 jurisdictions throughout the world. Our issued patents are scheduled to expire at various times through February 2030. Of these, seven patents are scheduled to expire in the remainder of calendar year 2011, 52 patents are scheduled to expire in calendar year 2012, and 31 patents are scheduled to expire in calendar year 2013. Patents relating to our Dolby Digital technologies, from which we principally derive our licensing revenue, have begun to expire and the remaining patents relating to this technology generally expire between now and 2017. Additional patents relating to our Dolby Digital Plus technologies, an extension of Dolby Digital, expire between 2018 and 2026. In addition, the remaining patents relating to Dolby Digital Live technologies, an extension of Dolby Digital, are scheduled to expire between now and 2021.

### **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, Philips, RealNetworks, Sonic Solutions, Sony, SRS Labs, and Thomson. Competitors for our products include: Barco, Doremi, GDC, IMAX, MasterImage 3D, NEC, Panavision, QSC Audio Products, Qube Cinema, REALD, Sony, Technicolor, Texas Instruments, USL, and XpanD. Competitors for our services include DTS and Sony. Other companies may become competitors in one or more of these areas in the future. 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.

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

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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 CE, 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 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.

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### **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. 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.

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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 may 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 regarding our licensing royalty rate practices including our adherence to licensing on fair, reasonable, and non-discriminatory terms and potential antitrust claims. 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 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; and
- Delay or failure to update our server software to comply with the current DCI specifications could result in lost or delayed product sales and the deferral of future products sales due to revenue recognition restrictions.

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 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;

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- Retaining employees 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 the need to obtain financing on unfavorable terms, including dilutive equity issuances.**

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.

### **Changes to our enterprise resource planning and other key software applications could cause unexpected problems to occur and disrupt the management of our business.**

We recently replaced our enterprise resource planning (ERP) system as well as other key software applications used in our global operations. Our ERP system and related applications are integral to our ability to accurately and efficiently maintain our books and records, manage royalty and product revenue streams, record our transactions, provide critical information to our management, and prepare our financial statements. Any unexpected difficulties resulting from these replacement efforts, could adversely affect our operating results and the accuracy and timely reporting of those results.

### **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 fiscal 2009, 2010, and the fiscal year-to-date period ended July 1, 2011, revenue from outside the U.S. was 65%, 66%, and 67% 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:

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- 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. States;
- 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. States, and other laws limiting our ability to repatriate funds to the U.S. States;
- Burdens of complying with a variety of foreign laws;
- Changes in diplomatic and trade relationships;
- Difficulty in 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 instability, natural disasters, war or events of terrorism; and
- The strength of international economies.

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, even if prohibited by our policies, 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 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

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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:

- 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 the first quarter, which generally result in revenue in the second 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.

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### **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 by 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 83%, 77%, and 82% of our total revenue in the fiscal years 2009, 2010, and the fiscal year-to-date period ended July 1, 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 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

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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.

We continue to monitor the situation in Japan in light of the March 2011 earthquake and tsunami to determine any potential risks of disruption to the supply chain for our products. At this point, the situation does not appear to have a material negative effect on the manufacture of our products in the short term although the long term effect on our supply chain remains uncertain.

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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 we use contract manufacturers to produce some of our higher volume product lines as needed. Our reliance on contract manufacturers for the manufacture of our higher volume 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. 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 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 reengineer 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 our largest customer represented approximately 12% of total revenue for fiscal 2010. Although we have agreements with many of these

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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 so we could continue to offer them for sale within the European Union, when restrictions on lead and other hazardous substances that apply to specified electronic products put on the market in the European Union became effective in 2006. Similar requirements related to marking of electronic products became effective in China in 2007. 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, market, and interest rate risks. Any downgrades, losses, failed auctions 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 will 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 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 July 1, 2011, Ray Dolby and his affiliates owned 100 shares of our Class A common stock and 57,890,000 shares of our Class B common stock. As of July 1, 2011, 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 91.4% 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, Ray Dolby as Trustee of the Ray Dolby Trust under the Dolby Family Trust Instrument dated May 7, 1999 adopted a Rule 10b5-1 trading plan in the second quarter of fiscal 2011 to sell a total of up to 3 million shares of the Company's Class A common stock (or approximately 5.1% of Ray Dolby's direct and indirect holdings at the time) in compliance with Rule 144 under the Securities Act. Sales under the trading plan commenced in May 2011, are based on pre-established stock price thresholds, and are subject to daily volume limits. The trading plan will expire once all of the shares have been sold or on May 31, 2012, 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 July 1, 2011, we had a total of 110,751,795 shares of Class A and Class B common stock outstanding. Of these shares, we along with our selling stockholders sold 31,625,000 shares of Class A common stock, and our principal stock holder sold an additional 8,000,000 shares of Class A common stock in a secondary offering in May 2007.

As of July 1, 2011, our directors and executive officers beneficially held 57,900,000 shares of Class B common stock, 80,147 shares of Class A common stock, vested options to purchase 30,000 shares of Class B common stock and vested options to purchase 483,788 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 July 1, 2011, we issued an aggregate of 39,863 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 and since July 2, 2011 through July 21, 2011, we issued an aggregate of 11,743 shares of our Class B common stock to certain employees and officers upon the exercise of options awarded under our 2000 Stock Incentive Plan. We received aggregate proceeds of approximately \$0.1 million in the fiscal quarter ended July 1, 2011, and less than \$0.1 million in the period since July 2, 2011, through July 21, 2011 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 July 21, 2011 options to purchase an aggregate of 283,656 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.

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[Table of Contents](#)**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 fiscal quarter ended July 1, 2011:

	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (2)</b>
April 2, 2011 - April 29, 2011	235,119	\$ 48.47	235,119	\$222.2 million
April 30, 2011 - May 27, 2011	474,794	48.37	474,794	\$199.2 million
May 28, 2011 - July 1, 2011	755,351	43.68	755,351	\$166.2 million
<b>Total</b>	<b><u>1,465,264</u></b>		<b><u>1,465,264</u></b>	

(1) 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 the Company considers appropriate.

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

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>	<b>Incorporated by Reference Herein</b>	
		<b>Form</b>	<b>Date</b>
10.1*	Form of Restricted Stock Unit Agreement – Non-U.S. under the 2005 Stock Plan		
10.2*	Form of Stock Option Agreement – International under the 2005 Stock Plan		
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: August 4, 2011

DOLBY LABORATORIES, INC.

By: /s/ Murray J. Demo  
Murray J. Demo  
Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting  
Officer and Duly Authorized Officer)

DOLBY LABORATORIES, INC.

2005 STOCK PLAN

NOTICE OF GRANT OF RESTRICTED STOCK UNITS

FOR NON-U.S. PARTICIPANTS

Unless otherwise defined herein, the terms defined in the Dolby Laboratories, Inc. 2005 Stock Plan, as amended from time to time (the "Plan") shall have the same defined meanings in this Notice of Grant of Restricted Stock Units for Non-U.S. Participants (the "Notice of Grant") and the Restricted Stock Unit Agreement for Non-U.S. Participants, including country-specific terms and conditions contained in the Appendix to the Restricted Stock Unit Agreement, attached hereto as Exhibit A (collectively, the "Restricted Stock Unit Agreement" or the "Agreement").

**Participant:**

You have been granted \_\_\_\_\_ Restricted Stock Units (the "Award"). Each such Restricted Stock Unit is equivalent to one share of the Company's Class A Common Stock for purposes of determining the number of shares subject to this award. None of the Restricted Stock Units will be issued (nor will you have the rights of a stockholder with respect to the underlying shares) until the vesting conditions described below are satisfied. Additional terms of this grant are as follows:

**Date of Grant:** \_\_\_\_\_,

**Vesting Schedule:** See attached Vesting Appendix

You acknowledge and agree that this Agreement and the vesting schedule set forth herein do not constitute an express or implied promise of continued engagement as a Service Provider for the vesting period, for any period, or at all, and shall not interfere with your right or the right of the Company or its Subsidiary or affiliate to terminate your relationship as a Service Provider at any time, with or without cause.

You hereby agree to accept as binding, conclusive, and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and this Award.

*[For the electronic version (employees other than executive officers and outside directors) use this language and omit signature block]* By Participant's electronic signature and the electronic signature of the Company's representative, Participant and the Company agree that this Award is granted under and governed by the terms and conditions of the Plan and this Agreement. Participant has reviewed the Plan and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of the Plan and Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Agreement.]

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*[For the paper version for executive officers and outside directors:* By Participant's signature and the signature of the Company's representative below, Participant and the Company agree that this Award is granted under and governed by the terms and conditions of the Plan and this Agreement, Participant has reviewed the Plan and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of the Plan and Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Agreement.]

PARTICIPANT

DOLBY LABORATORIES, INC.

Signature

By

Print Name

[Title]

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**Vesting Appendix**

The Restricted Stock Units will vest as provided below, and once vested, shall be settled by the Company's issuance of shares of Stock reflecting that number of vested Restricted Stock Units.

The Restricted Stock Units will vest after the satisfaction of the following conditions:

Date of Vesting Vested	Total Number of Shares Vested	Percentage
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**EXHIBIT A**

**DOLBY LABORATORIES, INC.**

**2005 STOCK PLAN**

**RESTRICTED STOCK UNIT AGREEMENT**

**FOR NON-U.S. PARTICIPANTS**

1. Grant. Dolby Laboratories, Inc. (the “Company”) hereby grants to the individual set forth in the Notice of Grant of Restricted Stock Units for Non-U.S. Participants (the “Participant”) an award of Restricted Stock Units (“RSUs”) pursuant to Section 8 of the Dolby Laboratories, Inc. 2005 Stock Plan, as set forth in the Notice of Grant of Restricted Stock Units for Non-U.S. Participants (the “Notice of Grant”) and subject to the terms and conditions in this Restricted Stock Unit Agreement for Non-U.S. Participants, including country-specific terms and conditions contained in the attached Appendix (collectively, the “Agreement”) and the Dolby Laboratories, Inc. 2005 Stock Plan as may be amended from time to time (the “Plan”). Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Agreement.

2. Company’s Obligation. Each RSU represents the right to receive a Share after satisfying the applicable vesting conditions set forth in the Notice of Grant. Unless and until the RSUs vest, the Participant will have no right to receive Shares under such RSUs. Prior to actual distribution of any Shares pursuant to the vesting of any RSUs, such RSUs will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company.

3. Vesting Schedule. Subject to paragraph 4, and to relevant Plan provisions, the RSUs awarded by this Agreement will vest in the Participant according to the vesting schedule specified in the Notice of Grant.

4. Forfeiture upon Termination of Service. Notwithstanding any contrary provision of this Agreement or the Notice of Grant, if the Participant terminates service as a Service Provider, for any or no reason prior to vesting, the unvested RSUs awarded by this Agreement will thereupon be forfeited at no cost to the Company.

5. Payment after Vesting. Any RSUs that vest in accordance with this Agreement will be paid to the Participant (or in the event of the Participant’s death, to his or her estate) in Shares. Payment upon vesting will be subject to the Participant (or his or her estate) satisfying the applicable Tax-Related Items (defined below) withholding obligations set forth in paragraph 11.

6. Payments after Death. Any distribution or delivery to be made to the Participant under this Agreement will, if the Participant is then deceased, be made to the administrator or executor of the Participant’s estate. Any such administrator or executor must furnish the

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Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Rights as Stockholder. Neither the Participant nor any person claiming under or through the Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until Shares (in certificated or uncertificated form in the Company's sole discretion) have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Participant or Participant's broker.

8. No Guarantee of Continued Service. THE PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF RSUS PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS AN ACTIVE SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY OR AFFILIATE EMPLOYING OR RETAINING THE PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS AWARD OR ACQUIRING SHARES HEREUNDER. THE PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH THE PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY OR AFFILIATE EMPLOYING OR RETAINING THE PARTICIPANT) TO TERMINATE THE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

9. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company at 100 Potrero Avenue, San Francisco, CA 94103, U.S.A., Attn: Stock Administration, or at such other address as the Company may hereafter designate in writing or electronically.

10. Code Section 409A. Notwithstanding anything in this Agreement to the contrary, if any Participant would be considered a "specified employee" within the meaning of Section 409A of the Code and the regulations thereunder at the time of such Participant's termination as a Service Provider, the RSUs (and/or at the election of the Participant the cash received from the sale of the Shares underlying the vested RSUs) will not be paid to the Participant until the date that is six (6) months and one (1) day following the date of the Participant's termination as a Service Provider.

11. Withholding of Taxes.

(a) Regardless of any action the Company and/or the Subsidiary or affiliate employing the Participant (the "Employer") take with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related items related to the Participant's participation in the Plan and legally applicable to the Participant ("Tax-Related Items"), the

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Participant acknowledges that the ultimate liability for all Tax-Related Items is and remains the Participant's responsibility and may exceed the amount actually withheld by the Company or the Employer. The Participant further acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the RSUs, including, but not limited to, the grant, vesting or settlement of the RSUs, the issuance of Shares in settlement of the RSUs, the subsequent sale of Shares acquired at vesting and the receipt of any dividends and/or any dividend equivalents; and (ii) do not commit to and are under no obligation to structure the terms of the Award or any aspect of the RSUs to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if the Participant has become subject to tax in more than one jurisdiction between the date of grant and the date of any relevant taxable event, the Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) Prior to the relevant taxable or tax withholding event, as applicable, the Participant shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, the Participant hereby authorizes the Company and/or the Employer, or their respective agents, at their discretion and without any notice or authorization by Participant, to satisfy the obligations with regard to all Tax-Related Items by one of a combination of the following:

- (i) withholding from the Participant's wages or other cash compensation paid to the Participant by the Company and/or the Employer; or
- (ii) withholding from proceeds of the sale of Shares acquired upon vesting/settlement of the RSUs either through a voluntary sale or through a mandatory sale arranged by the Company (on the Participant's behalf pursuant to this authorization); or
- (iii) withholding in Shares to be issued upon vesting/settlement of the RSUs.

To avoid negative accounting treatment, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, the Participant is deemed to have been issued the full number of Shares subject to the vested RSUs, notwithstanding that a number of the Shares is held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the Participant's participation in the Plan. No fractional Shares will be withheld or issued pursuant to the grant of RSUs and the issuance of Shares thereunder.

Finally, the Participant shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of the Participant's participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue or deliver the Shares or the proceeds of the sale of Shares, if the Participant fails to comply with the Participant's obligations in connection with the Tax-Related Items. The Participant shall have no further rights with respect to any Shares that are retained by the Company pursuant to this provision, and under no circumstances will the Company be required to issue any fractional Shares.

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12. Nature of Grant. In accepting the RSUs, the Participant acknowledges, understands and agrees that:

(a) the Participant acknowledges receipt of a copy of the Plan (including any applicable appendixes or sub-plans thereunder) and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this RSU subject to all of the terms and provisions thereof. The Participant has reviewed the Plan (including any applicable appendixes or sub-plans thereunder) and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of the RSU. The Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this RSU. Participant further agrees to notify the Company upon any change in the residence address in the Notice of Grant;

(b) the Company (and not the Employer) is granting the RSU. The Company will administer the Plan from outside Participant's country of residence;

(c) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time;

(d) the grant of the RSUs is voluntary and occasional and does not create any contractual or other right to receive future grants of RSUs, or benefits in lieu of RSUs, even if RSUs have been granted repeatedly in the past;

(e) all decisions with respect to future awards of RSUs, if any, will be at the sole discretion of the Company;

(f) the Participant is voluntarily participating in the Plan;

(g) the RSUs and the Shares subject to the RSUs are extraordinary items that do not constitute compensation of any kind for services of any kind rendered to the Company or the Employer, and which are outside the scope of the Participant's employment contract, if any;

(h) the RSUs and the Shares subject to the RSUs are not intended to replace any pension rights or compensation;

(i) the RSUs and the Shares subject to the RSUs are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any Subsidiary or affiliate of the Company;

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(j) the RSU grant and the Participant's participation in the Plan will not be interpreted to form an employment contract or relationship with the Company or any Subsidiary or affiliate of the Company and the Company will not incur any liability of any kind to Participant as a result of any change or amendment, or any cancellation, of the Plan at any time;

(k) the future value of the underlying Shares is unknown and cannot be predicted with certainty;

(l) no claim or entitlement to compensation or damages shall arise from forfeiture of the RSUs resulting from termination of the Participant's status as a Service Provider by the Company or the Employer (for any reason whatsoever and whether or not in breach of local labor laws), and in consideration of the grant of the RSUs to which the Participant is otherwise not entitled, the Participant irrevocably agrees (i) never to institute any claim against the Company or the Employer, (ii) waive his or her ability, if any, to bring any such claim, and (iii) release the Company and the Employer from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, the Participant shall be deemed irrevocably to have agreed not to pursue such claim and have agreed to execute any and all documents necessary to request dismissal or withdrawal of such claims;

(m) in the event of termination of the Participant's status as a Service Provider (whether or not in breach of local labor laws), the Participant's right to vest in the RSUs under the Plan, if any, will terminate effective as of the date that the Participant is no longer actively employed and will not be extended by any notice period mandated under local law (e.g., active employment would not include a period of "garden leave" or similar period pursuant to local law); the Administrator shall have the exclusive discretion to determine when the Participant is no longer actively employed for purposes of the Award; and

(n) the RSUs and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger or a Change in Control.

13. No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Participant's participation in the Plan, or the Participant's acquisition or sale of the underlying Shares. The Participant is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan

14. Data Privacy. **The Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Participant's personal data as described in this Agreement and any other RSU materials by and among, as applicable, the Employer, the Company, and any Subsidiary or affiliate for the exclusive purpose of implementing, administering and managing the Participant's participation in the Plan.**

**The Participant understands that the Company and the Employer may hold certain personal information about the Participant, including, but not limited to, the Participant's name, home address and telephone number, e-mail address, date of birth,**

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social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company or any Subsidiary or affiliate, details of all RSUs or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in the Participant's favor, for the exclusive purpose of implementing, administering and managing the Plan ("Data").

The Participant understands that Data may be transferred to the designated Plan broker, or such other stock plan service provider as may be selected by the Company in the future, which is assisting the Company in the implementation, administration and management of the Plan. The Participant understands that the recipients may be located in the United States, or elsewhere, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than the Participant's country. The Participant understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting the Participant's local human resources representative. The Participant authorizes the Company, the plan broker and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing the Participant's participation in the Plan. The Participant understands that Data will be held only as long as is necessary to implement, administer and manage the Participant's participation in the Plan. The Participant understands that he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case, without cost, by contacting in writing the Participant's local human resources representative. The Participant understands, however, that refusal or withdrawal of consent may affect the Participant's ability to participate in the Plan. For more information on the consequences of the Participant's refusal to consent or withdrawal of consent, the Participant understands that he or she may contact his or her local human resources representative.

15. Grant is Not Transferable. Except to the limited extent provided in paragraph 6, this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged, or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment, or similar process. Upon any attempt to transfer, assign, pledge, hypothecate, or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment, or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

16. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors, and assigns of the parties hereto.

17. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration, or qualification of the Shares upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of

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Shares to the Participant (or his or her estate), such issuance will not occur unless and until such listing, registration, qualification, consent, or approval will have been effected or obtained free of any conditions not acceptable to the Company. The Company will make all reasonable efforts to meet the requirements of any such state or federal law or securities exchange and to obtain any such consent or approval of any such governmental authority.

18. Plan Governs. This Agreement and the Notice of Grant are subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement or the Notice of Grant and one or more provisions of the Plan, the provisions of the Plan will govern.

19. Governing Law and Venue. This Award will be governed by, and construed in accordance with, the laws of the State of California, U.S.A. without regard to principles of conflict of laws. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by the Award or this Agreement, the parties hereby submit to and consent to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of San Francisco County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this Award is made and/or to be performed.

20. Language. Participant has received the terms and conditions of this Agreement and any other related communications in English, and Participant consents to having received these documents in English. If the Participant has received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

21. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or any third party designated by the Company. By Participant's electronic signature and the electronic signature of the Company's representative, Participant and the Company agree that this RSU is granted under and governed by the terms and conditions of the Plan and this Agreement.

22. Administrator Authority. The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation, and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any RSUs have vested and whether the Participant is actively employed). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon the Participant, the Company, and all other interested persons. No member of the Administrator will be personally liable for any action, determination, or interpretation made in good faith with respect to the Plan or this Agreement.

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23. Severability. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

24. Appendix. Notwithstanding any provisions in this Agreement, the Award shall be subject to any special terms and conditions set forth in any Appendix to this Agreement for the Participant's country. Moreover, if the Participant relocates to one of the countries included in the Appendix, the special terms and conditions for such country will apply to the Participant, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

25. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Participant's participation in the Plan, on the Award and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require the Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

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**DOLBY LABORATORIES, INC.**  
**2005 STOCK PLAN**  
**RESTRICTED STOCK UNIT AGREEMENT**  
**FOR NON-U.S. PARTICIPANTS**

Special Terms and Conditions for Participants Outside the U.S.

This Appendix includes additional country-specific terms and conditions that apply to Participants resident in countries listed below. This Appendix is part of the Agreement and contains terms and conditions material to participation in the Plan. Unless otherwise provided below, capitalized terms used but not defined herein shall have the same meanings assigned to them in the Plan and the Agreement.

**Australia**

Securities Law Notice.

If the Participant acquires Shares under the Plan and offers such Shares for sale to a person or entity resident in Australia, the offer may be subject to disclosure requirements under Australian law. The Participant should obtain legal advice on disclosure obligations prior to making any such offer.

Australian Addendum.

The Participant understands and agrees that the RSUs are offered subject to and in accordance with the terms of the Plan and the Australian Addendum to the Plan. The Participant further agrees to be bound by the terms of the Plan as supplemented for implementation in Australia by the Australian Addendum and the terms of the Award as set forth in the Agreement.

**Canada**

Form of Settlement.

RSUs granted to employees resident in Canada shall be paid in Shares only.

Sale of Shares.

The Participant acknowledges that he or she is permitted to sell the Shares acquired under the Plan through the designated broker appointed by the Company, provided the sale of the Shares takes place outside of Canada through facilities of a stock exchange on which the Shares are listed.

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Consent to Receive Information in English for Quebec Employees.

The Participant acknowledges that it is the express wish of the parties that this Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be written in English.

*Le participant reconnaît que c'est son souhait exprès d'avoir exigé la rédaction en anglais de cette convention, ainsi que de tous documents exécutés, avis donnés et procédures judiciaires intentées, directement ou indirectement, relativement à ou suite à la présente convention.*

Authorization to Release and Transfer Necessary Personal Information for Quebec Employees.

The following provision supplements paragraph 14 of the Agreement:

**The Participant hereby authorizes the Company and the Company's representatives to discuss with and obtain all relevant information from all personnel, professional or not, involved in the administration and operation of the Plan. The Participant further authorizes the Company, any Parent, Subsidiary or affiliate and the Administrator of the Plan to disclose and discuss the Plan with their advisors. The Participant further authorizes the Company and any Parent, Subsidiary or affiliate to record such information and to keep such information in the Participant's employee file.**

**China**

Settlement of RSUs and Sale of Shares.

This provision supplements paragraph 5 of the Agreement.

Due to local regulatory requirements, upon the vesting of the RSUs, the Participant agrees to the immediate sale of any Shares to be issued to the Participant upon vesting and settlement of the Award. The Participant further agrees that the Company is authorized to instruct its designated broker to assist with the mandatory sale of such Shares (on the Participant's behalf pursuant to this authorization) and the Participant expressly authorizes the Company's designated broker to complete the sale of such Shares. The Participant acknowledges that the Company's designated broker is under no obligation to arrange for the sale of the Shares at any particular price. Upon the sale of the Shares, the Company agrees to pay the Participant the cash proceeds from the sale of the Shares, less any brokerage fees or commissions and subject to any obligation to satisfy Tax-Related Items.

Exchange Control Requirements.

The Participant understands and agrees that, to facilitate compliance with local exchange control requirements, the Participant will be required to repatriate the cash proceeds from the immediate sale of the Shares issued upon the vesting of the RSUs to China. The Participant further understands that, under local law, such repatriation of the Participant's cash proceeds may

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need to be effectuated through a special exchange control account established by the Company, or a Subsidiary or affiliate or the Employer, and the Participant hereby consents and agrees that any proceeds from the sale of any Shares issued upon the vesting of the RSUs the Participant acquires may be transferred to such special account prior to being delivered to the Participant. If the proceeds from the sale of the Participant's Shares are converted to local currency, the Participant acknowledges that the Company is under no obligation to secure any exchange conversion rate, and the Company may face delays in converting the proceeds to local currency due to exchange control restrictions in China. The Participant agrees to bear the risk of any exchange conversion rate fluctuation between the date the RSUs vest and the date of conversion of the proceeds from the sale of the Shares issued upon vesting to local currency. The Participant further agrees to comply with any other requirements that may be imposed by the Company in the future in order to facilitate compliance with exchange control requirements in China.

#### **France**

##### Consent to Receive Information in English.

By accepting the grant of the RSUs, the Participant confirms having read and understood the Plan and the Agreement, which were provided in English language. The Participant accepts the terms of those documents accordingly.

*En acceptant cette attribution gratuite d'actions, le Participant confirme avoir lu et compris le Plan et ce Contrat, incluant tous leurs termes et conditions, qui ont été transmis en langue anglaise. Le Participant accepte les dispositions de ces documents en connaissance de cause.*

#### **Germany**

No special provisions.

#### **Hong Kong**

##### Form of Settlement.

RSUs granted to employees resident in Hong Kong shall be paid in Shares only.

##### Securities Law Notice.

*Warning: The RSUs and Shares issued at vesting do not constitute a public offering of securities under Hong Kong law and are available only to employees of the Company, its Subsidiaries or affiliates. The Agreement, including this Appendix, the Plan and other incidental communication materials have not been prepared in accordance with and are not intended to constitute a "prospectus" for a public offering of securities under the applicable securities legislation in Hong Kong. Nor have the documents been reviewed by any regulatory authority in Hong Kong. The RSUs are intended only for the personal use of each eligible employee of the Employer, the Company or any Subsidiary or affiliate and may not be distributed to any other person. If the Participant is in any doubt about any of the contents of the Agreement, including this Appendix, or the Plan, the Participant should obtain independent professional advice.*

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The Participant agrees, and the Participant's heirs and assigns agree, not to sell any Shares within six months of the date of grant.

Occupational Retirement Schemes Ordinance Alert.

The Company specifically intends that neither the Award nor the Plan will be an occupational retirement scheme for purposes of the Occupational Retirement Schemes Ordinance ("ORSO").

**Japan**

No special provisions.

**Korea**

No special provisions.

**Netherlands**

Consent to Comply with Dutch Securities Law.

The Participant has been granted RSUs under the Plan, pursuant to which the Participant may acquire Shares. Participants who are residents of the Netherlands should be aware of the Dutch insider trading rules, which may impact the sale of such Shares. In particular, the Participant may be prohibited from effecting certain share transactions if the Participant has insider information regarding the Company.

Below is a discussion of the applicable restrictions. The Participant is advised to read the discussion carefully to determine whether the insider rules apply to the Participant. If it is uncertain whether the insider rules apply, the Company recommends that the Participant consult with his or her personal legal advisor. Please note that the Company cannot be held liable if the Participant violates the Dutch insider rules. The Participant is responsible for ensuring compliance with these rules.

**By entering into the Agreement and participating in the Plan, the Participant acknowledges having read and understood the notification below and acknowledges that it is his or her own responsibility to comply with the Dutch insider trading rules, as discussed herein.**

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### Prohibition Against Insider Trading.

Dutch securities laws prohibit insider trading. Under Article 5:56 of the Dutch Financial Supervision Act, anyone who has “inside information” related to the Company is prohibited from effectuating a transaction in securities in or from the Netherlands. “Inside information” is knowledge of specific information concerning the issuer to which the securities relate that is not public and which, if published, would reasonably be expected to affect the Share price, regardless of the actual effect on the price. The insider could be any employee of the Company or its Dutch Subsidiary or affiliate who has inside information as described above.

Given the broad scope of the definition of inside information, certain employees of the Company working at its Dutch Subsidiary or affiliate may have inside information and thus, would be prohibited from effectuating a transaction in securities in the Netherlands at a time when he or she had such inside information.

### **Singapore**

#### Securities Law Notice.

The RSUs are being granted pursuant to the “Qualifying Person” exemption under section 273(1)(f) of the Singapore Securities and Futures Act (Chapter 289, 2006 Ed.) (“SFA”). The Plan has not been lodged or registered as a prospectus with the Monetary Authority of Singapore. The Participant should note that such RSU grant is subject to section 257 of the SFA and the Participant will not be able to make any subsequent sale in Singapore, or any offer of such subsequent sale of the Class A common stock in Singapore, or any offer of the Class A common stock underlying the RSUs unless such sale or offer in Singapore is made pursuant to the exemptions under Part XIII Division (1) Subdivision (4) (other than section 280) of the SFA (Chapter 289, 2006 Ed.).

#### Director Reporting Notice.

If the Participant is a director, associate director or shadow director of a Singapore Subsidiary or affiliate of the Company, as the terms are used in the Singapore Companies Act (the “SCA”), the Participant agrees to comply with notification requirements under the SCA. Among these requirements is an obligation to notify the Singapore Subsidiary or affiliate in writing when the Participant receives an interest (*e.g.*, Awards, Shares) in the Company or any related companies (including when Participant sells Shares acquired through an Award). In addition, the Participant must notify the Singapore Subsidiary or affiliate when the Participant sells or receives Shares of the Company or any related company (including when the Participant sells or receives Shares acquired under the Plan). These notifications must be made within two days of acquiring or disposing of any interest in the Company or any related company. In addition, a notification must be made of the Participant’s interests in the Company or any related company within two days of becoming a director. The Participant should consult with his or her personal legal advisor regarding his or her notification obligations under the SCA.

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Insider Trading Notice.

The Participant should be aware of the Singaporean insider-trading rules, which may impact the Participant's acquisition or disposal of Shares or rights to Shares under the Plan. Under the Singaporean insider-trading rules, the Participant is prohibited from acquiring or selling Shares or rights to Shares (*e.g.*, RSUs under the Plan) when Participant is in possession of information that is not generally available and that Participant knows or should know will have a material effect on the price of Shares once such information is generally available.

**Spain**

No Entitlement for Claims or Compensation.

The following provisions supplement paragraphs 4 and 12 of the Agreement:

By accepting the RSUs, the Participant consents to participation in the Plan and acknowledges that the Participant has received a copy of the Plan document.

The Participant understands and agrees that, as a condition of the grant of the RSUs, the termination of the Participant's status as a Service Provider for any reason (including for the reasons listed below) prior to the vesting date will automatically result in the loss of the unvested RSUs that may have been granted to the Participant. In particular, the Participant understands and agrees that any unvested RSUs shall be forfeited without entitlement to the underlying Shares or to any amount as indemnification in the event of a termination of status as a Service Provider, including, but not limited to: resignation, disciplinary dismissal adjudged to be with cause, disciplinary dismissal adjudged or recognized to be without cause, individual or collective layoff on objective grounds, whether adjudged to be with cause or adjudged or recognized to be without cause, material modification of the terms of employment under Article 41 of the Workers' Statute, relocation under Article 40 of the Workers' Statute, Article 50 of the Workers' Statute, unilateral withdrawal by the Employer, and under Article 10.3 of Royal Decree 1382/1985.

The Participant understands that the Company has unilaterally, gratuitously and in its sole discretion decided to grant RSUs under the Plan to individuals who may be Employees, Directors or Consultants throughout the world. The decision is limited and entered into based upon the express assumption and condition that any RSUs will not economically or otherwise bind the Company or any Parent, Subsidiary or affiliate, including the Employer, on an ongoing basis, other than as expressly set forth in the Agreement. Consequently, the Participant understands that the RSUs are granted on the assumption and condition that the RSUs shall not become part of any employment contract (whether with the Company or any Parent, Subsidiary or affiliate, including the Employer) and shall not be considered a mandatory benefit, salary for any purpose (including severance compensation) or any other right whatsoever. Furthermore, the Participant understands and freely accepts that there is no guarantee that any benefit whatsoever shall arise from the grant of RSUs, which is gratuitous and discretionary, since the future value of the RSUs and the underlying Shares is unknown and unpredictable. The Participant also understands that the grant of RSUs would not be made but for the assumptions and conditions set forth hereinabove; thus, the Participant understands, acknowledges and freely accepts that, should any or all of the assumptions be mistaken or any of the conditions not be met for any reason, the RSUs and any right to the underlying Shares shall be null and void.

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Securities Law Notice.

No “offer of securities to the public”, as defined under Spanish law, has taken place or will take place in the Spanish territory with respect to the RSUs. No public offering prospectus has been nor will be registered with the *Comisión Nacional del Mercado de Valores* (Spanish Securities Exchange Commission) (“CNMV”). Neither the Plan nor the Agreement constitute a public offering prospectus and they have not been, nor will they be, registered with the CNMV.

**Sweden**

No special provisions.

**Taiwan**

No special provisions.

**United Arab Emirates**

Securities Law Notice.

This Agreement is intended for distribution only to Employees or former Employees or close relatives of any such Employee for the purposes of an employee compensation or reward scheme.

The Emirates Securities and Commodities Authority has no responsibility for reviewing or verifying any documents in connection with the RSUs or this Agreement. Neither the Ministry of Economy nor the Dubai Department of Economic Development have approved this Agreement nor taken steps to verify the information set out in it, and have no responsibility for it.

The securities to which this Agreement relates may be illiquid and/or subject to restrictions on their resale. Individuals should conduct their own due diligence on the securities.

If the Participant does not understand this Agreement, the Participant should consult an authorized financial adviser.

**United Kingdom**

Form of Settlement.

RSUs granted to Employees resident in the United Kingdom shall be paid in Shares only.

Joint Election.

As a condition of the vesting of the RSUs under the Plan, the Participant agrees to accept any liability for secondary Class 1 NICs (“Employer NICs”) which may be payable by the

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Company or the Employer with respect to the vesting of the RSUs or otherwise payable in connection with the issuance of Shares. To accomplish the foregoing, the Participant agrees to execute a joint election with the Company and/or the Employer (the "Election"), the form of such Election being formally approved by HM Revenue and Customs ("HMRC"), and any other consent or elections required to accomplish the transfer of the Employer NICs to the Participant. The Participant further agrees to execute such other joint elections as may be required between the Participant and any successor to the Company and/or the Employer. The Participant agrees to enter into an Election prior to the vesting of the RSUs. The Participant further agrees that the Company and/or the Employer may collect the Employer NICs by any of the means set forth in paragraph 11 of the Agreement.

Tax Withholding Obligations.

The following supplements paragraph 11 of the Agreement:

The Participant shall pay to the Company or the Employer any amount of income tax that the Company or the Employer may be required to account to HMRC with respect to the event giving rise to the income tax (the "Taxable Event") that cannot be satisfied by the means described in paragraph 11 of the Agreement. If payment or withholding of the income tax due is not made within ninety (90) days of the Taxable Event or such other period as required under U.K. law (the "Due Date"), the Participant agrees that the amount of any uncollected income tax shall constitute a loan owed by the Participant to the Employer, effective on the Due Date. The Participant agrees that the loan will bear interest at the then-current HMRC Official Rate, it will be immediately due and repayable, and the Company or the Employer may recover it at any time thereafter by any of the means referred to in paragraph 11 of the Agreement. If the Participant fails to comply with his or her obligations in connection with the income tax as described in this section, the Company may refuse to deliver the Shares acquired under the Plan.

Notwithstanding the foregoing, if the Participant is a director or executive officer of the Company (within the meaning of Section 13(k) of the U.S. Securities and Exchange Act of 1934, as amended), the Participant shall not be eligible for a loan from the Company to cover income tax. In the event that the Participant is a director or executive officer and income tax is not collected from or paid by the Participant by the Due Date, the amount of any uncollected income tax may constitute a benefit to the Participant on which additional income tax and National Insurance Contributions may be payable. The Participant will be responsible for reporting and paying any income tax and National Insurance contributions (including the Employer NICs) due on this additional benefit directly to HMRC under the self-assessment regime.

DOLBY LABORATORIES, INC.

2005 STOCK PLAN

STOCK OPTION AGREEMENT – INTERNATIONAL

Unless otherwise defined herein, the terms defined in the Dolby Laboratories, Inc. 2005 Stock Plan as amended from time to time (the "Plan") shall have the same defined meanings in this Stock Option Agreement.

I. NOTICE OF STOCK OPTION GRANT

Participant: [insert name of record]
Address: [insert address line 1, 2, and 3 (as required)]
[insert city, state/province zip/postal code (country)]

Participant has been granted an Option, subject to the terms and conditions of the Plan and this Stock Option Agreement, as follows:

Grant Number [insert option number]
Date of Grant [insert option date]
Vesting Commencement Date [insert vest base date]
Exercise Price per Share [insert option price]
Total Number of Shares Granted [insert shares granted]
Total Exercise Price [insert total option price]
Type of Option: [insert long type]
Term/Expiration Date: [insert expiration date]

Vesting Schedule:

Subject to Participant continuing to be a Service Provider and other limitations set forth in the Plan, this Stock Option Agreement and country-specific provisions as set forth in Appendix A to this Stock Option Agreement, this Option may be exercised, in whole or in part, in accordance with the following schedule:

Date of Vesting Shares Vesting

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Termination Period:

This Option will be exercisable for three (3) months after Participant ceases to be a Service Provider, unless such termination is due to Participant's death or Disability, in which case this Option will be exercisable for one (1) year after Participant ceases to be Service Provider. Notwithstanding the foregoing, in no event may this Option be exercised after the Term/Expiration Date as provided above.

**II. AGREEMENT**

**A. Grant of Option.**

The Administrator hereby grants to Participant named in the Notice of Stock Option Grant (the "Notice of Grant") an Option to purchase the number of Shares, as set forth in the Notice of Grant, at the exercise price per Share set forth in the Notice of Grant (the "Exercise Price"), subject to the terms and conditions of the Plan, which is incorporated herein by reference, and this Stock Option Agreement and country-specific provisions as set forth in Appendix A to this Stock Option Agreement (collectively, the "Option Agreement"). Subject to Section 20(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Option Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option, this Option is intended to qualify as an Incentive Stock Option under Section 422 of the Code. However, if this Option is intended to be an Incentive Stock Option, to the extent that it exceeds the \$100,000 rule of Code Section 422(d), or otherwise does not qualify as an Incentive Stock Option, it shall be treated as a Nonstatutory Stock Option.

**B. Exercise of Option.**

1. Right to Exercise. This Option is exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and the applicable provisions of the Plan and this Option Agreement.

2. Method of Exercise. This Option is exercisable by (i) delivery of an exercise notice, in the form and manner determined by the Administrator, or (ii) following an electronic or other exercise procedure prescribed by the Administrator, which in either case shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. Participant shall provide payment of the aggregate Exercise Price as to all Exercised Shares at the time of exercise, together with any applicable Tax-Related Items (as defined in section II.F below) withholding arising in connection with such exercise. This Option shall be deemed to be exercised upon receipt by the Company of a fully executed exercise notice or completion of such exercise procedure, as the Administrator may determine in its sole discretion, accompanied by such aggregate Exercise Price and any applicable Tax-Related Items withholding.

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No Shares shall be issued pursuant to the exercise of this Option unless such issuance and exercise complies with Applicable Laws. Assuming such compliance, for income tax purposes, the Exercised Shares shall be considered transferred to Participant on the date the Option is exercised with respect to such Exercised Shares.

C. Method of Payment.

Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of Participant:

1. to the extent permitted by Applicable Law, by cash, check or cash equivalent;
2. consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Plan; or
3. any other methods approved by the Administrator and permitted by Applicable Laws.

D. Non-Transferability of Option.

This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Participant only by Participant. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of Participant.

E. Term of Option.

This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option Agreement.

F. Tax Obligations.

Regardless of any action the Company or Participant's employer (the "Employer") takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related withholding items related to Participant's participation in the Plan and legally applicable to Participant, or deemed by the Company or the Employer to be an appropriate charge to Participant even if technically due by the Company of the Employer ("Tax-Related Items"), Participant hereby acknowledges that the ultimate liability for all Tax-Related Items is and remains Participant's responsibility and may exceed the amount actually withheld by the Company or the Employer. Participant further acknowledges that the Company and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Option grant, including, but not limited to, the grant, vesting or exercise of the Option, the issuance of Shares pursuant to such exercise, the subsequent sale of Shares acquired pursuant to such exercise and the receipt of any dividends; and (2) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Option to reduce or eliminate Participant's liability for Tax-Related Items or achieve a particular tax result. Further, if Participant has become subject to tax in more than one

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jurisdiction between the date of grant and the date of any relevant taxable event, Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to any relevant taxable or tax withholding event, Participant shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, Participant authorizes the Company and/or the Employer or their respective agents, in their sole discretion and without any notice or authorization by Participant, to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following:

(1) withholding from Participant's wages or other cash compensation paid to Participant by the Company and/or the Employer; or

(2) withholding from proceeds of the sale of Shares acquired upon exercise of the Option, either through a voluntary sale or through a mandatory sale arranged by the Company (on Participant's behalf pursuant to this authorization); or

(3) withholding in Shares to be issued upon exercise of the Option.

To avoid negative accounting treatment, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes Participant is deemed to have been issued the full number of Exercised Shares, notwithstanding that a number of the Exercised Shares is held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of Participant's participation in the Plan. No fractional Shares will be withheld or issued pursuant to the exercise of an Option and the issuance of Shares thereunder.

Finally, Participant shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of Participant's participation in the Plan or Participant's purchase of Shares that cannot be satisfied by the means previously described. Participant acknowledges and agrees that the Company may refuse to honor the exercise and refuse to deliver Shares or the proceeds from the sale of Shares if Participant fails to comply with Participant's obligations in connection with the Tax-Related Items as described in this section F.

#### G. Acknowledgements.

1. Participant acknowledges receipt of a copy of the Plan (including any applicable appendixes or sub-plans thereunder) and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Participant has reviewed the Plan (including any applicable appendixes or sub-plans thereunder) and this Option Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Option. Participant further agrees to notify the Company upon any change in the residence address in the Notice of Grant.

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2. The Company (and not the Employer) is granting the Option. The Company will administer the Plan from outside Participant's country of residence.
  3. The Plan is established voluntarily by the Company, is wholly discretionary in nature and may be modified, amended, suspended or terminated by the Company at any time.
  4. The grant of the Option is voluntary and occasional and does not create any contractual or other right to receive future grants of Options, or benefits in lieu of options, even if Options have been granted repeatedly in the past.
  5. All decisions with respect to future Option grants, if any, will be at the sole discretion of the Company.
  6. The Option and the Shares subject to the Option are extraordinary items that do not constitute compensation of any kind for services of any kind rendered to the Company or the Employer, and which are outside the scope of Participant's employment contract, if any.
  7. The Option and the Shares subject to the Option are not intended to replace any pension rights or compensation.
  8. Although provided by the Company, the Option and the Shares subject to the Option are not part of Participant's normal or expected salary or compensation for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long service awards, pension, retirement or welfare benefits, or any other similar payments, and in no event should the Option be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any Subsidiary.
  9. The Option grant and Participant's participation in the Plan will not be interpreted to form an employment contract or relationship with the Company or any Subsidiary and the Company will not incur any liability of any kind to Participant as a result of any change or amendment, or any cancellation, of the Plan at any time.
  10. The future value of the underlying Shares is unknown and cannot be predicted with certainty.
  11. If the underlying Shares do not increase in value, the Option will have no value.
  12. If Participant exercises his or her Option and obtains Shares, the value of those Shares acquired upon exercise may increase or decrease in value, even below the Exercise Price.
  13. Participant has received the terms and conditions of this Option Agreement and any other related communications in English, and Participant consents to having received

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these documents in English. If Participant has received this Option Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

14. Participant is voluntarily participating in the Plan.

15. No claim or entitlement to compensation or damages shall arise from forfeiture of the Option resulting from termination of Participant's status as a Service Provider by the Company or the Employer (for any reason whatsoever and whether or not in breach of local labor laws) and in consideration of the grant of the option to which the Participant is not otherwise entitled, Participant irrevocably agrees (i) never to institute any claim against the Company or the Employer, (ii) waive his or her ability, if any, to bring such a claim, and (iii) release the Company and the Employer from any such claim; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction, then, by accepting this Option Agreement, Participant will be deemed irrevocably to have agreed not to pursue such claim and have agreed to execute any and all documents necessary to request dismissal or withdrawal of such claims.

16. In the event of termination of Participant's status as a Service Provider (whether or not in breach of local labor laws), Participant's right to vest in the Option under the Plan, if any, will terminate effective as of the date that Participant is no longer actively employed and will not be extended by any notice period mandated under local law (e.g., active employment would not include a period of "garden leave" or similar period pursuant to local law). Further, in the event of termination of Participant's status as a Service Provider (whether or not in breach of local labor laws), Participant's right to exercise the Option after termination of status as a Service Provider will be measured by the date of termination of Participant's active employment and will not be extended by any notice period mandated under local law. The Administrator shall have the exclusive discretion to determine when Participant is no longer actively employed for purposes of his or her Option grant.

17. The Option and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger or a Change in Control.

#### H. No Advice Regarding Grant.

The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Participant's participation in the Plan, or Participant's acquisition or sale of the underlying Shares. Participant is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding Participant's participation in the Plan before taking any action related to the Plan.

#### I. DATA PRIVACY.

*By entering into this Option Agreement, and as a condition of the grant of the Option, Participant explicitly and unambiguously consents to the collection, use, and transfer, in electronic or other form, Participant's personal data as described in this Option Agreement and any other Option grant materials by and among, as applicable, the Employer, the Company and its Subsidiaries and affiliates for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan*

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*Participant understands that the Company and the Employer may hold certain personal information about Participant, including, but not limited to, name, home address and telephone number, e-mail address, date of birth, social insurance number or other identification number, salary, nationality, job title, any Shares or directorships held in the Company or any Subsidiary, details of all Options or other entitlement to Shares awarded, canceled, exercised, vested, unvested, or outstanding in Participant's favor, for the exclusive purpose of implementing, managing and administering the Plan ("Data").*

*Participant further understands that Data will be transferred to the Company's Plan broker or such other stock plan service provider as may be selected by the Company in the future which is assisting the Company with the implementation, administration, and management of the Plan. Participant understands that data recipients may be located in Participant's country of residence or elsewhere, such as the United States and that that country may have different data privacy laws and protections than Participant's country. Participant understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting the local human resources representative. Participant authorizes the Company, the Plan broker and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing Participant's participation in the Plan to receive, possess, use, retain, and transfer Data in electronic or other form, for the purposes of implementing, administering, and managing Participant's participation in the Plan, including any transfer of such Data, as may be required for the administration of the Plan and/or the subsequent holding of Shares on Participant's behalf, to a broker or third party with whom the Shares acquired on exercise may be deposited.*

*Participant understands that Data will be held only as long as is necessary to implement, administer and manage Participant's participation in the Plan. Participant understands that he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing Participant's local human resources representative, or if there is no local human resources representative, the human resources department of the Company. Participant understands that refusal or withdrawal of consent may affect Participant's ability to participate in the Plan. For more information on the consequences of Participant's refusal to consent or withdrawal of consent, Participant understands that he or she may contact his or her local human resources representative, or if there is no local human resources representative, the human resources department of the Company.*

J. Entire Agreement; Governing Law.

The Plan is incorporated herein by reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Participant with respect to the subject matter hereof, and may not be modified adversely to Participant's interest except by means of a writing signed by the Company and Participant.

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This Option Agreement is governed by the internal substantive laws, but not the choice of law rules, of California. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by this grant or the Option Agreement, the parties hereby submit to and consent to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of San Francisco County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this grant is made and/or to be performed.

K. NO GUARANTEE OF CONTINUED SERVICE.

PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT (AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED AN OPTION OR PURCHASING SHARES HEREUNDER). PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS OPTION AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH IN THE NOTICE OF GRANT DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE WITH PARTICIPANT'S RIGHT OR THE COMPANY'S (OR PARENT'S OR SUBSIDIARY'S) RIGHT TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

L. Severability.

The provisions of this Option Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

M. Electronic Delivery.

The Company may, in its sole discretion, decide to deliver any documents related to Participant's current or future participation in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

By Participant's electronic signature and the electronic signature of the Company's representative, Participant and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan and this Option Agreement. Participant has reviewed the Plan and this Option Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option Agreement and fully understands all provisions of the Plan and Option Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Option Agreement.

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N. Appendix.

Notwithstanding any provisions in this Option Agreement, the Option grant shall be subject to any special terms and conditions set forth in any Appendix to this Option Agreement for Participant's country. Moreover, if Participant relocates to one of the countries included in the Appendix, the special terms and conditions for such country will apply to Participant, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Option Agreement.

O. Imposition of Other Requirements.

The Company reserves the right to impose other requirements on Participant's participation in the Plan, on the Option and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

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STOCK OPTION AGREEMENT – INTERNATIONAL

APPENDIX A

DOLBY LABORATORIES, INC. 2005 STOCK PLAN

Special Terms and Conditions for Participants Outside the U.S.

This Appendix includes additional country-specific terms and conditions that apply to Participants resident in countries listed below. This Appendix is part of the Option Agreement and contains terms and conditions material to participation in the Plan. Unless otherwise provided below, capitalized terms used but not defined herein shall have the same meanings assigned to them in the Plan and the Option Agreement.

**Argentina**

No special provisions.

**Canada**

Method of Payment.

Notwithstanding section 7(d) of the Plan, Participant acknowledges that due to regulatory requirements, Participant is prohibited from surrendering Shares that Participant owns and from attesting to the ownership of Shares to pay the Exercise Price and any Tax-Related Items under the Option.

Sale of Shares.

Participant acknowledges that he or she is permitted to sell the Shares acquired under the Plan through the designated broker appointed by the Company, provided the sale of the Shares takes place outside of Canada through facilities of a stock exchange on which the Shares are listed.

Consent to Receive Information in English for Quebec Employees.

Participant acknowledges that it is the express wish of the parties that this Option Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be written in English.

*Le participant reconnaît que c'est son souhait exprès d'avoir exigé la rédaction en anglais de cette convention, ainsi que de tous documents exécutés, avis donnés et procédures judiciaires intentées, directement ou indirectement, relativement à ou suite à la présente convention.*

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Authorization to Release and Transfer Necessary Personal Information for Quebec Employees.

The following provision supplements section II.I of the Option Agreement:

**Participant hereby authorizes the Company and the Company's representatives to discuss with and obtain all relevant information from all personnel, professional or not, involved in the administration and operation of the Plan. Participant further authorizes the Company, any Parent, Subsidiary or affiliate and the Administrator of the Plan to disclose and discuss the Plan with their advisors. Participant further authorizes the Company and any Parent, Subsidiary or affiliate to record such information and to keep such information in Participant's employee file.**

**China**

Method of Payment.

Notwithstanding anything in section II.C of the Option Agreement to the contrary, Participant agrees to pay the Exercise Price and any Tax-Related Items solely by means of a cashless sell-all method of exercise. To complete a cashless sell-all exercise, Participant must provide irrevocable instructions to the broker to: (i) sell all of the Shares to be issued upon exercise; (ii) use the proceeds to pay the Exercise Price, brokerage fees and any applicable Tax-Related Items; and (iii) remit the balance in cash to Participant. Such delivery of the sales proceeds shall be subject to any obligation to satisfy Tax-Related Items. The Participant acknowledges that the Company's designated broker is under no obligation to arrange for the sale of the Shares at any particular price. To the extent that regulatory requirements in China change, Participant reserves the right to permit Participant to exercise the Option and pay the Exercise Price with cash, check, cash equivalent or cashless sell-to-cover exercise.

Exchange Control Acknowledgment.

Participant understands and agrees that, pursuant to local exchange control requirements, Participant will be required to repatriate the cash proceeds from the immediate sale of Shares issued upon exercise to China. Participant understands that, under local law, such repatriation of the cash proceeds may need to be effected through a special exchange control account established by the Company or one of its Subsidiaries and Participant hereby consents and agrees that any proceeds from the sale of any Shares Participant acquires may be transferred to such special account prior to being delivered to Participant. If the proceeds from the sale of the Participant's Shares are converted to local currency, the Participant acknowledges that the Company is under no obligation to secure any exchange conversion rate, and the Company may face delays in converting the proceeds to local currency due to exchange control restrictions in China. The Participant agrees to bear the risk of any exchange conversion rate fluctuation between the date the RSUs vest and the date of conversion of the proceeds from the sale of the Shares issued upon vesting to local currency. Participant further agrees to comply with any other requirements that may be imposed by the Company in the future in order to facilitate compliance with exchange control requirements in China.

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**France**Consent to Receive Information in English.

By signing and returning this document providing for the terms and conditions of Participant's option grant, Participant confirms having read and understood the documents relating to this grant (the Plan and this Option Agreement) which were provided in English language. Participant accepts the terms of those documents accordingly.

*En signant et renvoyant le présent document décrivant les termes et conditions de l'attribution d'options, le participant confirme ainsi avoir lu et compris les documents relatifs à cette attribution (le Plan U.S. et ce contrat d'options) qui ont été communiqués en langue anglaise. Le participant accepte les termes en connaissance de cause.*

**Germany**

No special provisions.

**Hong Kong**Securities Law Notice.

*Warning: The Option and Shares issued at exercise do not constitute a public offering of securities under Hong Kong law and are available only to employees of the Company, its Subsidiaries or affiliates. The Option Agreement, including this Appendix, the Plan and other incidental communication materials have not been prepared in accordance with and are not intended to constitute a "prospectus" for a public offering of securities under the applicable securities legislation in Hong Kong. Nor have the documents been reviewed by any regulatory authority in Hong Kong. The Option is intended only for the personal use of each eligible employee of the Employer, the Company or any Subsidiary or affiliate and may not be distributed to any other person. If Participant is in any doubt about any of the contents of the Option Agreement, including this Appendix, or the Plan, Participant should obtain independent professional advice.*

Participant agrees, and Participant's heirs and assigns agree, not to sell any Shares within six months of the date of grant.

Occupational Retirement Schemes Ordinance Alert.

The Company specifically intends that neither the Option nor the Plan will be an occupational retirement scheme for purposes of the Occupational Retirement Schemes Ordinance ("ORSO").

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**India**Method of Payment.

Notwithstanding anything in section II.C of the Option Agreement to the contrary, Participant agrees that he or she may pay the Exercise Price, Tax-Related Items and fringe benefit tax solely by means of cash, check or cash equivalent, or through a cashless sell-all method of exercise. To complete a cashless sell-all exercise, Participant must provide irrevocable instructions to the broker to: (i) sell all of the Shares to be issued upon exercise; (ii) use the proceeds to pay the Exercise Price, brokerage fees and any applicable Tax-Related Items and fringe benefit tax; and (iii) remit the balance in cash to Participant. Due to exchange control laws, Participant understands that Participant will not be permitted to pay the Exercise Price, Tax-Related Items or fringe benefit tax by using the cashless sell-to-cover method of exercise (under which method a number of Shares with a value sufficient to cover the Exercise Price, brokerage fees and any applicable Tax-Related Items and fringe benefit tax would be sold upon exercise and Participant would receive only the remaining Exercised Shares). In the event of changes in exchange control laws in India, the Company reserves the right to permit cashless sell-to-cover exercises.

**Japan**

No special provisions.

**Korea**

No special provisions.

**Netherlands**Consent to Comply with Dutch Securities Law.

Participant has been granted Options under the Plan, pursuant to which Participant may acquire Shares. Participants who are residents of the Netherlands should be aware of the Dutch insider trading rules, which may impact the sale of such Shares. In particular, Participant may be prohibited from effecting certain share transactions if Participant has insider information regarding the Company.

Below is a discussion of the applicable restrictions. Participant is advised to read the discussion carefully to determine whether the insider rules apply to Participant. If it is uncertain whether the insider rules apply, the Company recommends that Participant consult with his or her personal legal advisor. Please note that the Company cannot be held liable if Participant violates the Dutch insider rules. Participant is responsible for ensuring compliance with these rules.

**By entering into the Option Agreement and participating in the Plan, Participant acknowledges having read and understood the notification below and acknowledges that it is his or her own responsibility to comply with the Dutch insider trading rules, as discussed herein.**

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### Prohibition Against Insider Trading.

Dutch securities laws prohibit insider trading. Under Article 5:56 of the Dutch Financial Supervision Act, anyone who has “inside information” related to the Company is prohibited from effectuating a transaction in securities in or from the Netherlands. “Inside information” is knowledge of specific information concerning the issuer to which the securities relate that is not public and which, if published, would reasonably be expected to affect the Share price, regardless of the actual effect on the price. The insider could be any employee of the Company or its Dutch Subsidiary who has inside information as described above.

Given the broad scope of the definition of inside information, certain employees of the Company working at its Dutch Subsidiary may have inside information and thus, would be prohibited from effectuating a transaction in securities in the Netherlands at a time when he or she had such inside information.

### **Singapore**

#### Securities Law Notice.

The Options are being granted pursuant to the “Qualifying Person” exemption under section 273(1)(f) of the Singapore Securities and Futures Act (Chapter 289, 2006 Ed.) (“SFA”). The Plan has not been lodged or registered as a prospectus with the Monetary Authority of Singapore. The Participant should note that such Option grant is subject to section 257 of the SFA and the Participant will not be able to make any subsequent sale in Singapore, or any offer of such subsequent sale of the Class A common stock in Singapore, or any offer of the Class A common stock underlying the Options unless such sale or offer in Singapore is made pursuant to the exemptions under Part XIII Division (1) Subdivision (4) (other than section 280) of the SFA (Chapter 289, 2006 Ed.).

#### Director Reporting Notice.

If Participant is a director, associate director or shadow director of a Singapore Subsidiary of the Company, as the terms are used in the Singapore Companies Act (the “SCA”), Participant agrees to comply with notification requirements under the SCA. Among these requirements is an obligation to notify the Singapore Subsidiary in writing when Participant receives an interest (e.g., Options, Shares) in the Company or any related companies (including when Participant sells Shares acquired through exercise of the Option). In addition, Participant must notify the Singapore Subsidiary when Participant sells or receives Shares of the Company or any related company (including when Participant sells or receives Shares acquired under the Plan). These notifications must be made within two days of acquiring or disposing of any interest in the Company or any related company. In addition, a notification must be made of Participant’s interests in the Company or any related company within two days of becoming a director.

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Insider Trading Notice.

Participant should be aware of the Singaporean insider-trading rules, which may impact Participant's acquisition or disposal of Shares or rights to Shares under the Plan. Under the Singaporean insider-trading rules, Participant is prohibited from acquiring or selling Shares or rights to Shares (*e.g.*, an Option under the Plan) when Participant is in possession of information that is not generally available and that Participant knows or should know will have a material effect on the price of Shares once such information is generally available.

**Spain**

No Entitlement for Claims or Compensation.

The following provisions supplement section II.G of the Option Agreement:

By accepting the Option, Participant consents to participation in the Plan and acknowledges that Participant has received a copy of the Plan document.

Participant understands and agrees that, as a condition of the grant of the Option, termination of Participant's status as a Service Provider for any reason (including for the reasons listed below) prior to the vesting date will automatically result in the loss of the unvested Options that may have been granted to Participant. In particular, Participant understands and agrees that any unvested Options shall be forfeited without entitlement to the underlying Shares or to any amount as indemnification in the event of a termination of status as a Service Provider, including, but not limited to: resignation, disciplinary dismissal adjudged to be with cause, disciplinary dismissal adjudged or recognized to be without cause, individual or collective layoff on objective grounds, whether adjudged to be with cause or adjudged or recognized to be without cause, material modification of the terms of employment under Article 41 of the Workers' Statute, relocation under Article 40 of the Workers' Statute, Article 50 of the Workers' Statute, unilateral withdrawal by the Employer, and under Article 10.3 of Royal Decree 1382/1985.

Participant understands that the Company has unilaterally, gratuitously and in its sole discretion decided to grant Options under the Plan to individuals who may be Employees, Directors or Consultants throughout the world. The decision is limited and entered into based upon the express assumption and condition that any Options will not economically or otherwise bind the Company or any Parent, Subsidiary or affiliate, including the Employer, on an ongoing basis, other than as expressly set forth in the Option Agreement. Consequently, Participant understands that the Options are granted on the assumption and condition that the Option shall not become part of any employment contract (whether with the Company or any Parent, Subsidiary or affiliate, including the Employer) and shall not be considered a mandatory benefit, salary for any purpose (including severance compensation) or any other right whatsoever. Furthermore, Participant understands and freely accepts that there is no guarantee that any benefit whatsoever shall arise from the grant of the Option, which is gratuitous and discretionary, since the future value of the Option and the underlying Shares is unknown and unpredictable. Participant also understands that the grant of the Option would not be made but for the assumptions and conditions set forth hereinabove; thus, Participant understands, acknowledges and freely accepts that, should any or all of the assumptions be mistaken or any of the conditions not be met for any reason, the Option and any right to the underlying Shares shall be null and void.

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Securities Law Notice.

No “offer of securities to the public”, as defined under Spanish law, has taken place or will take place in the Spanish territory with respect to the Option. No public offering prospectus has been, nor will it be registered with the *Comisión Nacional del Mercado de Valores* (Spanish Securities Exchange Commission) (“CNMV”). Neither the Plan nor the Option Agreement constitute a public offering prospectus and they have not been, nor will they be, registered with the CNMV.

**Sweden**

No special provisions.

**Taiwan**

No special provisions.

**United Arab Emirates**

Securities Law Notice.

This Option Agreement is intended for distribution only to Employees or former Employees or close relatives of any such Employee for the purposes of an employee compensation or reward scheme.

The Emirates Securities and Commodities Authority has no responsibility for reviewing or verifying any documents in connection with the Option or this Option Agreement. Neither the Ministry of Economy nor the Dubai Department of Economic Development have approved this Option Agreement nor taken steps to verify the information set out in it, and have no responsibility for it.

The securities to which this Option Agreement relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the securities offered should conduct their own due diligence on the securities.

If Participant does not understand this Option Agreement, Participant should consult an authorized financial adviser.

**United Kingdom**

Joint Election.

As a condition of the purchase of Shares under the Plan, Participant agrees to accept any liability for secondary Class 1 NICs (“Employer NICs”) which may be payable by the Company

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or the Employer with respect to the purchase of the Shares or otherwise payable in connection with the right to acquire Shares. To accomplish the foregoing, Participant agrees to execute a joint election with the Company and/or the Employer (the "Election"), the form of such Election being formally approved by HM Revenue and Customs ("HMRC"), and any other consent or elections required to accomplish the transfer of the Employer NICs to Participant. Participant further agrees to execute such other joint elections as may be required between Participant and any successor to the Company and/or the Employer. Participant agrees to enter into an Election prior to the exercise of any Options. Participant further agrees that the Company and/or the Employer may collect the Employer NICs by any of the means set forth in Section II.F of the Option Agreement.

Tax Withholding Obligations.

The following supplements section II.F of the Option Agreement:

Participant shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to account to HMRC with respect to the event giving rise to the Tax-Related Items (the "Taxable Event") that cannot be satisfied by the means described in Section II.F of the Option Agreement. If payment or withholding of the Tax-Related Items (including Employer NICs) due is not made within ninety (90) days of the Taxable Event or such other period as required under U.K. law (the "Due Date"), Participant agrees that the amount of any uncollected Tax-Related Items shall constitute a loan owed by Participant to the Employer, effective on the Due Date. Participant agrees that the loan will bear interest at the then-current HMRC Official Rate, it will be immediately due and repayable, and the Company or the Employer may recover it at any time thereafter by any of the means referred to in the Option Agreement. If Participant fails to comply with his or her obligations in connection with the Tax-Related Items as described in this section, the Company may refuse to deliver the Shares acquired under the Plan.

Notwithstanding the foregoing, if Participant is a director or executive officer of Dolby (within the meaning of Section 13(k) of the U.S. Securities and Exchange Act of 1934, as amended), Participant shall not be eligible for a loan from the Company to cover Tax-Related Items. In the event that Participant is a director or executive officer and Tax-Related Items are not collected from or paid by Participant by the Due Date, the amount of any uncollected Tax-Related Items may constitute a benefit to Participant on which additional income tax and National Insurance Contributions may be payable. Participant will be responsible for reporting and paying any income tax and National Insurance contributions (including the Employer NICs) due on this additional benefit directly to HMRC under the self-assessment regime.

**CERTIFICATIONS**

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(s) 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 15(d)-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(s) 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: August 4, 2011

/s/ Kevin J. Yeaman

Kevin J. Yeaman  
President and Chief Executive Officer

**CERTIFICATIONS**

I, Murray J. Demo, 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(s) 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 15(d)-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(s) 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: August 4, 2011

/s/ Murray J. Demo

Murray J. Demo  
Executive Vice President and Chief Financial Officer

**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 July 1, 2011, as filed with the Securities and Exchange Commission (the "Report"), Kevin J. Yeaman, President and Chief Executive Officer of the Company and Murray J. Demo, 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.

Date: August 4, 2011

/s/ Kevin J. Yeaman

Kevin J. Yeaman  
President and Chief Executive Officer

/s/ Murray J. Demo

Murray J. Demo  
Executive Vice President and Chief Financial Officer

