

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

FORM 10-Q

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

For the Quarterly Period Ended December 30, 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 January 19, 2012 the registrant had 51,375,078 shares of Class A common stock, par value \$0.001 per share, and 57,298,654 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 30, 2011	December 30, 2011
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 551,512	\$ 654,414
Short-term investments	391,281	367,412
Accounts receivable, net of allowance of \$2,466 at September 30, 2011 and \$2,197 at December 30, 2011	61,815	54,211
Inventories	26,244	33,515
Deferred taxes	90,869	92,582
Prepaid expenses and other current assets	36,877	26,916
Total current assets	1,158,598	1,229,050
Long-term investments	272,797	247,273
Property, plant and equipment, net	117,107	123,536
Intangible assets, net	51,573	47,922
Goodwill	263,260	263,780
Deferred taxes	14,779	20,390
Other non-current assets	6,273	7,169
<b>Total assets</b>	<b>\$ 1,884,387</b>	<b>\$ 1,939,120</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 10,887	\$ 9,773
Accrued liabilities	117,035	96,785
Income taxes payable	4,762	18,662
Deferred revenue	26,701	24,412
Total current liabilities	159,385	149,632
Long-term deferred revenue	15,526	17,124
Deferred taxes	671	639
Other non-current liabilities	23,455	27,637
Total liabilities	199,037	195,032
Stockholders' equity:		
Class A common stock, \$0.001 par value, one vote per share, 500,000,000 shares authorized: 51,860,546 shares issued and outstanding at September 30, 2011 and 51,405,065 at December 30, 2011	52	52
Class B common stock, \$0.001 par value, ten votes per share, 500,000,000 shares authorized: 57,559,554 shares issued and outstanding at September 30, 2011 and 57,297,154 at December 30, 2011	58	57
Additional paid-in capital	210,681	196,545
Retained earnings	1,445,189	1,518,348
Accumulated other comprehensive income	7,533	7,108
Total stockholders' equity – Dolby Laboratories, Inc.	1,663,513	1,722,110
Controlling interest	21,837	21,978
Total stockholders' equity	1,685,350	1,744,088
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,884,387</b>	<b>\$ 1,939,120</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	
	December 31, 2010	December 30, 2011
<b>Revenue:</b>	<b>(unaudited)</b>	
Licensing	\$ 188,176	\$ 199,624
Products	46,027	26,400
Services	8,509	7,354
Total revenue	<u>242,712</u>	<u>233,378</u>
<b>Cost of revenue:</b>		
Cost of licensing	3,961	3,328
Cost of products	22,198	13,888
Cost of services	2,980	3,194
Total cost of revenue	<u>29,139</u>	<u>20,410</u>
Gross margin	<u>213,573</u>	<u>212,968</u>
<b>Operating expenses:</b>		
Research and development	28,327	32,826
Sales and marketing	38,217	43,016
General and administrative	37,042	35,465
Restructuring charges, net	785	368
Total operating expenses	<u>104,371</u>	<u>111,675</u>
<b>Operating income</b>	<u>109,202</u>	<u>101,293</u>
Interest income	1,614	1,737
Interest expense	(283)	(26)
Other income, net	533	200
Income before provision for income taxes	111,066	103,204
Provision for income taxes	(24,301)	(29,838)
Net income including controlling interest	86,765	73,366
Less: net income attributable to controlling interest	(378)	(207)
<b>Net income attributable to Dolby Laboratories, Inc.</b>	<u>\$ 86,387</u>	<u>\$ 73,159</u>
Earnings per share attributable to Dolby Laboratories, Inc.:		
Basic	\$ 0.77	\$ 0.67
Diluted	\$ 0.76	\$ 0.67
Weighted-average shares outstanding:		
Basic	112,035	108,884
Diluted	113,713	109,443
Related party rent expense included in general and administrative expenses	\$ 343	\$ 343

*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 Quarter Ended	
	December 31, 2010	December 30, 2011
	(unaudited)	
<b>Operating activities:</b>		
Net income including controlling interest	\$ 86,765	\$ 73,366
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,539	9,929
Stock-based compensation	11,260	11,439
Amortization of premium on investments	3,235	4,920
Excess tax benefit from exercise of stock options	(9,386)	(57)
Provision for doubtful accounts	333	(52)
Deferred income taxes	(6,640)	(7,643)
Other non-cash items affecting net income	(476)	1,227
Changes in operating assets and liabilities:		
Accounts receivable	(14,789)	7,531
Inventories	536	(7,271)
Prepaid expenses and other assets	(1,450)	1,101
Accounts payable and accrued liabilities	(27,815)	(22,860)
Income taxes, net	20,510	24,431
Deferred revenue	(843)	(661)
Other non-current liabilities	(127)	392
Net cash provided by operating activities	<u>70,652</u>	<u>95,792</u>
<b>Investing activities:</b>		
Purchases of available-for-sale securities	(309,660)	(54,726)
Proceeds from sales and maturities of available-for-sale securities	159,825	99,133
Purchases of property, plant and equipment	(9,646)	(12,566)
Acquisitions, net of cash acquired	(3,350)	(575)
Proceeds from sales of property, plant and equipment and assets held for sale	621	335
Net cash provided by/(used in) investing activities	<u>(162,210)</u>	<u>31,601</u>
<b>Financing activities:</b>		
Proceeds from issuance of common stock, net of shares withheld for taxes	15,749	1,783
Repurchase of common stock	(45,966)	(26,068)
Excess tax benefit from exercise of stock options	9,386	57
Net cash used in financing activities	<u>(20,831)</u>	<u>(24,228)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	166	(263)
Net increase/(decrease) in cash and cash equivalents	(112,223)	102,902
Cash and cash equivalents at beginning of period	545,861	551,512
Cash and cash equivalents at end of period	<u>\$ 433,638</u>	<u>\$ 654,414</u>
<b>Supplemental disclosure:</b>		
Cash paid for income taxes	\$ 10,431	\$ 13,047
Cash paid for interest	204	36

*See accompanying notes to unaudited condensed consolidated financial statements*

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

**1. Basis of Presentation**

***Unaudited Interim Financial Statements***

We have prepared the accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the U.S. ("GAAP"), and with Securities and Exchange Commission ("SEC") rules and regulations, which allow for certain information and footnote disclosures that are normally included in annual financial statements prepared in accordance with GAAP to be condensed or omitted. In our opinion, these condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements for the fiscal year ended September 30, 2011 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 30, 2011, which are included in our Annual Report on Form 10-K filed with the SEC.

The results for the fiscal quarter ended December 30, 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 28, 2012.

***Principles of Consolidation***

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

***Use of Estimates***

The preparation of the consolidated financial statements in accordance with 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, 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 14 week period ended December 31, 2010, and the 13 week period ended December 30, 2011. Our fiscal year ended September 30, 2011 (fiscal 2011) consisted of 53 weeks, while our fiscal year ending September 28, 2012 (fiscal 2012) consists of 52 weeks.

***Reclassifications***

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

**2. Summary of Significant Accounting Policies**

***Recently Issued Accounting Standards***

In June 2011 the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, ("ASU 2011-

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

In September 2011 the FASB issued ASU No. 2011-08, *Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, (“ASU 2011-08”). This new accounting standard simplifies goodwill impairment tests and states that a qualitative assessment may be performed to determine whether further impairment testing is necessary. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We do not expect the adoption of ASU 2011-08 to have a material impact on our consolidated financial statements.

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 30, 2011.

### 3. Composition of Certain Financial Statement Captions

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

Cash, cash equivalents, and investments as of September 30, 2011 and December 30, 2011 consist of the following:

	September 30, 2011	December 30, 2011
	(in thousands)	
Cash and cash equivalents:		
Cash	\$ 394,474	\$ 445,453
Cash equivalents:		
Money market funds	142,038	208,961
U.S. agency securities	15,000	-
Total cash and cash equivalents	551,512	654,414
Short-term investments:		
Corporate bonds	52,645	30,811
Municipal debt securities	330,562	331,565
U.S. agency securities	8,074	5,036
Total short-term investments	391,281	367,412
Long-term investments:		
Corporate bonds	124,313	116,090
Municipal debt securities	141,639	109,344
U.S. agency securities	6,845	21,839
Total long-term investments	272,797	247,273
<b>Total cash, cash equivalents, and investments</b>	<b>\$ 1,215,590</b>	<b>\$ 1,269,099</b>

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

	September 30, 2011			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(in thousands)			
Money market funds	\$ 142,038	\$ -	\$ -	\$ 142,038
Corporate bonds	177,129	316	(487)	176,958
Municipal debt securities	471,005	1,251	(55)	472,201
U.S. agency securities	29,858	65	(4)	29,919
<b>Cash equivalents and investments</b>	<b>\$ 820,030</b>	<b>\$ 1,632</b>	<b>\$ (546)</b>	<b>\$ 821,116</b>

	December 30, 2011			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(in thousands)			
Money market funds	\$ 208,961	\$ -	\$ -	\$ 208,961
Corporate bonds	146,931	394	(424)	146,901
Municipal debt securities	440,009	956	(56)	440,909
U.S. agency securities	26,836	40	(1)	26,875
<b>Cash equivalents and investments</b>	<b>\$ 822,737</b>	<b>\$ 1,390</b>	<b>\$ (481)</b>	<b>\$ 823,646</b>

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

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

	September 30, 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	\$ 87,613	\$ (487)	\$ -	\$ -	\$ 87,613	\$ (487)
Municipal debt securities	79,466	(52)	2,081	(3)	81,547	(55)
U.S. agency securities	3,997	(4)	-	-	3,997	(4)
<b>Total</b>	<b>\$ 171,076</b>	<b>\$ (543)</b>	<b>\$ 2,081</b>	<b>\$ (3)</b>	<b>\$ 173,157</b>	<b>\$ (546)</b>

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	December 30, 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	\$ 57,715	\$ (424)	\$ -	\$ -	\$ 57,715	\$ (424)
Municipal debt securities	78,411	(54)	2,059	(2)	80,470	(56)
U.S. agency securities	3,999	(1)	-	-	3,999	(1)
<b>Total</b>	<b>\$ 140,125</b>	<b>\$ (479)</b>	<b>\$ 2,059</b>	<b>\$ (2)</b>	<b>\$ 142,184</b>	<b>\$ (481)</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 December 30, 2011, we owned 46 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 do not consider any portion of the unrealized losses at September 30, 2011 or December 30, 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 December 30, 2011:

	December 30, 2011	
	Amortized Cost	Fair Value
	(in thousands)	
Due within 1 year	\$ 367,000	\$ 367,412
Due in 1 to 2 years	209,879	210,468
Due in 2 to 3 years	36,897	36,805
<b>Total</b>	<b>\$ 613,776</b>	<b>\$ 614,685</b>

***Inventories***

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

	September 30, 2011	December 30, 2011
	(in thousands)	
Raw materials	\$ 10,821	\$ 15,969
Work in process	2,942	2,437
Finished goods	12,481	15,109
<b>Inventories</b>	<b>\$ 26,244</b>	<b>\$ 33,515</b>

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***Prepaid Expenses and Other Current Assets***

Prepaid expenses and other current assets consist of the following:

	September 30, 2011	December 30, 2011
	(in thousands)	
Prepaid assets	\$ 9,365	\$ 8,271
Other current assets	19,683	18,365
Income tax receivable	7,829	280
<b>Prepaid expenses and other current assets</b>	<b>\$ 36,877</b>	<b>\$ 26,916</b>

***Property, Plant and Equipment***

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

	September 30, 2011	December 30, 2011
	(in thousands)	
Land	\$ 12,778	\$ 12,749
Buildings	26,623	26,546
Leasehold improvements	44,021	50,152
Machinery and equipment	20,845	21,228
Computer systems and software	71,220	77,228
Furniture and fixtures	10,537	11,196
Products provided under operating leases	1,060	-
	187,084	199,099
Less: accumulated depreciation	(69,977)	(75,563)
<b>Property, plant and equipment, net</b>	<b>\$ 117,107</b>	<b>\$ 123,536</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 our condensed consolidated statements of operations.

Products provided under operating leases 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 we committed to a plan to sell some of this equipment, and as of December 30, 2011, all equipment leased to exhibitors has been classified as held for sale within current assets in our condensed consolidated balance sheets.

***Goodwill and Intangible Assets***

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

	Total (in thousands)
Balance at September 30, 2011	\$ 263,260
Acquired goodwill	-
Translation adjustments	520
<b>Balance at December 30, 2011</b>	<b>\$ 263,780</b>

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Intangible assets consist of the following:

	September 30, 2011			December 30, 2011		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
(in thousands)						
Intangible assets subject to amortization:						
Acquired patents and technology	\$ 61,611	\$ (32,146)	\$ 29,465	\$ 61,509	\$ (34,161)	\$ 27,348
Customer relationships	30,748	(12,821)	17,927	30,748	(13,615)	17,133
Customer contracts	6,063	(6,063)	-	6,063	(6,063)	-
Other intangibles	20,308	(16,127)	4,181	20,308	(16,867)	3,441
<b>Total</b>	<b>\$ 118,730</b>	<b>\$ (67,157)</b>	<b>\$ 51,573</b>	<b>\$ 118,628</b>	<b>\$ (70,706)</b>	<b>\$ 47,922</b>

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

As of December 30, 2011, our expected amortization expense in future periods is as follows:

Fiscal Year	Amortization Expense (in thousands)
Remainder of 2012	\$ 9,104
2013	11,923
2014	10,279
2015	7,823
2016	5,654
Thereafter	3,139
<b>Total</b>	<b>\$ 47,922</b>

**Accrued Liabilities**

Accrued liabilities consist of the following:

	September 30, 2011	December 30, 2011
(in thousands)		
Amounts payable to joint licensing program partners	\$ 42,502	\$ 30,331
Accrued compensation and benefits	41,168	27,714
Accrued professional fees	5,727	5,200
Accrued customer refunds and deposits	10,849	14,349
Other accrued liabilities	16,789	19,191
<b>Accrued liabilities</b>	<b>\$ 117,035</b>	<b>\$ 96,785</b>

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### Other Non-Current Liabilities

Other non-current liabilities consist of the following:

	September 30, 2011	December 30, 2011
	(in thousands)	
Supplemental retirement plan obligations	\$ 1,811	\$ 1,852
Non-current tax liabilities	13,070	17,444
Other liabilities	8,574	8,341
<b>Other non-current liabilities</b>	<b>\$ 23,455</b>	<b>\$ 27,637</b>

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

### Revenue from Material Customer

In the first quarters of fiscal 2011 and fiscal 2012, revenue from one customer was \$28.5 million and \$31.7 million, respectively, or 12% and 14% of revenue for each quarter, respectively.

## 4. Fair Value Measurements

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

Level 1: Quoted prices in active markets at the measurement date for identical assets and liabilities.

Level 2: Prices may be based upon quoted prices in active markets or inputs not quoted on active markets but are corroborated by market data.

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

Financial assets and liabilities carried at fair value as of September 30, 2011 are classified below:

	Level 1	Level 2	Level 3	Total
	(in thousands)			
<b>Assets:</b>				
Investments held in supplemental retirement plan (1)	\$ 1,891	\$ -	\$ -	\$ 1,891
Money market funds (2)	142,038	-	-	142,038
Corporate bonds (3)	-	176,958	-	176,958
Municipal debt securities (3)	-	472,201	-	472,201
U.S. agency securities (2), (3)	29,919	-	-	29,919
<b>Total</b>	<b>\$ 173,848</b>	<b>\$ 649,159</b>	<b>\$ -</b>	<b>\$ 823,007</b>

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

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

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

	Level 1	Level 2	Level 3	Total
	(in thousands)			
<b>Liabilities:</b>				
Investments held in supplemental retirement plan (1)	\$ 1,891	\$ -	\$ -	\$ 1,891
<b>Total</b>	<b>\$ 1,891</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,891</b>

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

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Financial assets and liabilities carried at fair value as of December 30, 2011 are classified below:

	<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)	\$ 1,940	\$ -	\$ -	\$ 1,940
Money market funds (2)	208,961	-	-	208,961
Corporate bonds (3)	-	146,901	-	146,901
Municipal debt securities (3)	-	440,909	-	440,909
U.S. agency securities (3)	26,875	-	-	26,875
<b>Total</b>	<b>\$ 237,776</b>	<b>\$ 587,810</b>	<b>\$ -</b>	<b>\$ 825,586</b>

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

	<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)	\$ 1,940	\$ -	\$ -	\$ 1,940
<b>Total</b>	<b>\$ 1,940</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,940</b>

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

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

We obtain the fair value of our Level 2 financial instruments from a professional pricing service, which may use quoted market prices for identical or comparable instruments, or model driven valuations using observable market data or inputs corroborated by observable market data.

To validate the fair value determination provided by our primary pricing service, we perform quality controls over values received which include comparing our pricing service provider's assessment of the fair values of our investment securities against the fair values of our investment securities obtained from another independent source, reviewing the pricing movement in the context of overall market trends, and reviewing trading information from our investment managers. In addition, we assess the inputs and methods used in determining the fair value in order to determine the classification of securities in the fair value hierarchy.

We did not own any Level 3 financial assets or liabilities as of September 30, 2011 or December 30, 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 ("ESPP").

*Employee Stock Purchase Plan.* In January 2005, our board of directors adopted and our stockholders approved our ESPP, which allows eligible employees to have up to 10 percent of their eligible compensation withheld and used to purchase Class A common stock, subject to a maximum of \$25,000 worth of stock purchased in a calendar year or no more than 1,000 shares in an offering period, whichever is less. The plan provides for a discount equal to 15 percent of the closing price on the New York Stock Exchange on the last day of the purchase period. We recognized \$0.8 million and \$0.1 million of expense related to our ESPP in fiscal 2011 and the first quarter of fiscal 2012, respectively.

*Amended Employee Stock Purchase Plan.* During the first quarter of fiscal 2012, the compensation committee of our board of directors approved an amendment to the ESPP to provide for overlapping one-year offering periods composed of successive six-month purchase periods, with a look back feature to the Company's stock price at the

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commencement of a one-year offering period. The amended plan also includes an automatic reset feature that provides for an offering period to be reset and recommenced to a new lower-priced offering if the offering price of a new offering period is less than that of the immediately preceding offering period. The amendment is effective for the ESPP offering period commencing in May 2012. We do not expect adoption of the amendment to the ESPP to have a material impact on our results of operations.

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

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
	(in thousands)		(in years)	(in thousands)
Options outstanding at September 30, 2011	5,801	\$ 45.19		
Grants	1,891	31.25		
Exercises	(32)	16.40		
Forfeitures	(156)	51.87		
Options outstanding at December 30, 2011	<u>7,504</u>	\$ 41.66	7.9	\$ 10,754
Options vested at December 30, 2011 and expected to vest	<u>7,187</u>	\$ 41.61	7.9	\$ 10,732
Options exercisable at December 30, 2011	<u>3,140</u>	\$ 38.46	6.3	\$ 10,443

Aggregate intrinsic value is based on the closing price of our common stock on December 30, 2011 of \$30.51 and excludes the impact of options that were not in-the-money.

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

	Shares	Weighted Average Fair Value
	(in thousands)	
Non-vested at September 30, 2011	946	\$ 53.71
Granted	941	31.34
Vested	(87)	62.92
Forfeitures	(23)	52.02
Non-vested at December 30, 2011	<u>1,777</u>	\$ 41.44

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

	Fiscal Quarter Ended	
	December 31, 2010	December 30, 2011
Expected life (in years)	4.40	4.53
Risk-free interest rate	1.5%	0.8%
Expected stock price volatility	41.5%	44.5%
Dividend yield	-	-

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We recognize stock-based compensation expense net of estimated forfeitures. Stock-based compensation expense included in our condensed consolidated statements of operations was as follows:

	Fiscal Quarter Ended	
	December 31, 2010	December 30, 2011
	(in thousands)	
Stock-based compensation expense:		
Stock options	\$ 6,897	\$ 6,058
Restricted stock units	4,126	5,264
Employee stock purchase plan	182	82
Stock appreciation rights	55	35
<b>Total stock-based compensation expense</b>	<b>\$ 11,260</b>	<b>\$ 11,439</b>

	Fiscal Quarter Ended	
	December 31, 2010	December 30, 2011
	(in thousands)	
Stock-based compensation expense was classified as follows:		
Cost of products	\$ 146	\$ 166
Cost of services	38	56
Research and development	2,323	2,664
Sales and marketing	2,996	3,715
General and administrative	5,757	4,838
<b>Total stock-based compensation expense</b>	<b>\$ 11,260</b>	<b>\$ 11,439</b>

As of December 30, 2011, total unrecognized stock-based compensation expense associated with employee stock options expected to vest was \$67.0 million, which is expected to be recognized over a weighted-average period of approximately 2.94 years. As of December 30, 2011, total unrecognized stock-based compensation expense associated with restricted stock units expected to vest was \$60.9 million, which is expected to be recognized over a weighted-average period of approximately 3.22 years.

## 6. Restructuring

In the fourth quarter of fiscal 2011, we informed approximately 55 employees of our plans to reorganize certain aspects of our business under a strategic restructuring program. As a result we recognized estimated severance and other associated costs for affected employees of \$2.5 million and \$0.4 million in fiscal 2011 and the first quarter of fiscal 2012, respectively. We also recognized \$0.2 million in fixed asset write-off costs related to this restructuring program in fiscal 2011. We expect to recognize an additional \$1.8 million in related restructuring expense during the remainder of fiscal 2012, including \$0.5 million in severance and associated costs, \$0.9 million in facilities and contract termination costs, and \$0.4 million in fixed asset write-off costs. These expenses are being recognized in restructuring charges, net, in our condensed consolidated statements of operations.

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

	Severance	Facilities and contract termination costs	Fixed assets write-off	Other associated costs	Total
			(in thousands)		
Balance at September 30, 2011	\$ 2,250	\$ -	\$ -	\$ 120	\$ 2,370
Restructuring charges	302	-	-	66	368
Cash payments	(1,818)	-	-	(55)	(1,873)
Non-cash charges	5	-	-	1	6
<b>Balance at December 30, 2011</b>	<b>\$ 739</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 132</b>	<b>\$ 871</b>

## 7. Income Taxes

Our effective tax rate is based on a projection of our annual fiscal year results. Our effective tax rate was 22% and 29% for the first quarters of fiscal 2011 and fiscal 2012, respectively.

In the first quarter of fiscal 2011, we 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, thereby lowering our effective tax rate for that period. In the first quarter of fiscal 2012, the expiration of the federal research and development tax credits resulted in an increase to our effective tax rate. This increase was partially offset by a change in the State of California apportionment sourcing rules, which became effective in the first quarter of fiscal 2012.

As of December 30, 2011, the total amount of gross unrecognized tax benefits was \$12.6 million, of which \$6.6 million, if recognized, would impact our effective tax rate. Our liability for unrecognized tax benefits is classified within non-current liabilities in our condensed consolidated balance sheets.

*Withholding Tax.* We recognize licensing revenue gross of withholding taxes, which our licensees remit directly to their local tax authorities, and for which we receive a related foreign tax credit in our income tax provision. Withholding tax remittances were \$8.2 million and \$11.3 million in the first quarters of fiscal 2011 and fiscal 2012, respectively.

## 8. Legal Proceedings

We are involved in various legal proceedings from time to time arising from the normal course of business activities, including claims of alleged infringement of intellectual property rights, commercial, employment, and other matters. In our opinion, resolution of these proceedings is not expected to have a material adverse 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. There has been no material change in the status of legal proceedings since our fiscal year ended September 30, 2011.

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**9. Commitments and Contingencies**

The following table presents a summary of our contractual obligations and commitments as of December 30, 2011:

	Payments Due By Fiscal Period						Total
	Remainder of 2012	2013	2014	2015	2016	Thereafter	
	(in thousands)						
Operating leases (1)	\$ 7,066	\$ 9,036	\$ 8,011	\$ 5,685	\$ 4,637	\$ 4,872	\$ 39,307
Purchase obligations (2)	2,825	2,855	287	-	-	-	5,967
<b>Total</b>	<b>\$ 9,891</b>	<b>\$ 11,891</b>	<b>\$ 8,298</b>	<b>\$ 5,685</b>	<b>\$ 4,637</b>	<b>\$ 4,872</b>	<b>\$ 45,274</b>

- (1) Operating lease payments include future minimum rental commitments, including those payable to our principal stockholder, for non-cancelable operating leases of office space as of December 30, 2011.  
(2) Our purchase obligations consist of agreements to purchase goods and services, entered into in the ordinary course of business. These represent non-cancelable commitments for which a penalty would be imposed if the agreement was cancelled for any reason other than an event of default as described by the agreement.

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

**10. Stockholders' Equity**

***Common Stock Repurchase Program***

In November 2009 we announced a stock repurchase program, providing for the repurchase of up to \$250.0 million of our Class A common stock. Our board of directors approved an additional \$300.0 million for our stock repurchase program in July 2010 and an additional \$250.0 million in July 2011, for a total authorization of up to \$800.0 million in stock repurchases. Stock repurchases under this program may be made through open market transactions, negotiated purchases, or otherwise, at times and in amounts that we consider appropriate. The timing of repurchases and the number of shares repurchased depend upon a variety of factors including price, regulatory requirements, the rate of dilution from our equity compensation programs, and other market conditions. We may limit, suspend, or terminate the stock repurchase program at any time without prior notice. This program does not have a specified expiration date. Shares repurchased under the program will be returned to the status of authorized but unissued shares of Class A common stock. As of December 30, 2011, the remaining authorization to purchase additional shares is \$340.3 million.

Stock repurchase activity under the stock repurchase program during the first quarter of fiscal 2012 is summarized as follows:

	Shares Repurchased	Cost (in thousands) (1)	Average Price Paid per Share (2)
Repurchase activity for the fiscal quarter ended December 30, 2011	885,969	\$ 26,068	\$ 29.41
<b>Total</b>	<b>885,969</b>	<b>\$ 26,068</b>	

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

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**Comprehensive Income**

The components of comprehensive income were as follows:

	Fiscal Quarter Ended	
	December 31, 2010	December 30, 2011
	(in thousands)	
Net income including controlling interest	\$ 86,765	\$ 73,366
Other comprehensive income:		
Foreign currency translation adjustment, net of tax	941	(377)
Unrealized losses on available-for-sale securities, net of tax	(876)	(114)
Comprehensive income	86,830	72,875
Less: comprehensive income attributable to controlling interest	(212)	(141)
<b>Comprehensive income attributable to Dolby Laboratories, Inc.</b>	<b>\$ 86,618</b>	<b>\$ 72,734</b>

**Accumulated Other Comprehensive Income**

Accumulated other comprehensive income consists of the following:

	September 30, 2011	December 30, 2011
	(in thousands)	
Accumulated foreign currency translation gains, net of tax of (\$2,653) at September 30, 2011 and (\$3,036) at December 30, 2011	\$ 6,834	\$ 6,523
Accumulated unrealized gains on available-for-sale securities, net of tax of (\$387) at September 30, 2011 and (\$324) at December 30, 2011	699	585
<b>Total accumulated other comprehensive income</b>	<b>\$ 7,533</b>	<b>\$ 7,108</b>

**Controlling Interest**

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

	Dolby Laboratories, Inc.	Controlling Interest	Total
	(in thousands)		
<b>Balance at September 24, 2010</b>	<b>\$ 1,473,737</b>	<b>\$ 20,942</b>	<b>\$ 1,494,679</b>
Net income	86,387	378	86,765
Translation adjustments, net of taxes of (\$412)	1,107	(166)	941
Unrealized losses on available-for-sale securities, net of taxes of \$543	(876)	-	(876)
Stock-based compensation expense	11,125	-	11,125
Repurchase of common stock	(45,966)	-	(45,966)
Tax benefit from the exercise of stock options and vesting of restricted stock units	9,435	-	9,435
Common stock issued under employee stock plans, net of shares withheld for taxes	15,749	-	15,749
<b>Balance at December 31, 2010</b>	<b>\$ 1,550,698</b>	<b>\$ 21,154</b>	<b>\$ 1,571,852</b>

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	Dolby Laboratories, Inc.	Controlling Interest (in thousands)	Total
<b>Balance at September 30, 2011</b>	<b>\$ 1,663,513</b>	<b>\$ 21,837</b>	<b>\$ 1,685,350</b>
Net income	73,159	207	73,366
Translation adjustments, net of taxes of (\$383)	(311)	(66)	(377)
Unrealized losses on available-for-sale securities, net of taxes of \$63	(114)	-	(114)
Stock-based compensation expense	11,495	-	11,495
Repurchase of common stock	(26,068)	-	(26,068)
Tax benefit from the exercise of stock options and vesting of restricted stock units	(1,347)	-	(1,347)
Common stock issued under employee stock plans, net of shares withheld for taxes	1,783	-	1,783
<b>Balance at December 30, 2011</b>	<b>\$ 1,722,110</b>	<b>\$ 21,978</b>	<b>\$ 1,744,088</b>

**11. Earnings Per Share**

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

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

	Fiscal Quarter Ended	
	December 31, 2010	December 30, 2011
	(in thousands, except per share amounts)	
<b>Numerator:</b>		
Net income attributable to Dolby Laboratories, Inc.	\$ 86,387	\$ 73,159
<b>Denominator:</b>		
Weighted-average shares outstanding - basic	112,035	108,884
Potential common shares from options to purchase Class A and Class B common stock	1,388	382
Potential common shares from restricted stock units	290	177
Weighted-average shares outstanding - diluted	113,713	109,443
<b>Net income per share attributable to Dolby Laboratories, Inc. - basic</b>	<b>\$ 0.77</b>	<b>\$ 0.67</b>
<b>Net income per share attributable to Dolby Laboratories, Inc. - diluted</b>	<b>\$ 0.76</b>	<b>\$ 0.67</b>
Anti-dilutive options excluded from calculation	2,671	6,698
Anti-dilutive restricted stock units excluded from calculation	331	1,305

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis should be read in conjunction with our interim condensed consolidated financial statements and the related notes that appear elsewhere in this Quarterly Report on Form 10-Q. These discussions contain forward-looking statements reflecting our current expectations, which involve risks and uncertainties. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," or the negative of these terms or other comparable terminology. Forward-looking statements include, but are not limited to: statements regarding the extent and timing of future licensing, products, and services revenue levels and mix, expenses, margins, net income per diluted share, income taxes, tax benefits, acquisition costs and related amortization, and other elements of results of operations; our expectations regarding demand and acceptance for our technologies; growth opportunities and trends in the markets in which we operate; our plans, strategies, and expected opportunities; the deployment of and demand for our products and for products incorporating our technologies; and future competition. Actual results may differ materially from those discussed in these forward-looking statements due to a number of factors, including the risks set forth in Part II, Item 1A, "Risk Factors," of this Quarterly Report on Form 10-Q and elsewhere in this filing. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform our prior statements to new developments or actual results.*

### Overview

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

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

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

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

### Business Model

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

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We participate in the global entertainment industry in three principal ways:

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

We license our technologies to OEMs and software vendors in 46 countries, and our licensees distribute products incorporating our technologies throughout the world. We sell our products and provide services in approximately 80 countries. In fiscal 2010, 2011, and the first quarter of fiscal 2012, revenue from outside of the U.S. was 66%, 68%, and 69% of our total revenue, respectively. Geographic data for our licensing revenue is based on the location of our licensees' headquarters. Products revenue is based on the destination to which we ship our products, while services revenue is based on the location where services are performed.

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

Our licensing and 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. As described below, our licensing revenue is subject to uncertainties and trends relating to technology and market growth, as well as the mix of CE products sold that incorporate our technologies. Our licensing business also could be affected by adverse general economic conditions, because many of the products in which our technologies are incorporated are discretionary goods. Furthermore, our products business is subject to intense competition and uncertainties relating to the transition to 3D cinema and purchasing decisions by our cinema customers. Our product revenue is likely to continue to be materially affected if demand for our 3D products does not improve.

#### *Licensing*

Licensing revenue constitutes the majority of our total revenue, representing 77%, 83%, and 86% of total revenue in fiscal 2010, 2011, and the first quarter of fiscal 2012, respectively.

As consumers are presented with more options for receiving content, competition across delivery channels has intensified. We see this reflected in the composition of our licensing revenue, as driven by a shift away from optical disc based products. Optical disc based revenue is generated from the sale of technology solutions that enable DVD or Blu-ray Disc playback functionality. Optical disc based revenue includes the Windows 7 operating system, independent PC DVD software players, DVD, and Blu-ray Disc technologies included in consumer products. However, most of these products can receive content over mobile or online networks, as well as from optical discs, and we have increased our technology penetration into these other distribution channels. Non-optical disc based revenue is generated from the sale of technology solutions other than those used to enable DVD or Blu-ray Disc playback functionality. Non-optical disc based revenue includes licensing revenue derived from products such as TVs, set-top boxes, and mobile phones, as well as our post processing technologies on a range of devices. We remain focused on delivering the products, tools, and technologies needed to ensure a high quality audio experience from any device.

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

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

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

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

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

Our PC market represented approximately 36%, 30%, and 30% of our licensing revenue in fiscal 2010, 2011, and the first quarter of fiscal 2012, respectively. Our technologies are incorporated in the majority of PCs sold today, primarily because of the inclusion of DVD and Blu-ray Disc playback in the majority of PCs and the inclusion of Dolby technologies in the DVD and Blu-ray Disc standards.

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

Microsoft may not include our technologies in the commercial version of the Windows 8 operating system or future Microsoft operating systems. We are focused on supporting the playback of DVD, Blu-ray Disc, broadcast, and online content on PCs by licensing our technologies directly to PC OEMs. Given the anticipated release date of Windows 8, we would not expect any such change to have a material financial impact until fiscal 2013, as we expect that Microsoft will continue to license its Windows 7 operating systems with our technologies at

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least until the release of Windows 8. Beyond this, the financial impact would be uncertain and 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, continue to be licensed after the release of Windows 8;
- Our ability to establish and extend licensing relationships directly with PC OEMs and ISVs;
- The extent to which PC OEMs choose not to participate in our new licensing programs, install our software on fewer PCs, or adopt an aftermarket end-user installation model;
- The rate at which entertainment content shifts from optical disc media to online media, thus reducing the need for PCs to have optical disc drives and DVD and Blu-ray Disc software players;
- The extent to which, as a result of technology or market forces, we shift to licensing our technologies on a per-PC basis, rather than on a per-application basis under which we are able to collect multiple royalties per PC; and
- Our ability to extend the adoption of our technologies to online and mobile platforms.

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

- Purchasing trends away from traditional PCs and toward computing devices without optical disc, such as subnotebooks and tablets, which may not include our technologies;
- The availability and market attractiveness of PC software that includes our technologies on an unauthorized and infringing basis, for which we receive no royalty payments;
- The effects on PC shipments of any hard disk drive shortages due to the recent flooding in Thailand;
- 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
- Continued decreasing inclusion of ISV media applications by PC OEMs in their Windows 7-based PCs, as Windows 7 already incorporates DVD playback software.

Our broadcast market is driven by demand for our technologies in televisions and set-top boxes and represented approximately 27%, 31%, and 31% of our licensing revenue in fiscal 2010, 2011, and the first quarter of fiscal 2012, respectively. Higher attach rates in the first quarter of fiscal 2012 drove increased revenue from both televisions and set-top boxes, relative to the same period in the prior year. We view the broadcast market as an area for potential continued growth, primarily in geographic markets outside of the U.S. We also view broadcast services, such as terrestrial broadcast or IPTV services, which operate under bandwidth constraints, as another area of opportunity for Dolby Digital Plus, HE AAC, and Dolby Pulse. These technologies enable the delivery of high quality audio content at reduced bit rates, thereby conserving bandwidth. We may not, however, be able to extend our current success in the broadcast market to these new opportunities.

Our CE market is driven primarily by revenue attributable to sales of DVD and Blu-ray Disc players and recorders and represented approximately 22%, 21%, and 20% of licensing revenue in fiscal 2010, 2011, and the first quarter of fiscal 2012, respectively. Blu-ray Disc players continue to represent an important source of revenue within our CE market, as these players are required to include Dolby Digital technology for primary audio content and our Dolby Digital Plus technology for secondary audio content. In addition, our Dolby TrueHD technology is an optional audio standard for Blu-ray Disc. Sales of DVD players are declining, as a result of the maturity of the DVD platform and a shift to Blu-ray Disc players; however, our revenue from sales of Blu-ray Disc players in recent quarters has not offset this decline. In the first quarter of fiscal 2012, we continued to see reductions in reported units of DVD players incorporating our technologies, as well as a slowing growth rate in the market for Blu-ray Disc players.

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Revenue generated from our other markets includes revenue attributable to mobile, gaming, licensing services, and automotive, and represented approximately 15%, 18%, and 19% of licensing revenue in fiscal 2010, 2011, and the first quarter of fiscal 2012, respectively. Mobile revenue is primarily driven by demand for the Dolby Digital, Dolby Digital Plus, AAC, and HE AAC audio compression technologies incorporated into mobile devices, and by Dolby Mobile, our suite of post processing technologies optimized for mobile devices. We view the mobile device market as an area of opportunity for us to increase revenue; however, actual results may differ from our expectations. Revenue attributable to gaming and automotive is primarily driven by sales of video game consoles and in-car entertainment systems, respectively, that incorporate our Dolby Digital, AAC, Dolby Digital Plus, Dolby TrueHD, and ATRAC technologies. Licensing services revenue, from administration of joint licensing programs, is primarily driven by demand for standards-based audio compression technologies for broadcast, PC, CE, and mobile products.

Consumer entertainment products throughout the world incorporate our technologies. We expect that sales of such products incorporating our technologies in emerging economies such as Brazil, China, India, and Russia, will increase in the future as consumers in these markets acquire more disposable income with which to purchase entertainment products. However, events in these economies or in the world economy in general may contradict these expectations. Moreover, we expect that OEMs in lower-cost manufacturing countries, including China, will increase production in response to this demand and that traditional OEMs will continue to shift their manufacturing operations to these lower-cost manufacturing countries. There are substantial risks associated with doing business in such countries, including OEMs failing to report or underreporting shipments of products incorporating our technologies, that have affected and will continue to affect our operating results.

Revenue from Microsoft represented approximately 14% of our total revenue in the first quarter of fiscal 2012 and included licensing revenue from our PC, CE, and other markets.

We are monitoring the effects of the recent flooding in Thailand to determine any potential risks of disruption that would adversely affect our operating results. While we do not expect the catastrophe to have a material adverse effect on our financial position or results of operations, the impact on our licensees' global supply chains is uncertain.

### ***Products***

Products revenue is driven primarily by sales of equipment to cinema operators and broadcasters and represented 20%, 14%, and 11% of our total revenue in fiscal 2010, 2011, and the first quarter of fiscal 2012, respectively.

Our cinema products represented approximately 90%, 87%, and 84% of total products revenue in fiscal 2010, 2011, and the first quarter of fiscal 2012, respectively. Sales of our cinema products tend to fluctuate based on underlying trends in the cinema industry, including the popularity of individual movies, as cinema owners often purchase equipment to meet expected box office demand.

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

Digital cinema standards are defined by the Digital Cinema Initiative ("DCI") specifications, and the software for our currently available digital cinema server does not comply with the current DCI specifications. We have developed DCI compliant software upgrades, which we expect will be commercially available during 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 would obligate us to make available products that comply with the current DCI specifications within a certain period of time.

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Several of our competitors have introduced digital cinema products that support the playback of high frame rate content and also support presentation of movies with higher resolution “4K” digital cinema projectors. We currently do not offer this type of digital cinema solution, which may be required by exhibitors in order to present certain major cinema releases. If we are unable to provide such a solution with a market competitive feature set and price, our future prospects in the digital cinema market may be limited, and our results of operations could be adversely affected.

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

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

Our broadcast products represented approximately 9%, 10%, and 13% of products revenue in fiscal 2010, 2011, and the first quarter of fiscal 2012, respectively. Our broadcast products are used to encode, transmit, and decode multiple channels of high quality audio content for DTV and HDTV program production and broadcast distribution and to measure the subjective loudness of audio content within broadcast programming.

In fiscal 2011 we began selling our Professional Reference Monitor product, a flat-panel video reference display for video professionals. These video 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 enhance contrast and extend brightness and dynamic range, while reducing power consumption in LED backlit LCD televisions. We do not anticipate generating significant revenue from this product in fiscal 2012.

### *Services*

Services revenue represented approximately 3% of total revenue in each of fiscal 2010, 2011, and the first quarter of fiscal 2012. The level of our services revenue is primarily tied to activity in the cinema industry, and in particular, to the number of movies being produced and distributed by studios and independent filmmakers. Several factors influence the number of movies produced in a given fiscal period, including strikes and work stoppages within the cinema industry, as well as tax incentive arrangements provided by many governments to promote local filmmaking.

### **Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations are based on our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. (“GAAP”), and pursuant to Securities and Exchange Commission (“SEC”) rules and regulations. GAAP and SEC rules and regulations require us to use accounting policies and make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies as of the date of the financial statements, and the reported amounts of revenue and expenses during a fiscal period. The SEC considers an accounting policy, or estimate, to be critical if it is both important to a company’s financial condition and/or results of operations and requires significant judgment on the part of management in its application. On a regular basis, we evaluate our assumptions, 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 from those described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. 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 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 Part II, Item 1A “*Risk Factors*” for further information on the potential risks to our future results of operations.

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### ***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 both probable and within our control. When these criteria are not met, the delivered and undelivered elements are combined and the arrangement fees are allocated to this combined single unit.

If the unit separation criteria are met, we account for each element within a ME arrangement (such as hardware, software, maintenance, and other services) separately, and we allocate fees from the arrangement based on the relative selling price of each element. For some arrangements, customers receive certain elements over a period of time, after delivery of the initial product. These elements may include support and maintenance and/or the right to receive upgrades. Revenue allocated to the undelivered element is recognized either over its estimated service period or when the upgrade is delivered. We do not recognize revenue that is contingent upon the future delivery of products or services or upon future performance obligations. We recognize revenue for delivered elements only when we have completed all contractual obligations.

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 containing both software and hardware, we allocate the arrangement fees 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 account for the majority of our digital cinema server sales as ME arrangements that may include up to three separate units, or elements, of accounting. The first element consists of our digital cinema server hardware and the accompanying software, which is essential to the functionality of the hardware. This element is typically delivered at the time of sale. The second element is the right to receive support and maintenance, which is included with the purchase of the hardware element and is typically delivered over a service period subsequent to the initial sale. The third element is the right to receive specified upgrades, which is included with the purchase of the hardware element and is typically delivered when a specified upgrade is available, subsequent to the initial sale. The application of the revenue accounting standards to our digital cinema server sales typically results in the allocation of a substantial

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majority of the arrangement fees to the delivered hardware element based on its ESP, relative to the VSOE or ESP of the other elements, which we recognize as revenue at the time of sale. A small portion of the arrangement fees are allocated to the undelivered support and maintenance element, and in some cases to the undelivered specified upgrade element, based on the VSOE or ESP of each element. The portion of the arrangement fees allocated to the support and maintenance element is recognized as revenue ratably over the estimated service period and the portion of the arrangement fees allocated to specified upgrades is recognized as revenue upon delivery of the upgrade.

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

We 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 the 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. At the time of our annual goodwill impairment test for fiscal 2011, we had two reporting units: Via, which corresponds to our wholly owned subsidiary and has no assigned goodwill, and Dolby Entertainment Technology ("DET"), with goodwill of \$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. Our market capitalization at the time of our fiscal 2011 goodwill impairment test was approximately \$4.8 billion, which exceeded the aggregate carrying value of our reporting units by approximately 190%. There have been no events or changes in circumstances to indicate a reduction in the fair value of a reporting unit below its carrying value since our last annual goodwill impairment test.

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

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

### ***Accounting for Income Taxes***

We make estimates and judgments that affect our accounting for income taxes, including estimates of actual tax exposure and assessment of temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences, including the timing of the recognition of stock-based compensation expense, result in deferred tax assets and liabilities, which are included in our condensed consolidated balance sheets. We assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent that we believe 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

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unrecognized tax benefits within our provision for income taxes. When accrued interest and penalties do not ultimately become payable, amounts accrued are reduced in the period that such determination is made and are reflected as a reduction of the overall income tax provision.

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

### ***Valuation and Classification of Investments***

Fair value is the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants at the measurement date.

We classify our financial assets and liabilities measured at fair value using a three-level hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that reflect the assumptions market participants would use in pricing the investment that are based on market data obtained from sources independent of the reporting entity, such as market quoted prices. GAAP establishes a three-level hierarchy prioritizing the inputs used in measuring fair value as follows: the fair value hierarchy gives the highest priority to quoted prices in active markets that are accessible by us at the measurement date for identical investments, described as Level 1, and the lowest priority to valuation techniques using unobservable inputs, described as Level 3. We obtain the fair value of our Level 2 financial instruments from a professional pricing service, which may use quoted market prices for identical or comparable instruments. Fair value from this professional pricing source can also be based on pricing models whereby all significant inputs, including maturity dates, issue dates, settlement dates, benchmark yields, reported trades, broker-dealer quotes, issuer spreads, benchmark securities, bids, offers, and other market related data, are observable or can be derived from or corroborated by observable market data for substantially the full term of the asset.

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

### ***Stock-Based Compensation***

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

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**Results of Operations**

**Revenue**

	Fiscal Quarter Ended		Change	
	December 31, 2010	December 30, 2011	\$	%
	(\$ in thousands)			
Licensing	\$ 188,176	\$ 199,624	\$ 11,448	6%
<i>Percentage of total revenue</i>	78%	86%		
Products	46,027	26,400	(19,627)	(43%)
<i>Percentage of total revenue</i>	19%	11%		
Services	8,509	7,354	(1,155)	(14%)
<i>Percentage of total revenue</i>	3%	3%		
<b>Total revenue</b>	<b>\$ 242,712</b>	<b>\$ 233,378</b>	<b>\$ (9,334)</b>	<b>(4%)</b>

*Licensing.* The 6% increase in licensing revenue from the first quarter of fiscal 2011 to the first quarter of fiscal 2012 was primarily driven by increases in revenue from our broadcast and other markets, partially offset by a decrease in our CE market. The increase in revenue from our broadcast market was primarily driven by higher shipments in the first quarter of fiscal 2012 of digital set-top boxes and televisions that incorporate our technologies. The increase in revenue from our other markets was primarily driven by increased sales of mobile devices incorporating our Dolby Digital and Dolby Digital Plus technologies. The decrease in revenue from our CE market was primarily driven by lower reported units of standard DVD players.

*Products.* The 43% decrease in products revenue from the first quarter of fiscal 2011 to the first quarter of fiscal 2012 was primarily driven by a decrease in revenue from our 3D products, and to a lesser extent, by decreases in revenue from our digital cinema video and traditional cinema audio products. Decreased 3D products revenue in the first quarter of fiscal 2012 resulted from lower unit shipments and reduced pricing, in response to increased competition. Decreases in our digital cinema video products revenue in the first quarter of fiscal 2012 resulted primarily from lower unit shipments, and to a lesser extent, reduced pricing.

*Services.* The 14% decrease in services revenue from the first quarter of fiscal 2011 to the first quarter of fiscal 2012 was primarily attributable to a decrease in virtual print fees, which were generated from certain leased digital cinema assets, as we discontinued this program in fiscal 2011.

**Gross Margin**

	Fiscal Quarter Ended	
	December 31, 2010	December 30, 2011
	(\$ in thousands)	
Cost of licensing	\$ 3,961	\$ 3,328
<i>Licensing gross margin percentage</i>	98%	98%
Cost of products	22,198	13,888
<i>Products gross margin percentage</i>	52%	47%
Cost of services	2,980	3,194
<i>Services gross margin percentage</i>	65%	57%
<b>Total gross margin percentage</b>	<b>88%</b>	<b>91%</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 essentially unchanged from the first quarter of fiscal 2011 to the first quarter of fiscal 2012.

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*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 five points in the first quarter of fiscal 2012 when compared to the first quarter of fiscal 2011. This decrease is primarily due to price reductions for 3D and digital cinema video products, in response to increased competition, partially offset by cost reductions across a range of products. The cost reductions were driven, in part, by increased contract manufacturing efficiencies.

*Services Gross Margin.* Cost of services primarily consists of compensation and benefits expenses for employees performing our professional services and the cost of outside consultants. Services gross margin decreased eight points in the first quarter of fiscal 2012 when compared to the first quarter of fiscal 2011 due to product mix, driven by the decrease in virtual print fees, which had relatively higher gross margins.

### Operating Expenses

	Fiscal Quarter Ended		Change	
	December 31, 2010	December 30, 2011	\$	%
	(\$ in thousands)			
Research and development	\$ 28,327	\$ 32,826	\$ 4,499	16%
<i>Percentage of total revenue</i>	12%	14%		
Sales and marketing	38,217	43,016	4,799	13%
<i>Percentage of total revenue</i>	16%	18%		
General and administrative	37,042	35,465	(1,577)	(4%)
<i>Percentage of total revenue</i>	15%	15%		
Restructuring charges, net	785	368	(417)	(53%)
<i>Percentage of total revenue</i>	n/a	n/a		
	<b>\$ 104,371</b>	<b>\$ 111,675</b>	<b>\$ 7,304</b>	<b>7%</b>

The fiscal periods presented herein include the 14 week period ended December 31, 2010, and the 13 week period ended December 30, 2011.

*Research and Development.* Research and development expenses consist primarily of employee compensation and benefits expenses, including stock-based compensation, consulting and contract labor costs, depreciation and amortization expenses, facilities costs, and information technology expenses. The 16% increase in research and development expenses from the first quarter of fiscal 2011 to the first quarter of fiscal 2012 was primarily driven by increases in compensation and benefits expenses, related to increased headcount, as well as higher facilities costs, resulting from worldwide expansion.

*Sales and Marketing.* Sales and marketing expenses consist primarily of employee compensation and benefits expenses, including stock-based compensation, marketing and promotional expenses, travel-related expenses for our sales and marketing functions, facilities costs, and depreciation and amortization expenses. Sales and marketing expenses increased 13% from the first quarter of fiscal 2011 to the first quarter of fiscal 2012, primarily driven by increases in compensation and benefits expenses, related to increased headcount, as well as higher facilities costs, resulting from worldwide expansion and support for higher headcount.

*General and Administrative.* General and administrative expenses consist primarily of employee compensation and benefits expenses, including stock-based compensation, depreciation of property, plant and equipment, information technology expenses, and facilities costs. The 4% decrease in general and administrative expenses from the first quarter of fiscal 2011 to the first quarter of fiscal 2012 was primarily due to a decrease in consulting and contract labor costs. In addition, stock-based compensation expenses decreased in the first quarter of fiscal 2012, due to recognition in the first quarter of fiscal 2011 of expense upon the accelerated vesting of equity awards granted to a former employee under a separation agreement. These decreases in the first quarter of fiscal 2012 were partially offset by increases in professional fees and depreciation expenses.

*Restructuring Charges, net.* Restructuring charges for the first quarter of fiscal 2012 include severance and other associated costs attributable to the strategic restructuring program we initiated in the fourth quarter of fiscal 2011. For additional details, see Note 6 "Restructuring" to our condensed consolidated financial statements.

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***Other Income, Net***

	Fiscal Quarter Ended		Change	
	December 31, 2010	December 30, 2011	\$	%
	(\$ in thousands)			
Interest income	\$ 1,614	\$ 1,737	\$ 123	8%
Interest expense	(283)	(26)	257	91%
Other income, net	533	200	(333)	(62%)
<b>Total other income, net</b>	<b>\$ 1,864</b>	<b>\$ 1,911</b>	<b>\$ 47</b>	<b>3%</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.

***Income Taxes***

	Fiscal Quarter Ended	
	December 31, 2010	December 30, 2011
	(\$ in thousands)	
Provision for income taxes	\$ 24,301	\$ 29,838
<i>Effective tax rate</i>	22%	29%

Our effective tax rate is based on a projection of our annual fiscal year results. Our effective tax rate was 22% and 29% for the first quarters of fiscal 2011 and fiscal 2012, respectively.

In the first quarter of fiscal 2011, we 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, thereby lowering our effective tax rate for that period. In the first quarter of fiscal 2012, the expiration of the federal research and development tax credits resulted in an increase to our effective tax rate. This increase was partially offset by a change in the State of California apportionment sourcing rules, which became effective in the first quarter of fiscal 2012.

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### Liquidity, Capital Resources, and Financial Condition

	September 30, 2011	December 30, 2011
	(in thousands)	
Cash and cash equivalents	\$ 551,512	\$ 654,414
Short-term investments	391,281	367,412
Long-term investments	272,797	247,273
Accounts receivable, net	61,815	54,211
Accounts payable and accrued liabilities	127,922	106,558
Working capital <sup>(a)</sup>	999,213	1,079,418
	December 31, 2010	December 30, 2011
	(in thousands)	
Net cash provided by operating activities	\$ 70,652	\$ 95,792
Capital expenditures <sup>(b)</sup>	(9,646)	(12,566)
Repurchase of common stock	(45,966)	(26,068)
Net cash provided by/(used in) investing activities	(162,210)	31,601
Net cash used in financing activities	(20,831)	(24,228)

<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 operations. We believe that our cash, cash equivalents, and potential cash flows from operations will be sufficient to satisfy our currently anticipated cash requirements through at least the next 12 months.

We have historically generated significant cash from our operations; however, there can be no assurance that our operations will continue to generate significant cash flows in the future. We retain sufficient cash holdings to support our operations and we also purchase investment grade securities diversified among security types, industries, and issuers. We have used cash generated from our operations to fund a variety of activities related to our business in addition to our ongoing operations, including business expansion and growth, acquisitions, and repurchases of our common stock. Cash provided by operations and the value of our investment portfolio could also be affected by various risks and uncertainties, as described in Part II, Item 1A "Risk Factors."

Net cash provided by operating activities during the first quarter of fiscal 2012 increased \$25.1 million when compared to the first quarter of fiscal 2011, primarily due to the following:

- A decrease in the balance of accounts receivable, due to lower revenue and an increase in collection of outstanding customer balances; and
- A decrease in excess tax benefit from exercise of stock options; offset by
- A decrease in net income; and
- An increase in inventories, in support of anticipated future products sales.

Net cash provided by investing activities during the first quarter of fiscal 2012 increased \$193.8 million when compared to the first quarter of fiscal 2011, primarily due to the following:

- A decrease in purchases of available-for-sale securities; offset by
- A decrease in proceeds from the sale of available-for-sale securities.

Net cash used in financing activities during the first quarter of fiscal 2012 increased \$3.4 million when compared to the first quarter of fiscal 2011, primarily due to the following:

- A decrease in net proceeds from the exercise of stock options and the related tax benefit; offset by

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- A decrease in share repurchases of our Class A common stock.

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

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

There has been no material change in our contractual obligations other than in the ordinary course of business since our fiscal year ended September 30, 2011. See our Annual Report on Form 10-K for the fiscal year ended September 30, 2011 for additional information regarding our contractual obligations.

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

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

We had cash, cash equivalents, and marketable securities totaling approximately \$1.3 billion at December 30, 2011. This amount was invested primarily in money market funds, corporate notes and bonds, municipal debt securities, and U.S. agency securities. Our investment policy and strategy are focused on the preservation of capital and on supporting our liquidity requirements. We do not enter into investments for trading or speculative purposes, nor do we use leveraged financial instruments. Our holdings of cash and cash equivalents and marketable securities, the majority of which are managed by external managers, meet the guidelines of our investment policy. We invest in highly rated securities with a minimum credit rating of A- and our policy limits the amount of credit exposure to any one issuer other than the U.S. government. At December 30, 2011, our weighted-average portfolio credit quality was AA- and the weighted-average duration of our investment portfolio was less than one year.

Our fixed-income portfolio is subject to fluctuations in interest rates, which could affect our results of operations. Based on our investment portfolio balance as of December 30, 2011, a hypothetical change in interest rates of 1% would have approximately a \$5.1 million impact, and a change of 0.5% would have approximately a \$2.6 million impact on the carrying value of our portfolio.

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

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

We enter into foreign currency forward contracts to hedge against assets and liabilities for which we have foreign currency exchange rate exposure, in an effort to reduce the risk that our earnings will be adversely affected by foreign currency exchange rate fluctuations. These derivative instruments are carried at fair value with changes in the fair value recorded to other income, net in our condensed consolidated statements of operations. Our foreign currency forward contracts which are not designated as hedging instruments are used to reduce the exchange rate risk associated primarily with intercompany receivables and payables. These contracts do not subject us to material balance sheet risk due to exchange rate movements because gains and losses on these derivatives are intended to offset gains and losses on the related receivables and payables for which we have foreign currency exchange rate exposure. As of December 30, 2011, the outstanding balance sheet derivative instruments had maturities of 30 days or less.

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A sensitivity analysis was performed on all of our foreign currency forward contracts as of December 30, 2011. This sensitivity analysis was based on a modeling technique that measures the hypothetical market value resulting from a 10% shift in the value of exchange rates relative to the U.S. dollar. For these forward contracts, duration modeling was used where hypothetical changes are made to the spot rates of the currency. A 10% increase in the value of the U.S. dollar would lead to an increase in the fair value of our financial instruments by \$0.4 million. Conversely, a 10% decrease in the value of the U.S. dollar would result in a decrease in the fair value of these financial instruments by \$0.4 million.

## ITEM 4. CONTROLS AND PROCEDURES

### **Evaluation of Disclosure Controls and Procedures**

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

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

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

There were no changes in our internal control over financial reporting during the fiscal quarter ended December 30, 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 77%, 83%, and 86% in fiscal 2010, 2011, and the first quarter of fiscal 2012, respectively. We do not manufacture consumer entertainment products ourselves and we depend on licensees and customers, including software vendors and original equipment manufacturers (“OEM”), to incorporate our technologies into their products.

Although we have license agreements with many of these companies, these agreements 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 are monitoring the effects of the recent flooding in Thailand to determine any potential risks of disruption that would adversely affect our operating results. While we do not expect the catastrophe to have a material adverse effect on our financial position or results of operations, the impact on our licensees’ global supply chains is 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 on computers, through operating systems, independent software vendors (“ISV”) media applications, or otherwise, and the terms of any royalties or other payments we receive from licensors of such software. 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:

- Purchasing trends away from traditional PCs and toward computing devices without optical disc, such as subnotebooks and tablets, which may not include our technologies;
- The availability and market attractiveness of PC software that includes our technologies on an unauthorized and infringing basis, for which we receive no royalty payments;
- The effects on PC shipments of any hard disk drive shortages due to the recent flooding in Thailand;
- 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
- Continued decreasing inclusion of ISV media applications by PC OEMs in their Windows 7-based PCs, as Windows 7 already incorporates DVD playback software.

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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, continue to be licensed after the release of Windows 8;
- Our ability to establish and extend licensing relationships directly with PC OEMs and ISVs;
- The extent to which PC OEMs choose not to participate in our new licensing programs, install our software on fewer PCs, or adopt an aftermarket end-user installation model;
- The rate at which entertainment content shifts from optical disc media to online media, thus reducing the need for PCs to have optical disc drives and DVD and Blu-ray Disc software players;
- The extent to which, as a result of technology or market forces, we shift to licensing our technologies on a per-PC basis, rather than on a per-application basis under which we are able to collect multiple royalties per PC; and
- Our ability to extend the adoption of our technologies to online and mobile platforms and devices.
- Any of these risks could adversely affect our licensing revenue.

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

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

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

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

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

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

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

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

The markets for our technologies and products are defined by:

- Rapid technological change;
- New and improved technology and product introductions;
- Changing consumer and licensee demands;

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- 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 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;
- As the industry transition to 3D enabled screens becomes substantially complete, demand for new 3D enabled screens will drop significantly and the industry will enter into a replacement cycle;
- Industry participants may perceive our up-front 3D equipment costs and reusable glasses business model or our 3D products as less attractive;
- Our participation in the 3D cinema market will be limited to the extent theaters do not convert from analog to digital cinema;
- Demand for our 3D cinema products is driven by the number of 3D cinema releases and the commercial success of those releases;
- Our 3D glasses could become subject to regulation in the U.S. and other countries in the future, which could restrict how our 3D glasses are manufactured, used, or marketed; and
- There has been increased public scrutiny of potential health risks relating to viewing 3D movies. If these potential health risks are substantiated, the popularity of 3D movies could decline. In addition, if health risks associated with our 3D products materialize, we may become subject to government regulation or product liability claims, including personal injury claims.

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

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

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

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

Our services revenue, both in the U.S. and internationally, is tied to the number of movies being produced and distributed by studios and independent filmmakers. A number of factors can affect the number of movies that are produced, including strikes and work stoppages within the cinema industry, as well as tax incentive arrangements provided by many governments to promote local filmmaking.

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### **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.

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

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

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

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

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

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

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

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

We generate licensing revenue primarily from OEMs and software vendors who license our technologies and incorporate those technologies in their products. Our license agreements generally obligate our licensees to pay us a specified royalty for every product they ship that incorporates our technologies, and we rely on our licensees to

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accurately report their shipments. However, we have difficulty independently determining whether or not our licensees are reporting shipments accurately, particularly with respect to software incorporating our technologies because unauthorized copies of such software can be made relatively easily. Most of our license agreements permit us to audit our licensees' records, but audits are generally expensive, time consuming, and potentially detrimental to our ongoing business relationships with our licensees.

In the past, licensees, particularly in emerging economies, such as China, have understated or failed to report the number of products incorporating our technologies that they shipped, and we have not been able to collect and recognize revenue to which we were entitled. We expect that we will continue to experience understatement and non-reporting of royalties by our licensees, which could adversely affect our operating results. Conversely, to the extent that our licensees overstate the number of products incorporating our technologies, or report the products under the wrong categories, corrections of prior reports could result in reductions of royalty revenue in subsequent periods, which could also adversely affect our operating results.

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

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

A successful challenge by a third party could result in the termination of a license agreement or increase the amount of royalties we have to pay to the third party, which would decrease our gross margin and adversely affect our operating results.

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

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

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

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

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

The entertainment industry depends upon industry standards to ensure compatibility across delivery platforms and a wide variety of consumer entertainment products. Accordingly, we make significant efforts to design our products and technologies to address capability, quality, and cost considerations so that they either meet, or, more importantly, are adopted as, industry standards across the broad range of entertainment industry markets in which we participate, as well as the markets in which we hope to compete in the future. To have our products and technologies adopted as industry standards, we must convince a broad spectrum of standards-setting organizations throughout the world, as well as our major customers and licensees who are members of such organizations, to adopt

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them as such and to ensure that other industry standards are consistent with our products and technologies. If our technologies are not adopted or do not remain as industry standards, our business, operating results, and prospects could be materially and adversely affected.

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

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

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

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

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

**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 December 30, 2011, we had nearly 2,500 individual issued patents and over 2,300 pending patent applications in over 90 jurisdictions throughout the world. Our issued patents are scheduled to expire at various times through October 2030. Of these, 52 patents are scheduled to expire in calendar year 2012, 30 patents are scheduled to expire in calendar year 2013 and 91 patents are scheduled to expire in calendar year 2014. 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, Monster Cable Products, Philips, RealNetworks, Sony, SRS Labs, Technicolor, and Waves Audio. Competitors for our products include: Barco, Doremi, GDC, IMAX, MasterImage 3D, NEC, Panavision, QSC Audio Products, Qube Cinema, REALD, Rovi, Sony, Technicolor, USL,

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and XpanD. Competitors for our services include DTS and Sony. Consumers may perceive the quality of the audio experience produced by some of our competitors' technologies to be equivalent or superior to the audio experience produced by our technologies. Other companies may become competitors in one or more of these areas in the future.

Additionally, some of our current or future competitors may have significantly greater financial, technical, marketing, and other resources than we do, or may have more experience or advantages in the markets in which they compete, particularly in the market for online media content. These competitors may also be able to offer integrated system solutions in markets for sound or non-sound entertainment technologies on a royalty-free basis or at a lower price than our technologies, including audio, video, and rights management technologies related to PCs or the Internet, which could make competing technologies that we develop unnecessary.

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

Maintaining and strengthening the Dolby brand is critical to maintaining and expanding our licensing, products, and services business, as well as to our ability to enter new markets for our sound and other technologies. Our continued success depends, in part, on our reputation for providing high quality technologies, products, and services across a wide range of entertainment markets, including the 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. We expect to face increased royalty pricing pressure for our technologies as we seek to drive the adoption of our technologies into online content and portable devices, such as tablets and smart phones. Retail prices for consumer entertainment products that include our sound technologies, such as DVD players and home theater systems, have decreased significantly, and we expect prices to decrease for the foreseeable future. In response, OEMs have sought to reduce their product costs, which can result in downward pressure on the licensing fees we charge our customers who incorporate our technologies into the consumer entertainment products that they sell. Furthermore, while we have contractual rights with many of our licensees for cost of living adjustments to our royalty rights, we may not be able to negotiate those terms in our contracts with existing and new licensees. Additionally, downward cost of living adjustments would result in declines in the licensing fees that we charge. A decline in, or the modification or loss of the contractual right to increase, the licensing fees we charge could materially and adversely affect our operating results.

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

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

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

In some instances, we have contractually agreed to provide indemnifications to licensees relating to our intellectual property. Additionally, at times in the past, we have chosen to defend our licensees from third-party intellectual property infringement claims even where such defense was not contractually required, and we may

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choose to take on such defense in the future. Any of these results could harm our brand, our operating results, and our financial condition.

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

At times, we are engaged in disputes regarding the licensing of our intellectual property rights, including matters related to our royalty rates and other terms of our licensing arrangements. These types of disputes can be asserted by our customers or prospective customers or by other third parties as part of negotiations with us or in private actions seeking monetary damages or injunctive relief, or in regulatory actions. In the past, licensees have threatened to initiate litigation against us 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 high frame rate content or 4K presentation;
- If we encounter delays in the development of our 4K digital cinema or high frame rate content solutions or if we are unable to provide solutions at a market competitive price, our future prospects in the digital cinema market may be limited;
- 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;
- Delays in commercial availability of our server software that complies 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;
- If cinema owners do purchase our digital cinema products, they may require contractual provisions that would obligate us to make available products that comply with the current DCI specifications within a certain period of time;
- If Dolby cinema systems sold prospectively are not in compliance with current DCI specifications within that period of time, we may become obligated to the cinema owners, some of whom are existing customers, to replace the non-compliant systems with compliant systems; and
- As the industry transition to digital cinema becomes substantially complete, the demand for new digital cinema screens will drop significantly and the industry will enter into a replacement cycle.

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

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

We have evaluated, and expect to continue to evaluate, a wide array of possible strategic transactions, including acquisitions. We consider these types of transactions in connection with 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;

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- Cultural and logistical challenges associated with integrating employees from acquired businesses into our organization;
- 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.

### **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 2010, 2011, and the first quarter of fiscal 2012, revenue from outside the U.S. was 66%, 68%, and 69% of our total revenue, respectively. We expect that international and export sales will continue to represent a substantial portion of our revenue for the foreseeable future. This future revenue will depend to a large extent on the continued use and expansion of our technologies in entertainment industries worldwide.

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

- Our ability to enforce our contractual and intellectual property rights, especially in those foreign countries that do not recognize and enforce intellectual property rights to the same extent as do the U.S., Japan, and European countries, which increases the risk of unauthorized, and uncompensated, use of our technologies;
- U.S. and foreign government trade restrictions, including those which may impose restrictions on importation of programming, technology, or components to or from the U.S.;
- Our ability to comply with applicable international laws and regulations governing our business and operations, including local consumer and safety laws, as well as license requirements;
- Foreign government taxes, regulations, and permit requirements, including foreign taxes that we may not be able to offset against taxes imposed upon us in the U.S., and other laws limiting our ability to repatriate funds to the U.S.;
- Burdens of complying with a variety of foreign laws;
- Changes in diplomatic and trade relationships;

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- Difficulty in establishing, staffing, and managing foreign operations;
- Adverse fluctuations in foreign currency exchange rates and interest rates, including risks related to any interest rate swap or other hedging activities we undertake;
- Political or social instability, natural disasters, war or events of terrorism; and
- The strength of international economies.

In 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 stock, the nature of other investment or strategic opportunities presented to us from time to time, the rate of dilution of our equity compensation programs, our ability to make appropriate, timely, and beneficial decisions as to when, how, and whether to purchase shares under the stock repurchase program, and the availability of funds necessary to continue purchasing stock. If we curtail our repurchase program, our stock price may be negatively affected.

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

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

- Fluctuations in demand for our products and for the digital entertainment products of our licensees;
- Adverse developments in general economic conditions;

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- 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.

### **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

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- 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 77%, 83%, and 86% of our total revenue in the fiscal years 2010, 2011, and the first quarter of fiscal 2012, respectively. Effective intellectual property rights protection, however, may not be available under the laws of every country in which our products and services and those of our licensees are distributed. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete.

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

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

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

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

### **We face competition from other audio formats.**

We believe that the success we have had licensing our surround sound technologies to system licensees is due, in part, to the strength of our brand and the perception that our technologies provide a high quality solution for

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

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

Our reliance on outside suppliers for some of the key materials and components we use in manufacturing our products involves risks, including limited control over the price, timely delivery, and quality of such components. We have no formal agreements in place with our suppliers for the continued supply of materials and components. Although we have identified alternate suppliers for most of our key materials and components, any required changes in our suppliers could cause material delays in our production operations and increase our production costs. In addition, at times our suppliers have not been, and in the future may not be, able to meet our production demands as to volume, quality, or timeliness.

Moreover, we rely on sole source suppliers for some of the components that we use to manufacture our products, including specific charged coupled devices, light emitting diodes, and digital signal processors. These sole source suppliers may become unable or unwilling to deliver these components to us at an acceptable cost or at all, which could force us to redesign those specific products.

Our inability to obtain timely delivery of key components of acceptable quality, any significant increases in the prices of components, or the redesign of our products could result in material production delays, increased costs, and reductions in shipments of our products, any of which could increase our operating costs, harm our customer relationships, or materially and adversely affect our business and operating results.

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

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

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

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

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### **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 13% of total revenue for fiscal 2011. Although we have agreements with many of these customers, these agreements typically do not require any minimum purchases or minimum royalty fees and do not prohibit customers from purchasing products and services from competitors. A decision by any of our major customers or licensees not to use our technologies, or their failure or inability to pay amounts owed to us in a timely manner, or at all, whether due to strategic redirections or adverse changes in their businesses or for other reasons, could have a significant adverse effect on our operating results.

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

Some of our operations use substances regulated under various federal, state, local, and international laws governing the environment, including those governing the discharge of pollutants into the air and water, the management, disposal, and labeling of hazardous substances and wastes, and the cleanup of contaminated sites. We could incur costs, fines, and civil or criminal sanctions, third party property damage or personal injury claims, or could be required to incur substantial investigation or remediation costs, if we were to violate or become liable under environmental laws. Liability under environmental laws can be joint and several and without regard to comparative fault. The ultimate costs under environmental laws and the timing of these costs are difficult to predict.

### **New environmental laws and regulations could impact our operating results.**

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

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

We face increasing complexity in our product design as we adjust to new and future requirements relating to the materials composition of our products. For example, we redesigned our products 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

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investments are subject to general credit, liquidity, and interest rate risks. Any downgrades, losses, or other significant deterioration in the fair value of our cash, cash equivalents, or investments could negatively impact our investments or our ability to meet our investment objectives. Such negative impact, should it arise, could require an impairment charge, which would adversely impact our financial results.

### **We face risks associated with international trade and currency exchange.**

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

### **We rely on distributors that we do not control.**

We rely significantly on a global network of independent, regional distributors to market and distribute our cinema and broadcast products. Our distributor arrangements are non-exclusive and our distributors are not obligated to buy our products and can represent competing products. The loss of a major distributor or the inability or unwillingness of our distributors to dedicate the resources necessary to promote our portfolio of products could adversely affect our revenue. Furthermore, our distributors could retain product channel inventory levels that exceed future anticipated sales, which could adversely affect future sales to those distributors. In addition, failures of our distributors to adhere to our policies or other ethical practices could adversely affect us. For example, while we have implemented policies designed to promote compliance with the Foreign Corrupt Practices Act, export controls, and local laws, we do not have direct control over the business and risk management policies adopted by our distributors, and they could act contrary to our policies.

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

At December 30, 2011, Ray Dolby and his affiliates owned 100 shares of our Class A common stock and 57,144,000 shares of our Class B common stock. As of December 30, 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 91.5% 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

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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 of 1933, as amended (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 December 30, 2011, we had a total of 108,702,219 shares of Class A and Class B common stock outstanding. Of these shares, 31,625,000 shares of Class A common stock were sold in our initial public offering by us and the selling stockholders, and an additional 8,000,000 shares of Class A common stock were sold in a secondary offering in May 2007 by our principal stockholder.

As of December 30, 2011, our directors and executive officers beneficially held 57,154,000 shares of Class B common stock, 94,929 shares of Class A common stock, vested options to purchase 30,000 shares of Class B common stock and vested options to purchase 657,266 shares of Class A common stock. We expect that any sale of our Class A common stock by our directors and executive officers would be subject to compliance with Rule 144 under the Securities Act.

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

### **Sales of Unregistered Securities**

In the fiscal quarter ended December 30, 2011, we issued an aggregate of 12,262 shares of our Class B common stock to certain employees, officers, and directors upon the exercise of options awarded under our 2000 Stock Incentive Plan. We received aggregate proceeds of less than \$0.1 million in the fiscal quarter ended December 30, 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 December 30, 2011, options to purchase an aggregate of 254,344 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 first quarter of fiscal 2012:

	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share (1)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (3)</b>
October 1, 2011 - October 28, 2011	514,404	\$ 28.78	514,404	\$ 351.5 million
October 29, 2011 - November 25, 2011	253,176	29.65	253,176	344.0 million
November 26, 2011 - December 30, 2011	118,389	31.61	118,389	340.3 million
<b>Total</b>	<b>885,969</b>		<b>885,969</b>	

(1) Excludes commission costs.

(2) Shares of Class A common stock were purchased under a \$250.0 million stock repurchase program announced on November 3, 2009, which was subsequently increased by \$300.0 million and \$250.0 million announced on July 27, 2010 and August 4, 2011, respectively. The stock repurchase program does not have an expiration date. Stock repurchases under this program may be made through open market transactions, negotiated purchases, or otherwise, at times and in such amounts as we consider appropriate.

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

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**ITEM 6. EXHIBITS**

Exhibit Number	Description	Incorporated by Reference Herein	
		Form	Date
10.1*	2012 Dolby Executive Annual Incentive Plan	Current Report on Form 8-K/A	December 15, 2011
10.2*	Employee Stock Purchase Plan ("ESPP") as amended and restated		
10.3*	Form of Stock Option Agreement – International under the 2005 Stock Plan		
10.4*	Form of Restricted Stock Unit Agreement—Non-U.S. 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: February 3, 2012

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.**  
**EMPLOYEE STOCK PURCHASE PLAN**  
**Adopted Effective February 16, 2005**  
**Amended and Restated on October 13, 2005**  
**Amended and Restated on February 5, 2008**  
**Amended and Restated on November 4, 2008; Effective May 18, 2009**  
**Amended and Restated on November 7, 2011; Effective May 15, 2012**

1. Purpose. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries and Designated Affiliates with an opportunity to purchase Common Stock of the Company. This Plan includes two components: a Code Section 423 Component (the “423 Component”) and a non-Code Section 423 Component (the “Non-423 Component”). It is the intention of the Company to have the 423 Component qualify as an “Employee Stock Purchase Plan” under Section 423 of the Code. The provisions of the 423 Component, accordingly, shall be construed so as to extend and limit participation in a uniform and nondiscriminatory basis consistent with the requirements of Section 423 of the Code. In addition, this Plan authorizes the grant of options under the Non-423 Component which do not qualify under Section 423 of the Code pursuant to rules, procedures or subplans adopted by the Administrator designed to achieve tax, securities laws or other objectives for Eligible Employees and the Company. Except as otherwise indicated, the Non-423 Component will operate and be administered in the same manner as the 423 Component.

2. Definitions.

(a) “Administrator” shall mean the Board or any Committee designated by the Board to administer the Plan pursuant to Section 14.

(b) “Affiliate” shall mean any corporation or other entity affiliated with the Company or in which the Company has an interest.

(c) “Board” shall mean the Board of Directors of the Company.

(d) “Change in Control” means the occurrence of any of the following events:

(i) Any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) other than a Permitted Transferee (as defined in the Company’s Amended and Restated Certificate of Incorporation) becomes the “beneficial owner” (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total voting power represented by the Company’s then outstanding voting securities; or

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company’s assets; or

(iii) A change in the composition of the Board occurring within a one-year period, as a result of which fewer than a majority of the directors are Incumbent Directors.

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“Incumbent Directors” means directors who either (A) are Directors as of the effective date of the Plan, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Directors at the time of such election or nomination (but will not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company); or

(iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

(e) “Code” shall mean the Internal Revenue Code of 1986, as amended.

(f) “Committee” means a committee of the Board appointed by the Board in accordance with Section 14 hereof.

(g) “Common Stock” shall mean the Class A Common Stock of the Company.

(h) “Company” shall mean Dolby Laboratories, Inc., a Delaware corporation.

(i) “Compensation” shall mean all base straight time gross earnings, commissions, overtime and shift premium, but exclusive of payments for incentive compensation, bonuses and other compensation. The Administrator shall have the discretion to determine the application of this definition to participants outside the United States.

(j) “Designated Affiliate” shall mean any Affiliate selected by the Administrator as eligible to participate in the Non-423 Component.

(k) “Designated Subsidiary” shall mean any Subsidiary selected by the Administrator as eligible to participate in the 423 Component.

(l) “Director” shall mean a member of the Board.

(m) “Eligible Employee” shall mean (i) any individual who is treated as an active employee in the records of the Company or any Designated Subsidiary or (ii) any individual who is treated as an active employee in the records of any Designated Affiliate other than an individual who, as of the Offering Date, resides in a country that has been specifically excluded from participation in the Non-423 Component at the discretion of the Administrator. For the 423 Component, Eligible Employees shall include only those employees whose customary employment with the Company or Designated Subsidiary is at least fifteen (15) hours per week and more than five (5) months in any calendar year. For purposes of the Plan, the employment relationship shall be treated as continuing intact while the individual is on sick leave or other leave of absence approved by the Company. Where the period of leave exceeds three (3) months and the individual’s right to reemployment is not guaranteed either by statute, legal precedent or by contract, the employment relationship shall be deemed to have terminated on the day which is three (3) months and one (1) day

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after the beginning of such leave. The employment relationship shall be treated as continuing intact where an Eligible Employee transfers employment between a Designated Subsidiary and a Designated Affiliate, and vice-versa, provided, however, that a participant who is not employed by a Designated Subsidiary on the Offering Date and through a date that is no more than three (3) months prior to the Exercise Date will participate only in the Non-423 Component. The Administrator shall establish rules to govern other such transfers consistent with the applicable requirements of Section 423 of the Code.

(n) “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

(o) “Exercise Date” shall mean the first Trading Day on or after May 15 and November 15 of each Purchase Period.

(p) “Fair Market Value” shall mean, as of any date and unless the Administrator determines otherwise, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the New York Stock Exchange, the Nasdaq Global Market, the Nasdaq Global Select or the Nasdaq Capital Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the date of determination, as reported in *The Wall Street Journal* or such other source as the Board deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean of the closing bid and asked prices for the Common Stock on the date of determination, as reported in *The Wall Street Journal* or such other source as the Board deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Board.

(q) “Offering Date” shall mean the first Trading Day of each Offering Period.

(r) “Offering Periods” shall mean the periods of approximately twelve (12) months during which an option granted pursuant to the Plan may be exercised, commencing on each Offering Date and terminating on the applicable Exercise Date, approximately twelve months later. For example, the May 2012 Offering Period will commence on May 15, 2012, which is the first Trading Day of that applicable Offering Period and the November 2012 Offering Period will commence on November 15, 2012 which is the first Trading Day of that applicable Offering Period. The duration and timing of Offering Periods may be changed pursuant to Section 4 of this Plan.

(s) “Plan” shall mean this Employee Stock Purchase Plan including both the 423 and Non-423 Components.

(t) “Purchase Period” means the approximately six (6) month period commencing after one Exercise Date and ending with the next Exercise Date, except that the first Purchase Period of any Offering Period will commence on the Offering Date and end with the next Exercise Date.

(u) “Purchase Price” shall mean an amount equal to eighty-five percent (85%) of the Fair Market Value of a share of Common Stock on the Offering Date or on the Exercise Date, whichever is lower; provided however, that the Purchase Price may be determined for subsequent Offering Periods by the Administrator in any manner or method it determines, pursuant to Section 20, and subject to (i) with respect to the 423 Component, compliance with Section 423 of the Code (or any successor rule or provision or any other applicable law, regulation or stock exchange rule) or (ii) with respect to the Non-423 Component, pursuant to such manner or method as determined by the Administrator to comply with non-U.S. requirements.

(v) “Subsidiary” shall mean a “subsidiary corporation,” whether now or hereafter existing, as defined in Section 424(f) of the Code.

(w) “Trading Day” shall mean a day on which the national stock exchange upon which the Company Common Stock is listed is open for trading.

3. Eligibility. Any Eligible Employee on a given Offering Date shall be eligible to participate in the Plan. Any provisions of the Plan to the contrary notwithstanding, no Eligible Employee shall be granted an option under the Plan (i) to the extent that, immediately after the grant, such Eligible Employee (or any other person whose stock would be attributed to such Eligible Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Subsidiary, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans of the Company and its subsidiaries accrues at a rate which exceeds Twenty-Five Thousand Dollars (\$25,000) worth of stock (determined at the fair market value of the shares at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4 . Offering Periods. The Plan shall be implemented by consecutive, overlapping Offering Periods with a new Offering Period commencing on each Exercise Date, or on such other date as the Board shall determine. The Board shall have the power to change the duration of Offering Periods (including the commencement dates thereof) with respect to future offerings without stockholder approval if such change is announced prior to the scheduled beginning of the first Offering Period to be affected thereafter.

5 . Participation. An Eligible Employee may become a participant in the Plan by completing a subscription agreement in a form determined by the Administrator and filing it with the Company’s designated Plan administrator prior to the applicable Offering Date.

6. Payroll Deductions or Contributions.

(a) At the time a participant files his or her subscription agreement, he or she shall elect to have payroll deductions made on each pay day during the Offering Period in an amount not exceeding 10% of the Compensation which he or she receives on each pay day during the Offering Period, provided, however, that should a pay day occur on an Exercise Date, a participant shall have the payroll deductions made on such day applied to his or her account under the subsequent Purchase Period or Offering Period. Eligible Employees participating in the Non-423 Component may contribute funds to participate in the Plan through other means specified by the

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Administrator to comply with non-U.S. requirements, provided, however, that such contributions shall not exceed 10% of the Compensation received each pay day during the Offering Period. A participant's subscription agreement shall remain in effect for successive Offering Periods unless terminated as provided in Section 10 hereof.

(b) Payroll deductions or contributions, as applicable, for a participant shall commence on the first pay day following the Offering Date and shall end on the last pay day in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 10 hereof.

(c) All payroll deductions or contributions made by a participant shall be credited to his or her account under the Plan in whole percentages only. A participant may not make any additional payments into such account.

(d) A participant may discontinue his or her participation in the Plan as provided in Section 10 hereof, or may increase or decrease the rate of his or her payroll deductions or contributions during the Offering Period by completing or filing with the Company a new subscription agreement authorizing a change in payroll deduction rate or contribution. The Administrator may, in its discretion, limit the nature and/or number of participation rate changes during any Offering Period. The change in rate shall be effective with the first full payroll period following five (5) business days after the Company's receipt of the new subscription agreement unless the Company elects to process a given change in participation more quickly.

(e) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3 hereof, a participant's payroll deductions or contributions may be decreased to zero percent (0%) at any time during a Purchase Period. Payroll deductions or contributions shall recommence at the rate provided in such participant's subscription agreement at the beginning of the first Purchase Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 10 hereof.

(f) At the time the option is exercised, in whole or in part, or at the time some or all of the Company's Common Stock issued under the Plan is disposed of, the participant must make adequate provision for the Company's or its Subsidiary's or Affiliate's federal, state, or any other tax liability payable to any authority, national insurance, social security, payment on account or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock including, for the avoidance of doubt, any liability of the participant to pay an employer tax or social contribution obligation, which liability has been shifted to the participant as a matter of law or contract. At any time, the Company or its Subsidiary or Affiliate, as applicable, may, but shall not be obligated to, withhold from the participant's compensation the amount necessary for the Company or its Subsidiary or Affiliate, as applicable, to meet applicable withholding obligations, including any withholding required to make available to the Company or its Subsidiary or Affiliate, as applicable, any tax deductions or benefits attributable to sale or early disposition of Common Stock by the Eligible Employee.

7. Grant of Option. On the Offering Date of each Offering Period, each Eligible Employee participating in such Offering Period shall be granted an option to purchase on each Exercise Date during such Offering Period (at the applicable Purchase Price) up to a number of

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shares of the Company's Common Stock determined by dividing such Eligible Employee's payroll deductions or contributions accumulated prior to such Exercise Date by the applicable Purchase Price; provided that in no event shall an Eligible Employee be permitted to purchase during each Purchase Period more than 1,000 shares of the Company's Common Stock (subject to any adjustment pursuant to Section 19), and provided further that such purchase shall be subject to the limitations set forth in Sections 3(c) and 13 hereof. The Eligible Employee may accept the grant of such option by turning in a completed Subscription Agreement to the Company on or prior to an Offering Date. The Administrator may, for future Offering Periods, increase or decrease, in its absolute discretion, the maximum number of shares of the Company's Common Stock an Eligible Employee may purchase during each Purchase Period. Exercise of the option shall occur as provided in Section 8 hereof, unless the participant has withdrawn pursuant to Section 10 hereof. The option shall expire on the last day of the Offering Period.

8. Exercise of Option.

(a) Unless a participant withdraws from the Plan as provided in Section 10 hereof, his or her option for the purchase of shares shall be exercised automatically on the Exercise Date, and the maximum number of full shares subject to option shall be purchased for such participant at the applicable Purchase Price with the accumulated payroll deductions or contributions in his or her account. No fractional shares shall be purchased; any payroll deductions or contributions accumulated in a participant's account which are not sufficient to purchase a full share shall be retained in the participant's account for the subsequent Purchase Period or Offering Period, subject to earlier withdrawal by the participant as provided in Section 10 hereof. Any other funds left over in a participant's account after the Exercise Date shall be returned to the participant. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by him or her.

(b) If the Administrator determines that, on a given Exercise Date, the number of shares with respect to which options are to be exercised may exceed (i) the number of shares of Common Stock that were available for sale under the Plan on the Offering Date of the applicable Offering Period, or (ii) the number of shares available for sale under the Plan on any Exercise Date, the Administrator may in its sole discretion provide that the Company shall make a pro rata allocation of the shares of Common Stock available for purchase on any Exercise Date in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on any Exercise Date. The Company may make a pro rata allocation of the shares available on the Offering Date of any applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional shares for issuance under the Plan by the Company's stockholders subsequent to such Offering Date.

9. Delivery. As soon as reasonably practicable after each Exercise Date on which a purchase of shares occurs, the Company shall arrange the delivery to each participant the shares purchased upon exercise of his or her option in a form determined by the Administrator.

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10. Withdrawal.

(a) A participant may withdraw all but not less than all the payroll deductions or contributions credited to his or her account and not yet used to exercise his or her option under the Plan at any time by giving written notice to the Company in the form determined by the Administrator. All of the participant's payroll deductions or contributions credited to his or her account shall be paid to such participant promptly after receipt of notice of withdrawal and such participant's option for the Offering Period shall be automatically terminated, and no further payroll deductions or contributions for the purchase of shares shall be made for such Offering Period. If a participant withdraws from an Offering Period, payroll deductions or contributions shall not resume at the beginning of the succeeding Offering Period unless the participant delivers to the Company a new subscription agreement.

(b) A participant's withdrawal from an Offering Period shall not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company or in succeeding Offering Periods which commence after the termination of the Offering Period from which the participant withdraws.

11. Termination of Employment. Upon a participant's ceasing to be an Eligible Employee, for any reason, he or she shall be deemed to have elected to withdraw from the Plan and the payroll deductions or contributions credited to such participant's account during the Offering Period but not yet used to purchase shares of Common Stock under the Plan shall be returned to such participant or, in the case of his or her death, to the person or persons entitled thereto under Section 15, and such participant's option shall be automatically terminated.

12. Interest. No interest shall accrue on the payroll deductions or contributions of a participant in the Plan. Notwithstanding the foregoing, if the Administrator determines that interest is required to be accrued on the payroll deductions or contributions for participants in the Non-423 Component, then the Administrator shall cause such interest to accrue to the extent required by applicable non-U.S. requirements.

13. Stock.

(a) Subject to adjustment upon changes in capitalization of the Company as provided in Section 19 hereof, the maximum number of shares of the Company's Common Stock which shall be made available for sale under the Plan shall be 1,000,000 shares. For avoidance of doubt, the maximum number of share limitation set forth in this section may be used to satisfy exercises of options under either the 423 or the Non-423 Components.

(b) Until the shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), a participant shall only have the rights of an unsecured creditor with respect to such shares, and no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to such shares.

(c) Shares to be delivered to a participant under the Plan shall be registered in the name of the participant or in the name of the participant and his or her spouse.

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14. Administration. The Administrator shall administer the Plan and shall have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan, including whether eligible Employees shall participate in the 423 Component or the Non-423 Component and which entities shall be Designated Subsidiaries or Designated Affiliates. Every finding, decision and determination made by the Administrator shall, to the full extent permitted by law, be final and binding upon all parties. Notwithstanding any provision to the contrary in this Plan, the Administrator may adopt rules or procedures relating to the operation and administration of the Plan to accommodate the specific requirements of local laws and procedures for jurisdictions outside of the United States. Without limiting the generality of the foregoing, the Administrator is specifically authorized to adopt rules, procedures and subplans, which for purposes of the Non-423 Component may be outside the scope of Section 423 of the Code, regarding, but not limited to, eligibility to participate, the definition of Compensation, handling of payroll deductions, making of contributions to the Plan (including, without limitation, in forms other than payroll deductions), establishment of bank or trust accounts to hold payroll deductions, payment of interest, conversion of local currency, obligations to pay payroll tax, determination of beneficiary designation requirements, withholding procedures and handling of stock certificates which vary with local requirements.

15. Designation of Beneficiary.

(a) Unless otherwise provided in the subscription agreement, and at the discretion of the Administrator prior to the beginning of an Offering Period, a participant in the 423 Component may file a designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to an Exercise Date on which the option is exercised but prior to delivery to such participant of such shares and cash. In addition, at the discretion of the Administrator prior to the beginning of an Offering Period, a participant in the 423 Component may file a designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to exercise of the option. If a participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the participant at any time by notice in a form determined by the Administrator. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

(c) All beneficiary designations shall be in such form and manner as the Administrator may designate from time to time.

16. Transferability. Neither payroll deductions nor contributions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than

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by will, the laws of descent and distribution or as provided in Section 15 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

17. Use of Funds. All payroll deductions or contributions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions or contributions except for deductions or contributions made to a Non-423 Component where, as determined by the Administrator, non-U.S. law requires segregation of such amounts. Until shares are issued, participants shall only have the rights of an unsecured creditor, although participants in the Non-423 Component may have additional rights where required under local law, as determined by the Administrator.

18. Reports. Individual accounts shall be maintained for each participant in the Plan. Statements of account shall be given to participating Eligible Employees at least annually, which statements shall set forth the amounts of payroll deductions, the Purchase Price, the number of shares purchased and the remaining cash balance, if any.

19. Adjustments Upon Changes in Capitalization, Dissolution, Liquidation, Merger or Change in Control.

( a ) Changes in Capitalization. Subject to any required action by the stockholders of the Company, the maximum number of shares of the Company's Common Stock which shall be made available for sale under the Plan, the maximum number of shares each participant may purchase each Purchase Period (pursuant to Section 7), as well as the price per share and the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other change in the number of shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Administrator, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

( b ) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, all Offering Periods then in progress shall be shortened by setting a new Exercise Date (the "New Exercise Date"), and shall terminate immediately prior to the consummation of such proposed dissolution or liquidation, unless provided otherwise by the Administrator. The New Exercise Date shall be before the date of the Company's proposed dissolution or liquidation. The Administrator shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

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(c) Merger or Change in Control. In the event of a merger or Change in Control, each outstanding option shall be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the option, all Offering Periods then in progress shall be shortened by setting a New Exercise Date and shall end on the New Exercise Date. The New Exercise Date shall be before the date of the Company's proposed merger or Change in Control. The Administrator shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

20. Amendment or Termination.

(a) The Administrator may at any time and for any reason terminate or amend the Plan. Except as provided in Section 19 and this Section 20 hereof, no amendment may make any change in any option theretofore granted which adversely affects the rights of any participant unless their consent is obtained. To the extent necessary to comply with Section 423 of the Code (or any successor rule or provision or any other applicable law, regulation or stock exchange rule), the Company shall obtain stockholder approval of any amendment in such a manner and to such a degree as required.

(b) Without stockholder approval and without regard to whether any participant rights may be considered to have been "adversely affected," the Administrator shall be entitled to change the Offering Periods or Purchase Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period or Purchase Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed subscription agreements, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Administrator determines in its sole discretion advisable which are consistent with the Plan.

(c) Without regard to whether any participant's rights may be considered to have been "adversely affected", in the event the Administrator determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Board may, in its discretion and, to the extent necessary or desirable, modify or amend the Plan to reduce or eliminate such accounting consequence including:

(i) increasing the Purchase Price for any Offering Period or Purchase Period including an Offering Period or Purchase Period underway at the time of the change in Purchase Price;

(ii) shortening any Offering Period or Purchase Period by establishing a new Exercise Date, including an Offering Period or Purchase Period underway at the time of the Board action; and

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(iii) reducing the number of shares that may be purchased upon exercise of outstanding options.

Such modifications or amendments shall not require stockholder approval or the consent of any Plan participants.

21. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form and manner specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. Conditions Upon Issuance of Shares. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, U.S. and non-U.S. and state and local provisions, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

23. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the stockholders of the Company. It shall continue in effect until terminated under Section 20 hereof.

24. Stockholder Approval. The Plan will be subject to the approval by stockholders of the Company within twelve (12) months after the date the Plan is adopted by the Board. Such stockholder approval will be obtained in the manner and to the degree required under applicable law.

25. Automatic Transfer to Lower Price Offering Period. To the extent permitted by Applicable Laws, if the Fair Market Value of the Common Stock on any Exercise Date in an Offering Period is lower than the Fair Market Value of the Common Stock on the Offering Date of such Offering Period, then all participants in such Offering Period will be automatically withdrawn from such Offering Period immediately after the exercise of their option on such Exercise Date and automatically re-enrolled in the immediately following Offering Period as of the first day thereof.

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

Vesting Schedule:

Subject to Participant continuing to provide active services as 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:

<u>Date of Vesting</u>	<u>Shares Vesting</u>
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Termination Period:

This Option will be exercisable for three (3) months after Participant ceases to provide active services as 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

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achieve a particular tax result. Further, if Participant has become subject to tax in more than one 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 without further consent); or
- (3) withholding in Shares to be issued upon exercise of the Option.

Depending upon the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates, including maximum applicable rates, in which case Participant will receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent Shares. 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

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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.

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 or service 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.

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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 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 any employment laws in the country where Participant resides, even if otherwise applicable to Participant's employment benefits from the Employer, and/or whether later found to be invalid) and in consideration of the grant of the option to which 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 any employment laws in the country where Participant resides, even if otherwise applicable to Participant's employment benefits from the Employer, and/or whether later found to be invalid), 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 (including whether Participant may still be considered actively employed while on an approved leave of absence).

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

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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*

*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*

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*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.

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 AN ACTIVE 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.

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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 and Acceptance.

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.

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 under Applicable Laws with regard to the issuance or sale of Shares 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 under Applicable Laws with regard to the issuance or sale of Shares to 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, Dolby 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

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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 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 section 7(d) of the Plan or sections II.B and II.C of the Option Agreement, due to legal restrictions in India, Participant will not be permitted to pay the Exercise Price and any Tax-Related Items by a partial cashless exercise (also called a “sell to cover” exercise) such that a certain number of Shares subject to the exercised Options are sold immediately upon exercise to cover the aggregate Exercise Price, brokers’ fees and any Tax-Related Items and the remaining Shares are delivered to Participant. The Company reserves the right to provide Participant with this method of payment depending on the development of local law.

**Exchange Control Notification.**

If Participant remits funds out of India to exercise this Option, it is Participant’s responsibility to comply with applicable exchange control requirements of the Reserve Bank of India. Regardless of the method of exercise used to purchase the Shares, Participant understands that Participant must repatriate any proceeds from the sale of Shares acquired under the Plan or the receipt of any dividends to India within 90 days of receipt. Participant must obtain a foreign inward remittance certificate (“FIRC”) from the bank where Participant deposits the funds and must maintain the FIRC as evidence of the repatriation of funds in the event the Reserve Bank of India or the Employer requests proof of repatriation.

**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

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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.**

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.

**Poland**

No special provisions.

**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 Shares in Singapore, or any offer of the Shares 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

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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.

#### 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

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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.

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.

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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 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 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 Section II.F of the Option Agreement. If payment or withholding of the income tax (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 income tax 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 income tax 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

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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**  
**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

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binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Agreement.]

*[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 provided you continue to provide active services as a Service Provider, 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 ceases to provide active 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 ceases to actively provide services 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 ceases to actively provide services 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 without further consent); or
- (iii) withholding in Shares to be issued upon vesting/settlement of the RSUs.

Depending upon the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates, including maximum applicable rates, in which case Participant will receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent Shares. 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

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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.

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 which are outside the scope of the Participant's employment or service 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 any employment laws in the country where the Participant resides, even if otherwise applicable to the Participant's employment benefits from the Employer, and/or whether later found to be invalid), 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 any employment laws in the country where the Participant resides, even if otherwise applicable to the Participant's employment benefits from the Employer, and/or whether later found to be invalid), 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 (including whether Participant may still be considered actively employed while on an approved leave of absence); 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**

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**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, 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.

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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 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 and Acceptance. 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

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(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.

2.3 . 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.

2.4 . 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 under Applicable Laws with regard to the issuance or sale of Shares or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

2.5 . 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 under Applicable Laws with regard to the issuance or sale of Shares 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*

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*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.*

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").

**India**

Exchange Control Notification.

The Participant understands that the RSUs are subject to compliance with the exchange control requirements of the Reserve Bank of India. The Participant understands that the Participant must repatriate any proceeds from the sale of Shares acquired under the Plan or the receipt of any dividends to India within 90 days of receipt. The Participant must obtain a foreign inward remittance certificate ("FIRC") from the bank where the Participant deposits the funds and must maintain the FIRC as evidence of the repatriation of funds in the event the Reserve Bank of India or the Employer requests proof of repatriation.

**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

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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.**

**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 Shares in Singapore, or any offer of the Shares 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

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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.

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

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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.

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.

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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 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.

**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: February 3, 2012

/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: February 3, 2012

/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 December 30, 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: February 3, 2012

/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

