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 June 26, 2020

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

DOLBY LABORATORIES, INC.

(Exact name of registrant as specified in its charter)

Delaware			**90-0199783**
(State or other jurisdiction of incorporation or organization)			(I.R.S. Employer Identification No.)
1275 Market Street	**San Francisco**	**California**	**94103-1410**
(Address of principal executive offices)			(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, $0.001 par value	**DLB**	**The New York Stock Exchange**

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large Accelerated Filer	☒	Accelerated Filer	☐
Non-accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

On July 24, 2020, the registrant had 64,372,221 shares of Class A common stock, par value $0.001 per share, and 36,222,720 shares of Class B common stock, par value $0.001 per share, outstanding.

DOLBY LABORATORIES, INC.
FORM 10-Q
For the Fiscal Quarter Ended June 26, 2020
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GLOSSARY OF TERMS

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

Abbreviation	Term
AAC	Advanced Audio Coding
AFS	Available-For-Sale (Securities)
AOCI	Accumulated Other Comprehensive Income
APIC	Additional-Paid In-Capital
ASC	Accounting Standards Codification
ASP	Average Selling Price
ASU	Accounting Standards Update
ATSC	Advanced Television Systems Committee
AVC	Advanced Video Coding
AVR	Audio/Video Receiver
CE	Consumer Electronics
CES	Consumer Electronics Show
CODM	Chief Operating Decision Maker
COGS	Cost Of Goods Sold
COSO	Committee Of Sponsoring Organizations (Of The Treadway Commission)
DD	Dolby Digital®
DD+	Dolby Digital Plus™
DMA	Digital Media Adapter
DTV	Digital Television
DVB	Digital Video Broadcasting
DVD	Digital Versatile Disc
EPS	Earnings Per Share
ESP	Estimated Selling Price
ESPP	Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
FCPA	Foreign Corrupt Practices Act
G&A	General & Administrative
HD	High Definition
HDR	High-Dynamic Range
HDTV	High Definition Television
HE-AAC	High Efficiency Advanced Audio Coding
HEVC	High Efficiency Video Coding
HFR	High Frame Rate
HTIB	Home Theater In-A-Box
IC	Integrated Circuit
IBR	Incremental Borrowing Rate
IP	Intellectual Property
IPO	Initial Public Offering
IPTV	Internet Protocol Television
IT	Information Technology
LP	Limited Partner/Partnership
ME	Multiple Element
NOL	Net Operating Loss
OCI	Other Comprehensive Income
ODD	Optical Disc Drive
OECD	Organization For Economic Co-Operation & Development
OEM	Original Equipment Manufacturer
OTT	Over-The-Top
PC	Personal Computer
PCS	Post-Contract Support
PP&E	Property, Plant, & Equipment
PSO	Performance-Based Stock Option
PSU	Performance-Based Restricted Stock Unit
R&D	Research & Development
ROU	Right-Of-Use
RSU	Restricted Stock Unit
S&M	Sales & Marketing
SERP	Supplemental Executive Retirement Plan
SoC	System(s)-On-A-Chip
SSP	Standalone Selling Price
STB	Set-Top Box
TPE	Third Party Evidence
TSR	Total Stockholder Return
UHD	Ultra High Definition
U.S. GAAP	Generally Accepted Accounting Principles In The United States

PART I - FINANCIAL INFORMATION

ITEM 1. UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DOLBY LABORATORIES, INC.
INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

(*in thousands, except share and per share amounts*)
(unaudited)

	June 26, 2020	September 27, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 855,103	$ 797,210
Restricted cash	8,290	8,383
Short-term investments	189,383	119,146
Accounts receivable, net of allowance for doubtful accounts of $14,292 and $9,775	247,486	189,115
Contract assets	128,319	195,651
Inventories, net	29,330	32,331
Prepaid expenses and other current assets	45,524	39,704
Total current assets	1,503,435	1,381,540
Long-term investments	74,768	179,587
Property, plant, and equipment, net	546,650	537,432
Operating lease right-of-use assets	78,374	—
Intangible assets, net	160,069	180,891
Goodwill	335,694	334,829
Deferred taxes	104,015	114,075
Other non-current assets	100,901	93,395
Total assets	**$ 2,903,906**	**$ 2,821,749**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 10,047	$ 15,212
Accrued liabilities	210,241	268,144
Income taxes payable	3,071	3,506
Contract liabilities	18,025	19,991
Operating lease liabilities	16,318	—
Total current liabilities	257,702	306,853
Non-current contract liabilities	24,128	24,404
Non-current operating lease liabilities	65,189	—
Other non-current liabilities	119,990	177,462
Total liabilities	467,009	508,719
Stockholders' equity:		
Class A, $0.001 par value, one vote per share, 500,000,000 shares authorized: 64,338,677 shares issued and outstanding at June 26, 2020 and 63,911,270 at September 27, 2019	58	58
Class B, $0.001 par value, ten votes per share, 500,000,000 shares authorized: 36,222,720 shares issued and outstanding at June 26, 2020 and 36,229,820 at September 27, 2019	41	41
Retained earnings	2,448,389	2,327,877
Accumulated other comprehensive (loss)	(17,121)	(20,625)
Total stockholders' equity – Dolby Laboratories, Inc.	2,431,367	2,307,351
Controlling interest	5,530	5,679
Total stockholders' equity	2,436,897	2,313,030
Total liabilities and stockholders' equity	**$ 2,903,906**	**$ 2,821,749**

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	June 26, 2020	June 28, 2019	June 26, 2020	June 28, 2019
Revenue:				
Licensing	$ 235,125	$ 271,897	$ 821,673	$ 842,484
Products and services	11,784	30,262	68,928	100,309
Total revenue	246,909	302,159	890,601	942,793
Cost of revenue:				
Cost of licensing	12,572	13,290	38,157	40,761
Cost of products and services	17,316	26,400	65,876	74,133
Total cost of revenue	29,888	39,690	104,033	114,894
Gross margin	217,021	262,469	786,568	827,899
Operating expenses:				
Research and development	59,583	60,408	177,319	177,680
Sales and marketing	70,934	83,390	254,537	261,686
General and administrative	50,843	54,183	164,172	152,412
Restructuring charges	1,522	30,232	1,866	30,264
Total operating expenses	182,882	228,213	597,894	622,042
Operating income	34,139	34,256	188,674	205,857
Other income/expense:				
Interest income	2,578	6,551	12,231	19,230
Interest expense	(34)	(29)	(131)	(106)
Other income, net	3,307	1,022	4,449	1,075
Total other income	5,851	7,544	16,549	20,199
Income before income taxes	39,990	41,800	205,223	226,056
(Provision for)/benefit from income taxes	27,388	(2,163)	(580)	(14,486)
Net income including controlling interest	67,378	39,637	204,643	211,570
Less: net income attributable to controlling interest	(93)	(63)	(109)	(337)
Net income attributable to Dolby Laboratories, Inc.	**$ 67,285**	**$ 39,574**	**$ 204,534**	**$ 211,233**
Net income per share:				
Basic	$ 0.67	$ 0.39	$ 2.03	$ 2.07
Diluted	$ 0.66	$ 0.38	$ 1.99	$ 2.01
Weighted-average shares outstanding:				
Basic	100,593	101,218	100,594	102,012
Diluted	102,075	103,717	102,912	105,025
Related party rent expense:				
Included in operating expenses	$ (36)	$ 13,107	$ 112	$ 14,755
Included in net income attributable to controlling interest	$ 116	$ 111	$ 337	$ 463
Cash dividend declared per common share	$ 0.22	$ 0.19	$ 0.66	$ 0.57
Cash dividend paid per common share	$ 0.22	$ 0.19	$ 0.66	$ 0.57

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	June 26, 2020	**June 28, 2019**	**June 26, 2020**	**June 28, 2019**
Net income including controlling interest	$ 67,378	$ 39,637	$ 204,643	$ 211,570
Other comprehensive income:				
Currency translation adjustments, net of tax expense/(benefit) of $0, $0, $0, and $0	8,471	(2,005)	1,900	(3,718)
Unrealized gains/(losses) on investments, net of tax expense/(benefit) of ($556), ($30), ($763), and $94	478	1,918	(411)	4,786
Unrealized gains on cash flow hedges, net of tax of ($110), $0, ($110), and $0	5,764	134	2,040	134
Total other comprehensive income, net of tax	14,713	47	3,529	1,202
Total comprehensive income	82,091	39,684	208,172	212,772
Less: comprehensive (income)/loss attributable to controlling interest	(312)	77	(134)	(203)
Comprehensive income attributable to Dolby Laboratories, Inc.	**$ 81,779**	**$ 39,761**	**$ 208,038**	**$ 212,569**

See accompanying notes to unaudited interim condensed consolidated financial statements

DOLBY LABORATORIES, INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY

(in thousands)

(unaudited)

	Fiscal Quarter-To-Date						
	Dolby Laboratories, Inc.						
	Common Stock	**Additional Paid-In Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income/(Loss)**	**Total Dolby Laboratories, Inc.**	**Controlling Interest**	**Total**
Balance at March 27, 2020	**$ 99**	**$ —**	**$ 2,395,575**	**$ (31,615)**	**$ 2,364,059**	**$ 5,218**	**$ 2,369,277**
Net income	—	—	67,285	—	67,285	93	67,378
Other comprehensive loss, net of tax	—	—	—	14,494	14,494	219	14,713
Stock-based compensation expense	—	21,285	—	—	21,285	—	21,285
Repurchase of common stock	(1)	(34,712)	7,632	—	(27,081)	—	(27,081)
Cash dividends declared and paid on common stock	—	—	(22,103)	—	(22,103)	—	(22,103)
Common stock issued under employee stock plans	1	14,302	—	—	14,303	—	14,303
Tax withholdings on vesting of restricted stock	—	(875)	—	—	(875)	—	(875)
Balance at June 26, 2020	**$ 99**	**$ —**	**$ 2,448,389**	**$ (17,121)**	**$ 2,431,367**	**$ 5,530**	**$ 2,436,897**

	Fiscal Year-To-Date						
	Dolby Laboratories, Inc.						
	Common Stock	**Additional Paid-In Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income/(Loss)**	**Total Dolby Laboratories, Inc.**	**Controlling Interest**	**Total**
Balance at September 27, 2019	**$ 99**	**$ —**	**$ 2,327,877**	**$ (20,625)**	**$ 2,307,351**	**$ 5,679**	**$ 2,313,030**
Net income	—	—	204,534	—	204,534	109	204,643
Other comprehensive loss, net of tax	—	—	—	3,504	3,504	25	3,529
Distributions to controlling interest	—	—	—	—	—	(283)	(283)
Stock-based compensation expense	—	64,850	—	—	64,850	—	64,850
Repurchase of common stock	(2)	(111,168)	(17,583)	—	(128,753)	—	(128,753)
Cash dividends declared and paid on common stock	—	—	(66,439)	—	(66,439)	—	(66,439)
Common stock issued under employee stock plans	2	68,287	—	—	68,289	—	68,289
Tax withholdings on vesting of restricted stock	—	(21,969)	—	—	(21,969)	—	(21,969)
Balance at June 26, 2020	**$ 99**	**$ —**	**$ 2,448,389**	**$ (17,121)**	**$ 2,431,367**	**$ 5,530**	**$ 2,436,897**

	Fiscal Quarter-To-Date						
	Dolby Laboratories, Inc.						
	Common Stock	**Additional Paid-In Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income/(Loss)**	**Total Dolby Laboratories, Inc.**	**Controlling Interest**	**Total**
Balance at March 29, 2019	**$ 100**	**$ —**	**$ 2,361,607**	**$ (14,683)**	**$ 2,347,024**	**$ 5,833**	**$ 2,352,857**
Net income	—	—	39,574	—	39,574	63	39,637
Other comprehensive income, net of tax	—	—	—	187	187	(140)	47
Distributions to controlling interest	—	—	—	—	—	(1)	(1)
Stock-based compensation expense	—	18,863	—	—	18,863	—	18,863
Repurchase of common stock	(1)	(35,651)	(52,980)	—	(88,632)	—	(88,632)
Cash dividends declared and paid on common stock	—	—	(19,283)	—	(19,283)	—	(19,283)
Common stock issued under employee stock plans	—	17,869	—	—	17,869	—	17,869
Tax withholdings on vesting of restricted stock	—	(1,081)	—	—	(1,081)	—	(1,081)
Balance at June 28, 2019	**$ 99**	**$ —**	**$ 2,328,918**	**$ (14,496)**	**$ 2,314,521**	**$ 5,755**	**$ 2,320,276**

	Fiscal Year-To-Date						
	Dolby Laboratories, Inc.						
	Common Stock	**Additional Paid-In Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income/(Loss)**	**Total Dolby Laboratories, Inc.**	**Controlling Interest**	**Total**
Balance at September 28, 2018 (as adjusted)	**$ 102**	**66,127**	**2,313,539**	**(15,832)**	**2,363,936**	**6,567**	**2,370,503**
Net income	—	—	211,233	—	211,233	337	211,570
Other comprehensive income, net of tax	—	—	—	1,336	1,336	(134)	1,202
Distributions to controlling interest	—	—	—	—	—	(1,015)	(1,015)
Stock-based compensation expense	—	59,580	—	—	59,580	—	59,580
Repurchase of common stock	(4)	(148,972)	(137,536)	—	(286,512)	—	(286,512)
Cash dividends declared and paid on common stock	—	—	(58,318)	—	(58,318)	—	(58,318)
Common stock issued under employee stock plans	1	45,026	—	—	45,027	—	45,027
Tax withholdings on vesting of restricted stock	—	(21,761)	—	—	(21,761)	—	(21,761)
Balance at June 28, 2019	**$ 99**	**$ —**	**$ 2,328,918**	**$ (14,496)**	**$ 2,314,521**	**$ 5,755**	**$ 2,320,276**

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Fiscal Year-To-Date Ended	
	June 26, 2020	**June 28, 2019**
Operating activities:		
Net income including controlling interest	$ 204,643	$ 211,570
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	63,899	62,814
Stock-based compensation	64,850	59,580
Amortization of premium on investments	545	319
Provision for doubtful accounts	5,927	5,201
Deferred income taxes	9,834	(34,872)
Restructuring charge for exit of leased facility	1,441	27,463
Other non-cash items affecting net income	5,348	2,100
Changes in operating assets and liabilities:		
Accounts receivable, net	(64,247)	(70,022)
Contract assets	67,334	(16,942)
Inventories	(12,533)	(15,976)
Operating lease right-of-use assets	(16,969)	—
Prepaid expenses and other assets	(10,812)	(13,719)
Accounts payable and accrued liabilities	(48,292)	(10,733)
Income taxes, net	(58,243)	(5,226)
Contract liabilities	(2,222)	491
Operating lease liabilities	17,632	—
Other non-current liabilities	3,052	(4,854)
Net cash provided by operating activities	231,187	197,194
Investing activities:		
Purchases of investment securities	(266,065)	(220,321)
Proceeds from sales of investment securities	206,728	149,023
Proceeds from maturities of investment securities	97,625	109,821
Purchases of property, plant, and equipment	(55,909)	(79,670)
Payments for business acquisitions, net of cash acquired	—	(14,919)
Purchase of intangible assets	(2,640)	(17,255)
Net cash used in investing activities	(20,261)	(73,321)
Financing activities:		
Proceeds from issuance of common stock	68,289	45,027
Repurchase of common stock	(128,753)	(286,512)
Payment of cash dividend	(66,439)	(58,318)
Distribution to controlling interest	(283)	(1,015)
Shares repurchased for tax withholdings on vesting of restricted stock	(21,969)	(21,761)
Payment related to prior purchases of intangible assets	(91)	—
Payment of deferred consideration for prior business combination	(4,671)	—
Net cash used in financing activities	(153,917)	(322,579)
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash	791	(2,499)
Net increase/(decrease) in cash, cash equivalents, and restricted cash	57,800	(201,205)
Cash, cash equivalents, and restricted cash at beginning of period	805,593	925,250
Cash, cash equivalents, and restricted cash at end of period	**$ 863,393**	**$ 724,045**
Supplemental disclosure:		
Cash paid for income taxes, net of refunds received	$ 49,784	$ 43,549
Non-cash investing activities:		
Property, plant, and equipment purchased and unpaid at period-end	$ (9,699)	$ (10,785)
Purchase consideration payable for acquisition	$ —	$ 1,700
Purchase consideration payable for intangibles	$ 260	$ 1,881

See accompanying notes to unaudited interim condensed consolidated financial statements

DOLBY LABORATORIES, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Unaudited Interim Condensed Consolidated Financial Statements

We have prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with U.S. GAAP, and with SEC rules and regulations, which allow for certain information and footnote disclosures that are normally included in annual financial statements prepared in accordance with U.S. GAAP to be condensed or omitted. In our opinion, these unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements for the fiscal year ended September 27, 2019 and include all adjustments necessary for fair presentation. The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with our consolidated financial statements for the fiscal year ended September 27, 2019, which are included in our Annual Report on Form 10-K filed with the SEC.

The results for the fiscal quarter ended June 26, 2020 are not necessarily indicative of the results to be expected for any subsequent quarterly or annual financial period, including the fiscal year ending September 25, 2020.

Principles of Consolidation

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

Operating Segments

Since we operate as a single reporting segment, all required financial segment information is included in our unaudited interim condensed consolidated financial statements. This reflects the fact that our CODM, our Chief Executive Officer, evaluates our financial information and resources, and assesses the performance of these resources on a consolidated basis.

Use of Estimates

The preparation of our financial statements in accordance with U.S. GAAP requires management to make certain estimates and assumptions that affect the amounts reported and disclosed in our unaudited interim condensed consolidated financial statements and accompanying notes.

Significant items subject to such estimates and assumptions include estimated shipments by our licensees for which we are owed a sales–based royalty. These estimates involve the use of historical data and judgment for several key attributes including industry estimates of expected shipments, the percentage of markets using our technologies, and average sale prices. Our estimates of royalty-based revenue also take into consideration the macroeconomic effect of global events, such as the COVID-19 pandemic or other natural disasters which may impact our licensees' supply chain activities as well as demand for shipments.

Additional significant items subject to such estimates and assumptions include estimated selling prices for performance obligations within revenue arrangements; valuation allowances for accounts receivable; carrying values of inventories and certain property, plant, and equipment, goodwill and intangible assets; fair values of investments; accrued liabilities including liabilities for unrecognized tax benefits, deferred income tax assets and liabilities, and stock-based compensation. Actual results could differ from our estimates.

Fiscal Year

Our fiscal year is a 52 or 53 week period ending on the last Friday in September. The fiscal periods presented herein include the 13 week periods ended June 26, 2020 and June 28, 2019. Our fiscal year ending September 25, 2020 (fiscal 2020) and our fiscal year ended September 27, 2019 (fiscal 2019) both consist of 52 weeks.

2. Summary of Significant Accounting Policies

Recently Issued Accounting Standards

Adopted Standards

Leases. In the first quarter of fiscal 2020, we adopted ASU 2016-02, *Leases (ASC 842*) along with all subsequent applicable ASU clarifications and improvements*,* which requires lessees to recognize leases on balance sheet and disclose key information about leasing arrangements. We adopted ASC 842 using the modified retrospective transition method and used the effective date as the date of initial application. Consequently, financial information is not updated and the disclosures required under ASC 842 are not provided for dates and periods prior to implementation. ASC 842 provides a number of optional practical expedients in transition. We elected the “package of practical expedients,” which permits us not to reassess under ASC 842 our prior conclusions about lease identification, lease classification and initial direct costs. In addition, we account for lease and non-lease components as a single lease component.

Operating leases are included in operating lease right-of-use assets, operating lease liabilities, and in current and non-current operating lease liabilities on our interim condensed consolidated balance sheets.

As a lessee, the adoption of ASC 842 resulted in the recording of Operating lease right-of-use ("ROU") assets and Operating lease liabilities of $62.1 million and $64.6 million, respectively, as of September 28, 2019. The difference between the operating lease assets and liabilities was recorded as an adjustment to Other non-current liabilities, primarily related to deferred rent and other lease incentives. As a lessor, the adoption of ASC 842 did not have a material impact. The adoption of ASC 842 did not impact Retained Earnings.

Income Taxes: Comprehensive Income. In the first quarter of fiscal 2020, we adopted ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income,* which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. We elected to not reclassify the stranded tax effects to retained earnings as they were not material to Dolby's consolidated financial statements.

Standards Not Yet Effective

Collaborative Arrangements. In November 2018, the FASB issued ASU 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606*, which clarifies that certain transactions between participants in a collaborative arrangement should be accounted for under ASC 606 when the counterparty is a customer. In addition, ASU 2018-18 precludes an entity from presenting consideration from a transaction in a collaborative arrangement as revenue from contracts with customers if the counterparty is not a customer for that transaction. This standard will be effective for Dolby beginning September 26, 2020, and we do not currently plan to early adopt. We do not believe that this standard will have a material impact on our consolidated financial statements.

Financial Instruments. In June 2016, the FASB issued ASU 2016-13, *Financial Instruments (Topic 326): Measurement of Credit Losses on Financial Instruments*, which modifies the measurement of expected credit losses of certain financial instruments, including trade receivables, contract assets, and lease receivables. This standard will be effective for Dolby beginning September 26, 2020, and we do not currently plan to early adopt. We do not believe that this standard will have a material impact on our consolidated financial statements.

Income Taxes. In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which simplifies the accounting for income taxes by removing certain exceptions for recognizing deferred taxes for investments, performing intraperiod allocation, and calculating income taxes in interim periods. In addition, the modifications simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. This standard will be effective for Dolby beginning September 26, 2020, and we do not currently plan to early adopt. We are currently evaluating the impact of the standard on our consolidated financial statements.

3. Revenue Recognition

We enter into revenue arrangements with our customers to license technologies, trademarks and patents for sound, imaging and voice solutions, and to sell products and services. We recognize revenue when we satisfy a performance obligation by transferring control over the use of a license, product, or service to a customer.

A. *Identification of the Contract or Contracts with Customers*

We generally determine that a contract with a customer exists upon the execution of an agreement and after consideration of collectability, which could include an evaluation of the customer's payment history, the existence of a standby letter-of-credit between the customer's financial institution and our financial institution, public financial information, and other factors. At contract inception, we also evaluate whether two or more non-standard agreements with a customer should be combined and accounted for as a single contract.

B. *Identification of Performance Obligations in a Contract*

We generate revenues principally from the following sources, which represent performance obligations in our contracts with customers:

- *Licensing.* We license our technologies, including patents, to a range of customers who incorporate them into their products for enhanced audio, imaging and voice functionality across broadcast, mobile, CE, PC, gaming, and other markets.
- *Product Sales.* We design and provide audio and imaging products for the cinema, television, broadcast, communications, and entertainment industries.
- *Services.* We provide various services to support theatrical and television production for cinema exhibition, broadcast, and home entertainment, including equipment training, mixing room alignment, equalization, as well as audio, color and light image calibration.
- *PCS.* We provide PCS for products sold and for equipment leased, and we support the implementation of our licensing technologies in our licensees' products.
- *Equipment Leases.* We collaborate with established cinema exhibitors to offer Dolby Cinema, a branded premium cinema offering for movie audiences by leasing equipment and licensing our intellectual property. We also lease hardware that facilitates the Dolby conferencing experience, including the Dolby Conference Phone, and the Dolby Voice Room solution.
- *Licensing Administration Fees.* We generate service fees for managing patent pools on behalf of third party patent owners through our wholly-owned subsidiary, Via Licensing Corporation.

Some of our revenue arrangements include multiple performance obligations, such as hardware, software, support and maintenance, and extended warranty services. We evaluate whether promised products and services are distinct performance obligations.

The majority of our arrangements with multiple performance obligations pertain to our digital cinema server and processor sales that include the following distinct performance obligations to which we allocate portions of the transaction price based on their stand-alone selling price:

- Digital cinema server hardware and embedded software, which is highly dependent on and highly interrelated with the hardware. Accordingly, the hardware and embedded software represent a single performance obligation.
- The right to support and maintenance, which is included with the purchase of the digital cinema server hardware, is a distinct performance obligation.
- The right to receive commissioning services is a distinct performance obligation within the sale of the Dolby Atmos Cinema Processor. These services consist of the review of venue designs specifying proposed speaker placement as well as calibration services performed for installed speakers to ensure optimal playback.

C. *Determination of Transaction Price for Performance Obligations in a Contract*

After identifying the distinct performance obligations, we determine the transaction price in accordance with the terms of the underlying executed contract which may include variable consideration such as discounts, rebates, refunds, rights of returns, and incentives. We assess and update, if necessary, the amount of variable consideration to which we are entitled for each reporting period. At the end of each reporting period, we estimate and accrue a liability for returns and adjustments as a reduction to revenue based on several factors, including past returns history.

With the exception of our sales-based royalties, we evaluate whether a significant financing component exists when we recognize revenue in advance of customer payments that occur over time. For example, some of our licensing arrangements include payment terms greater than one year from when we transfer control of our IP to a licensee and the receipt of the final payment for that IP. If a significant financing component exists, we classify a portion of the transaction price as interest income, instead of recognizing all the transaction price as revenue. We do not adjust the transaction price for the effects of financing if, at contract inception, the period between the transfer of control to a customer and final payment is expected to be one year or less.

D. ***Allocation of Transaction Price to Distinct Performance Obligations in a Contract***

For our sales-based royalties where the license is the predominant item to which the royalties relate, we present all revenues as licensing.

For revenue arrangements that include multiple performance obligations, we determine the stand-alone selling price for each distinct performance obligation based on the actual selling prices made to customers. If the performance obligation is not sold separately, we estimate the stand-alone selling price. We do so by considering market conditions such as competitor pricing strategies, customer specific information and industry technology lifecycles, internal conditions such as cost and pricing practices, or applying the residual approach method when the selling price of the good, most commonly a license, is highly variable or uncertain.

Once the transaction price - including any variable consideration - has been determined, we allocate the transaction price to the performance obligations identified in the contract, and recognize revenue as or when control is transferred for each distinct performance obligation.

E. ***Revenue Recognition as Control is Transferred to a Customer***

We generate our licensing revenue by licensing our technologies and patents to various types of licensees, such as chip manufacturers ("implementation licensees"), consumer product manufacturers, software vendors, and communications service providers. Our revenue recognition policies for each of these arrangements are summarized below.

Initial fees from implementation licensees. Implementation licensees incorporate our technologies into their chipsets that, once approved by Dolby, are available for purchase by OEMs for use in end-user products. Implementation licensees only pay us a nominal initial fee on contract execution as consideration for the ongoing services that we provide to assist in their implementation process. Revenues from these initial fees are recognized ratably over the contractual term as a component of licensing revenue.

Sales-based licensing fees. In our royalty bearing licensing agreements with OEMs, control is transferred upon the later of contract execution or the contract’s effective date. We apply the royalty exception, which requires that we recognize sales-based royalties when the sales occur based on our estimates. These estimates involve the use of historical data and judgment for several key attributes including industry estimates of expected shipments, the percentage of markets using our technologies, and average sale prices. Generally, our estimates represent the current period’s shipments to which we expect our licensees to submit royalty statements in the following quarter. Upon receipt of royalty statements from the licensees with the actual reporting of sales-based royalties that we estimated previously, we record a favorable or unfavorable adjustment based on the difference, if any, between estimated and actual sales. In the third quarter of fiscal 2020, we recorded a favorable adjustment of approximately $11 million, which was primarily related to January through March shipments and largely based on actual royalty statements received from licensees.

Fixed and guaranteed licensing fees. In certain cases, our arrangements require the licensee to pay fixed, non-refundable fees independent of the actual number of units they may distribute in the future. In these cases, control is transferred and fees are recognized upon the later of contract execution or the effective date. Additionally and separate from initial fees from implementation licensees, our sales- and usage-based licensing agreements include a nominal fee, which is also recognized at a point in time in which control of the IP has been transferred. Revenues from these arrangements are included as a component of licensing revenue.

Recoveries. Through our contract compliance efforts, we identify under-reported or misreported licensee royalties related to non-current periods. We may record a favorable or unfavorable revenue adjustment in connection with the findings from these compliance efforts generally upon resolution with the licensee through agreement of the findings, or upon receipt of the licensee’s correction statement. Revenues from these arrangements are included as a component of licensing revenue.

We also undertake activities aimed at identifying potential unauthorized uses of our technologies by third parties with whom we don't have a licensing agreement for such use, which when successful result in the recognition of revenue. These back royalties stem from third parties who agree to remit payments to us based on past use of our technology. In these scenarios, a legally binding contract did not exist at time of use of our technology, and therefore, we recognize revenue recoveries upon execution of the agreement as that is the point in time to which a contract exists and control is transferred. These revenues are classified as licensing revenue.

In general, we classify legal costs associated with activities aimed at identifying potential unauthorized uses of our technologies, auditing existing licensees, and on occasion, pursuing litigation as S&M in our consolidated statements of operations.

We recognize licensing revenue gross of withholding taxes, which our licensees remit directly to their local tax authorities, and for which we receive a partial foreign tax credit in our income tax provision.

In addition to our licensing arrangements, we also enter into arrangements to deliver products and services.

Product Sales. Revenue from the sale of products is recognized when the customer obtains control of the promised good or service, which is generally upon shipment.

Services. We provide various services, such as engineering services related to movie soundtrack print mastering, equipment training and maintenance, mixing room alignment, equalization, and image calibration, which we bill on a fixed fee and time and materials basis. Most of these services are of a short duration and are recognized as control of the performance obligations are transferred which is when the related services are performed.

Collaborative Arrangements. We collaborate with established cinema exhibitors to offer Dolby Cinema, a branded premium cinema offering for movie audiences. Under such collaborations, Dolby and the exhibitor are both active participants, and share the risks and rewards associated with the business. Accordingly, these collaborations are governed by revenue sharing arrangements under which Dolby receives revenue based on box office receipts, reported to Dolby by exhibitor partners on a monthly or quarterly basis, in exchange for the use of our imaging and sound technologies, our proprietary designs and trademark as well as for the use of our equipment at the exhibitor's venue. The use of our product solution meets the definition of a lease, and for the related portion of Dolby's share of revenue, we apply ASC 842, *Leases*, and recognize revenue based on monthly box office reports from exhibitors and estimates based on historical and third-party data. Our revenue share is recognized as licensing revenue in our consolidated statements of operations.

In addition, we also enter into hybrid agreements where a portion involves guaranteed payments, which in some cases result in classifying the arrangement as a sales-type lease. In such arrangements, we consider control to transfer at the point in time to which we have installed and tested the equipment, at which point we record such guaranteed payments as product revenue.

Via Administration Fee. We generate service fees for managing patent pools on behalf of third party patent owners through our wholly-owned subsidiary, Via Licensing Corporation. As an agent to licensors in the patent pool, Via receives a share of the sales-based royalty that the patent pool licensors earn from licensees. As such, we apply the sales-based royalty exception as the service provided is directly related to the patent pool licensors' provision of IP, which results in recognition based on estimates of the licensee's quarter shipments that use the pool's patents. In addition to sales-based royalties, Via also has contracts where the fees are fixed. The revenue share Via receives from licensors on fixed fee contracts is recognized over the term in which we are providing services associated with the fixed fee contract. We recognize our administrative fees net of the consideration paid to the patent licensors in the pool as licensing revenue.

Deferred revenue, which is a component of contract liabilities, represents amounts that are ultimately expected to be recognized as revenue, but for which we have yet to satisfy the performance obligation. On June 26, 2020, we had $40.4 million of remaining performance obligations, 14% of which we expect to recognize as revenue in fiscal 2020, 34% in fiscal 2021, and the balance of 52% in fiscal years beyond 2021.

F. *Disaggregation of revenue*

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

Revenue	Fiscal Quarter Ended June 26, 2020			Fiscal Quarter Ended June 28, 2019			Fiscal Year-To-Date Ended June 26, 2020			Fiscal Year-To-Date Ended June 28, 2019		
Licensing	$	235,125	95 %	$	271,897	90 %	$	821,673	92 %	$	842,484	89 %
Products and services		11,784	5 %		30,262	10 %		68,928	8 %		100,309	11 %
Total revenue	$	246,909	100 %	$	302,159	100 %	$	890,601	100 %	$	942,793	100 %

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

Market	Fiscal Quarter Ended June 26, 2020			Fiscal Quarter Ended June 28, 2019			Fiscal Year-To-Date Ended June 26, 2020			Fiscal Year-To-Date Ended June 28, 2019		
Broadcast	$	88,824	38 %	$	134,106	49 %	$	319,634	39 %	$	356,668	42 %
Mobile		77,641	33 %		47,034	17 %		187,819	23 %		147,966	18 %
CE		20,365	9 %		28,662	11 %		118,409	14 %		117,188	14 %
PC		23,537	10 %		24,579	9 %		101,171	12 %		88,929	11 %
Other		24,758	10 %		37,516	14 %		94,640	12 %		131,733	15 %
Total licensing revenue	$	235,125	100 %	$	271,897	100 %	$	821,673	100 %	$	842,484	100 %

We license our technologies in approximately 60 countries, and our licensees distribute products that incorporate our technologies throughout the world. As shown in the table below, we generate the majority of our revenue from outside the United States. Geographic data for our licensing revenue is based on the location of our licensees' headquarters, products revenue is based on the destination to which we ship our products, and services revenue is based on the location where services are performed.

Revenue By Geographic Location	Fiscal Quarter Ended June 26, 2020			Fiscal Quarter Ended June 28, 2019			Fiscal Year-To-Date Ended June 26, 2020			Fiscal Year-To-Date Ended June 28, 2019		
United States	$	72,261	29 %	$	78,590	26 %	$	366,474	41 %	$	356,389	38 %
International		174,648	71 %		223,569	74 %		524,127	59 %		586,404	62 %
Total revenue	$	246,909	100 %	$	302,159	100 %	$	890,601	100 %	$	942,793	100 %

G. *Contract assets and liabilities*

Our contract assets represent rights to consideration from licensees for the use of our IP that we have estimated in a given quarter in the absence of receiving actual royalty statements from licensees. These estimates reflect our best judgment at that time, and are developed using a number of inputs, including historical experience, anticipated performance, and third-party data. In the event that our estimates differ from actual amounts reported, we record an appropriate adjustment in the quarter in which the report is received which is typically the quarter following our estimate. Actual amounts reported are typically paid within sixty days. The main drivers for change in the contract assets account are variances in quarterly estimates, and to lesser degree, timing of receipt of actual royalty statements.

Our contract liabilities consist of advance payments and billings in excess of amounts earned and deferred interest where we have significant financing. The non-current portion of contract liabilities is separately disclosed in our consolidated balance sheets. We present the net contract asset or liability when we have both contract assets and contract liabilities for a single contract. In the third quarter of fiscal 2020, we recognized $6.5 million from prior period deferred revenue and deferred interest from arrangements which include a significant financing component.

The following table presents a summary of the balances to which contract assets and liabilities related to revenue are recorded for all periods presented:

	June 26, 2020		September 27, 2019		Change ($)		Change (%)
Accounts receivable, net	$	247,486	$	189,115	$	58,371	31 %
Contract assets		128,319		195,651		(67,332)	(34)%
Contract liabilities - current		18,025		19,991		(1,966)	(10)%
Contract liabilities - non-current		24,128		24,404		(276)	(1)%

4. Composition of Certain Financial Statement Captions

The following tables present detailed information from our consolidated balance sheets as of June 26, 2020 and September 27, 2019 (amounts displayed in thousands, except as otherwise noted).

Accounts Receivable

	June 26, 2020	September 27, 2019
Trade accounts receivable	$ 179,406	$ 151,996
Accounts receivable from patent administration program licensees	82,372	46,894
Accounts receivable, gross	261,778	198,890
Less: allowance for doubtful accounts	(14,292)	(9,775)
Total	**$ 247,486**	**$ 189,115**

Accounts receivable, gross includes unbilled accounts receivable balances of $76.9 million and $82.3 million as of June 26, 2020 and September 27, 2019, respectively, related to amounts that are contractually owed. The unbilled balance represents our unconditional right to consideration related to fixed fee contracts which we are entitled to as a result of satisfying, or partially satisfying, performance obligations, as well as Via's unconditional right to consideration related to their patent administration programs.

Inventories

	June 26, 2020	September 27, 2019
Raw materials	$ 5,827	$ 8,031
Work in process	8,192	4,872
Finished goods	15,311	19,428
Total	**$ 29,330**	**$ 32,331**

Inventories are stated at the lower of cost and net realizable value. Inventory with a consumption period expected to exceed twelve months is recorded within other non-current assets in our consolidated balance sheets. We have included $3.4 million and $3.0 million of raw materials inventory within other non-current assets in our consolidated balance sheets as of June 26, 2020 and September 27, 2019, respectively. Based on anticipated inventory consumption rates, and aside from existing write-downs due to excess inventory, we do not believe that material risk of obsolescence exists prior to ultimate sale.

Prepaid Expenses And Other Current Assets

	June 26, 2020	September 27, 2019
Prepaid expenses	$ 22,025	$ 17,997
Other current assets	23,353	20,924
Income tax receivable	146	783
Total	**$ 45,524**	**$ 39,704**

As of June 26, 2020 and September 27, 2019, other current assets include the carrying value of $2.2 million of land and building that are currently held for sale. Management has committed to a plan to sell the property and we have determined that no indicators of potential impairment exist based on current estimated selling prices in the market.

Accrued Liabilities

	June 26, 2020	September 27, 2019
Accrued royalties	$ 822	$ 2,957
Amounts payable to patent administration program partners	59,290	58,899
Accrued compensation and benefits	80,173	78,716
Accrued professional fees	13,085	19,216
Unpaid PP&E additions	7,499	15,332
Accrued customer refunds	15,334	24,299
Other accrued liabilities	34,038	68,725
Total	**$ 210,241**	**$ 268,144**

Other Non-Current Liabilities

	June 26, 2020	September 27, 2019
Supplemental retirement plan obligations	$ 3,762	$ 3,466
Non-current tax liabilities (1)	77,942	136,323
Other liabilities	38,286	37,673
Total	**$ 119,990**	**$ 177,462**

(1) Refer to Note 12 "*Income Taxes*" for additional information related to tax liabilities.

5. Investments & Fair Value Measurements

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

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

	June 26, 2020						
		Unrealized			Estimated Fair Value		
	Cost	Gains	Losses	Total	Level 1	Level 2	Level 3
Cash and cash equivalents:							
Cash	$ 791,914	$ —	$ —	$ 791,914	$ 791,914	$ —	$ —
Cash equivalents:							
Certificate of deposit	200	—	—	200	—	200	—
Corporate bonds	976	—	—	976	—	976	—
Money market funds	8,019	—	—	8,019	8,019	—	—
Government bonds	53,994	1	(1)	53,994	53,994	—	—
Cash and cash equivalents	855,103	1	(1)	855,103	853,927	1,176	—
Short-term investments:							
Certificate of deposit	575	—	—	575	—	575	—
U.S. agency securities	5,798	23	—	5,821	—	5,821	—
Government bonds	114,175	95	(2)	114,268	111,677	2,591	—
Commercial paper	17,753	23	(2)	17,774	—	17,774	—
Corporate bonds	34,073	200	—	34,273	—	34,273	—
Municipal debt securities	16,597	75	—	16,672	—	16,672	—
Short-term investments	188,971	416	(4)	189,383	111,677	77,706	—
Long-term investments:							
U.S. agency securities	4,214	134	—	4,348	—	4,348	—
Government bonds	26,039	755	—	26,794	22,492	4,302	—
Corporate bonds	19,599	457	(2)	20,054	—	20,054	—
Municipal debt securities	19,662	236	(5)	19,893	—	19,893	—
Other long-term investments (1)	3,679	—	—	3,679	—	—	—
Long-term investments	73,193	1,582	(7)	74,768	22,492	48,597	—
Total cash, cash equivalents, and investments	**$ 1,117,267**	**$ 1,999**	**$ (12)**	**$ 1,119,254**	**$ 988,096**	**$ 127,479**	**$ —**
Investments held in supplemental retirement plan:							
Assets	3,860	—	—	3,860	3,860	—	—
Included in prepaid expenses and other current assets & other non-current assets							
Liabilities	3,860	—	—	3,860	3,860	—	—
Included in accrued liabilities & other non-current liabilities							
Currency derivatives as hedge instruments:							
Assets: Included in other current assets	—	1,621	—	1,621	—	1,621	—
Assets: included in other non-current assets	—	1,000	—	1,000	—	1,000	—
Liabilities: Included in other accrued expenses	—	—	(502)	(502)	—	(502)	—
Liabilities: Included in other non-current liabilities	—	—	(34)	(34)	—	(34)	—

(1) Other long-term investments as of June 26, 2020 include investments that are not carried at fair value including an equity method investment of $3.7 million.

	September 27, 2019						
		Unrealized			Estimated Fair Value		
	Cost	Gains	Losses	Total	Level 1	Level 2	Level 3
Cash and cash equivalents:							
Cash	$ 680,287	$ —	$ —	$ 680,287	$ 680,287	$ —	$ —
Cash equivalents:							
Corporate bonds	1,000	—	—	1,000	—	1,000	—
Money market funds	115,270	—	—	115,270	115,270	—	—
Government bonds	653	—	—	653	653	—	—
Cash and cash equivalents	797,210	—	—	797,210	796,210	1,000	—
Short-term investments:							
Certificate of deposit	1,265	1	—	1,266	—	1,266	—
U.S. agency securities	10,973	8	(9)	10,972	—	10,972	—
Government bonds	8,381	11	(1)	8,391	5,784	2,607	—
Commercial paper	6,347	9	—	6,356	—	6,356	—
Corporate bonds	76,802	172	(34)	76,940	—	76,940	—
Municipal debt securities	15,210	18	(7)	15,221	—	15,221	—
Short-term investments	118,978	219	(51)	119,146	5,784	113,362	—
Long-term investments:							
Asset backed securities	400	2	—	402	—	402	—
U.S. agency securities	7,102	146	—	7,248	—	7,248	—
Government bonds	23,563	187	—	23,750	19,670	4,080	—
Corporate bonds	134,360	1,700	—	136,060	—	136,060	—
Municipal debt securities	10,315	87	(6)	10,396	—	10,396	—
Other long-term investments (1)	1,731	—	—	1,731	—	—	—
Long-term investments	177,471	2,122	(6)	179,587	19,670	158,186	—
Total cash, cash equivalents, and investments	**$ 1,093,659**	**$ 2,341**	**$ (57)**	**$ 1,095,943**	**$ 821,664**	**$ 272,548**	**$ —**
Investments held in supplemental retirement plan:							
Assets	3,564	—	—	3,564	3,564	—	—
Included in prepaid expenses and other current assets & other non-current assets							
Liabilities	3,564	—	—	3,564	3,564	—	—
Included in accrued liabilities & other non-current liabilities							
Currency derivatives as hedge instruments:							
Liabilities: Included in other accrued expenses	—	—	(242)	(242)	—	(242)	—

(1) Other long-term investments as of September 27, 2019 include an investment that is not carried at fair value including an equity method investment of $1.7 million.

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

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

Level 2: Prices may be based upon quoted prices in active markets or inputs not quoted on active markets but are corroborated by market data. We obtain the fair value of our Level 2 investments 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. The fair value of the currency derivatives are calculated from market spot rates, forward rates, interest rates, and credit ratings at the end of the period.

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.

Securities In Gross Unrealized Loss Position. We periodically evaluate our investments for other-than- temporary declines in fair value. The unrealized losses on our AFS securities were primarily the result of unfavorable changes in interest rates subsequent to the initial purchase of these securities. The following table presents the gross unrealized losses and fair value for those AFS securities that were in an unrealized loss position for less than twelve months and for twelve months or greater as of June 26, 2020 and September 27, 2019 (in thousands):

	June 26, 2020				September 27, 2019			
	Less Than 12 Months		12 Months Or Greater		Less Than 12 Months		12 Months Or Greater	
Investment Type	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Certificate of deposit	$ 275	$ —	$ —	$ —	$ 300	$ —	$ —	$ —
U.S. agency securities	—	—	—	—	—	—	4,787	(9)
Government bonds	94,113	(2)	—	—	1,426	—	—	—
Commercial paper	1,669	(2)	—	—	—	—	—	—
Corporate bonds	2,135	(2)	—	—	7,647	(3)	27,078	(32)
Municipal debt securities	2,508	(6)	—	—	9,552	(13)	900	—
Total	**$ 100,700**	**$ (12)**	**$ —**	**$ —**	**$ 18,925**	**$ (16)**	**$ 32,765**	**$ (41)**

Although we had certain securities that were in an unrealized loss position as of June 26, 2020, we expect to recover the full carrying value of these securities. As a result, we do not consider any portion of the unrealized losses at either June 26, 2020 or September 27, 2019 to represent an other–than–temporary impairment, nor do we consider any of the unrealized losses to be credit losses.

Investment Maturities. The following table summarizes the amortized cost and estimated fair value of the AFS securities within our investment portfolio based on stated maturities as of June 26, 2020 and September 27, 2019, which are recorded within cash equivalents and both short and long-term investments in our consolidated balance sheets (in thousands):

	June 26, 2020		September 27, 2019	
Range of maturity	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due within 1 year	$ 252,160	$ 252,573	$ 238,186	$ 238,354
Due in 1 to 2 years	35,334	35,985	93,948	94,899
Due in 2 to 3 years	34,180	35,103	81,793	82,957
Total	**$ 321,674**	**$ 323,661**	**$ 413,927**	**$ 416,210**

6. Property, Plant, & Equipment

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

	June 26, 2020	September 27, 2019
Land	$ 41,925	$ 41,918
Buildings and building improvements	284,373	282,924
Leasehold improvements	81,797	66,730
Machinery and equipment	130,906	128,525
Computer equipment and software	229,297	219,455
Furniture and fixtures	31,742	34,191
Equipment provided under operating leases	189,179	161,372
Construction-in-progress	14,506	19,616
Property, plant, and equipment, gross	1,003,725	954,731
Less: accumulated depreciation	(457,075)	(417,299)
Property, plant, & equipment, net	**$ 546,650**	**$ 537,432**

7. Leases

As Lessee

As a lessee, we enter into contracts to access and utilize office space, including those payable to our principal stockholder and portions attributable to the controlling interests in our wholly owned subsidiaries. We determine if a contract contains a lease based on whether we have the right to obtain substantially all of the economic benefits from the use of an identified asset and whether we have the right to direct the use of an identified asset in exchange for consideration, which relates to an asset which we do not own. Right of use (“ROU”) assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets are recognized as the lease liability, adjusted for lease incentives received. Lease liabilities are recognized at the present value of the future lease payments at the lease commencement date. The interest rate used to determine the present value of the future lease payments is our Incremental Borrowing Rate ("IBR"), because the interest rate implicit in our leases is not readily determinable. The IBR is a hypothetical rate based on our understanding of what our credit rating would be to borrow and resulting interest we would pay to borrow an amount equal to the lease payments in a similar economic environment over the lease term on a collateralized basis. Lease payments may be fixed or variable, however, only fixed payments are included in our lease liability calculation. Variable lease payments are recognized in operating expenses in the period in which the obligation for those payments are incurred.

The lease term of operating leases vary from less than a year to 12 years. We have leases that include one or more options to extend the lease term for up to 5 years as well as options to terminate the lease within one year. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise such options.

The components of lease expense were as follows (in thousands):

	Fiscal Quarter Ended June 26, 2020	Fiscal Year-To-Date Ended June 26, 2020
Lease cost		
Operating lease cost	6,278	17,431
Variable lease cost	210	787
Total lease cost	6,488	18,218

Supplemental cash flow information related to leases was as follows (in thousands):

	Fiscal Quarter Ended June 26, 2020	Fiscal Year-To Date Ended June 26, 2020
Other information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	5,707	16,473
Right-of-use assets obtained in exchange for lease obligations:		
Operating lease liabilities	2,595	31,455

Supplemental balance sheet information related to leases was as follows:

	June 26, 2020
Operating Leases	
Weighted-average remaining lease term	6.7 years
Weighted-average discount rate	3.2 %

The following table presents the maturity analysis of lease liabilities (in thousands):

	June 26, 2020 Operating Leases	September 27, 2019 Operating Leases
Remainder of Fiscal 2020	5,810	17,231
Fiscal 2021	16,686	9,329
Fiscal 2022	13,733	7,191
Fiscal 2023	12,314	6,218
Fiscal 2024	11,758	4,499
Thereafter	30,853	12,355
Total undiscounted lease payments	91,154	56,823
Less: imputed interest	(9,647)	
Total lease liabilities	81,507	

As Lessor

As a lessor, we lease our Dolby Cinema product solution to exhibitors, Dolby Voice equipment to cloud conferencing service providers, and a real estate property. The terms of these leases vary from 4 to 10 years. Lease components consist of fixed payments and/or variable lease payments based on contracted percentages of revenue. Generally, leases do not grant any right to the lessee to purchase the underlying asset at the end of the lease term, with the exception of certain leases of Dolby Voice equipment for which the customer has the option to purchase the equipment at fair value. Dolby Cinema lease arrangements have options to extend the lease term at expiration by increments ranging from 1 to 5 years.

Assets provided under an operating lease are carried at cost within property, plant and equipment and depreciated over the lease term using the straight-line method. Fixed operating lease payments are recognized on a straight-line basis over the lease term to other income for our real estate property and to revenue for all other leases. Variable lease payments received under our Dolby Cinema operating leases are computed as shares of lessees' box office revenues and recognized to revenue in the period that box office sales occur. Lease incentive payments we make to lessees are amortized as a reduction in revenue over the lease term. For the quarter ended June 26, 2020, variable operating lease income was $(0.9) million and fixed operating lease income was $1.0 million and for the fiscal year-to-date period ended June 26, 2020, variable operating lease income was $10.2 million and fixed operating lease income was $2.5 million.

If a lease is classified as a sales-type lease, the carrying amount of the asset is derecognized from property, plant and equipment and a net investment in the lease is recorded. The net investment in the lease is measured at commencement date as the sum of the lease receivable and the estimated residual value of the equipment. The unguaranteed residual value of the equipment was determined as the estimated carrying value of the asset at the end of the lease term had the asset been depreciated on a straight-line basis. At June 26, 2020, the unguaranteed residual value of sales-type leases was $0.7 million. Selling profit or loss arising from a sales-type lease is recorded at lease commencement and presented on a gross basis. Over the term of the lease, we recognize interest income on the net investment in the lease and any variable lease payments, which is not material and not included in the net investment in the lease.

The following table presents the maturity analysis of lease payments due to Dolby (in thousands):

	June 26, 2020	
	Operating Leases	Sales-Type Leases
Remainder of Fiscal 2020	535	4,047
Fiscal 2021	3,209	1,600
Fiscal 2022	3,242	1,600
Fiscal 2023	3,202	1,600
Fiscal 2024	1,672	796
Thereafter	—	790
Total undiscounted cash flows	11,860	10,433
Less: present value of lease payments (recognized as lease receivables)		(8,601)
Difference		1,832

8. Goodwill & Intangible Assets

Goodwill

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

		Goodwill
Balance at September 27, 2019	**$**	**334,829**
Acquired goodwill		—
Translation adjustments		865
Balance at June 26, 2020	**$**	**335,694**

Intangible Assets

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

	June 26, 2020			September 27, 2019		
Intangible Assets	**Cost**	**Accumulated Amortization**	**Net**	**Cost**	**Accumulated Amortization**	**Net**
Acquired patents and technology	$ 342,072	$ (198,839)	$ 143,233	$ 338,075	$ (176,867)	$ 161,208
Customer relationships	64,724	(48,167)	16,557	64,728	(45,510)	19,218
Other intangibles	22,949	(22,670)	279	22,902	(22,437)	465
Total	**$ 429,745**	**$ (269,676)**	**$ 160,069**	**$ 425,705**	**$ (244,814)**	**$ 180,891**

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

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

Fiscal Period	**Total Purchase Consideration (1)**	**Weighted-Average Useful Life**
	(in millions)	*(in years)*
Fiscal 2019		
Q1 - Quarter ended December 28, 2018	$12.1	11.6
Q2 - Quarter ended March 29, 2019	$5.0	4.0
Q3 - Quarter ended June 28, 2019	$10.2	5.4
	$27.3	**7.9**
Fiscal 2020		
Q1 - Quarter ended December 27, 2019	$2.9	14.0
Q2 - Quarter ended March 27, 2020	None	
Q3 - Quarter ended June 26, 2020	None	
	$2.9	**14.0**

(1) Amortization expense on the intangible assets from patent portfolio and business acquisitions is included within cost of revenue, R&D, S&M, and G&A in our consolidated statements of operations.

Amortization expense for our intangible assets is included in cost of licensing, cost of products, R&D, S&M, and G&A expenses in our consolidated statements of operations. Amortization expense was $7.4 million and $7.6 million in the third quarter of fiscal 2020 and 2019, respectively, and $22.2 million and $21.6 million in the fiscal year-to-date period ended June 26, 2020 and June 28, 2019, respectively. As of June 26, 2020, estimated amortization expense in future fiscal periods was as follows (in thousands):

Fiscal Year		Amortization Expense
		(in thousands)
Remainder of 2020	$	7,930
2021		30,842
2022		28,255
2023		23,902
2024		21,886
Thereafter		47,254
Total	**$**	**160,069**

9. Stockholders' Equity & Stock-Based Compensation

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

Common Stock - Class A and Class B

Our Board of Directors has authorized two classes of common stock, Class A and Class B. At June 26, 2020, we had authorized 500,000,000 Class A shares and 500,000,000 Class B shares. At June 26, 2020, we had 64,338,677 shares of Class A common stock and 36,222,720 shares of Class B common stock issued and outstanding. Holders of our Class A and Class B common stock have identical rights, except that holders of our Class A common stock are entitled to one vote per share and holders of our Class B common stock are entitled to ten votes per share. Shares of Class B common stock can be converted to shares of Class A common stock at any time at the option of the stockholder and automatically convert upon sale or transfer, except for certain transfers specified in our amended and restated certificate of incorporation.

Stock Incentive Plans

2020 Stock Plan. In January 2005, our stockholders approved our 2005 Stock Plan, which our Board of Directors adopted in November 2004. The 2005 Stock Plan became effective on February 16, 2005, the day prior to the completion of our initial public offering. In February 2020, our stockholders approved the name change of our 2005 Stock Plan to the 2020 Stock Plan and certain other changes described in our proxy statement for our 2020 annual meeting of stockholders. Our 2020 Stock Plan provides for the ability to grant incentive stock options, non-qualified stock options, restricted stock, RSUs, stock appreciation rights, deferred stock units, performance units, performance bonus awards, and performance shares. A total of 55.0 million shares of our Class A common stock have been authorized for issuance under the 2020 Stock Plan in total since inception of the plan. For awards granted prior to February 2011, any shares subject to an award with a per share price less than the fair market value of our Class A common stock on the date of grant and any shares subject to an outstanding RSU award will be counted against the authorized share reserve as two shares for every one share subject to the award, and if returned to the 2020 Stock Plan, such shares will be counted as two shares for every one share returned. For those awards granted from February 2011 onward, any shares subject to an award with a per share price less than the fair market value of our Class A common stock on the date of grant and any shares subject to an outstanding RSU award will be counted against the authorized share reserve as 1.6 shares for every one share subject to the award, and if returned to the 2020 Stock Plan, such shares will be counted as 1.6 shares for every one share returned.

Stock Options. Stock options are granted at fair market value on the date of grant. Options granted to employees and officers prior to June 2008 generally vested over four years, with equal annual cliff-vesting and expire on the earlier of ten years after the date of grant or three months after termination of service. Options granted to employees and officers from June 2008 onward generally vest over four years, with 25% of the shares subject to the option becoming exercisable on the one-year anniversary of the date of grant and the balance of the shares vesting in equal monthly installments over the following 36 months. These options expire on the earlier of ten years after the date of grant or three months after termination of service. All options granted vest over the requisite service period and upon the exercise of stock options, we issue new shares of Class A common stock under the 2020 Stock Plan. Our 2020 Stock Plan also allows us to grant stock awards which vest based on the satisfaction of specific performance criteria.

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

In valuing the PSOs which will be recognized as compensation cost, we used a Monte Carlo valuation model. Aside from the use of an expected term for the PSOs commensurate with their shorter contractual term, the nature of the valuation inputs used in the Monte Carlo valuation model were consistent with those used to value our nonperformance based options granted under the 2020 Stock Plan. Compensation cost is being amortized on a straight-line basis over the requisite service period.

On December 15, 2018, we granted PSOs to our executive officers exercisable for an aggregate of 241,100 shares at the target award amount, which would be exercisable up to an aggregate of 301,375 shares at 125% of the target award amount. On December 15, 2017, we granted PSOs to our executive officers exercisable for an aggregate of 264,000 shares at the target award amount, which would be exercisable up to an aggregate of 330,000 shares at 125% of the target award amount. On December 15, 2016, we granted PSOs to our executive officers exercisable for an aggregate of 276,199 shares at the target award amount, which vested in December 2019 at 95% of the target award amount, for an aggregate of 240,539. On December 15, 2015, we granted PSOs to our executive officers, which vested in December 2018 at 125% of the target award amount, for an aggregate of 334,623 shares. As of June 26, 2020, PSOs which would be exercisable for an aggregate of 726,639 shares at the target award amount (994,455 at 125% of the target award amount) were outstanding.

Performance-Based Restricted Stock Units (PSUs). In the first quarter of fiscal 2020, we began granting PSUs to our executive officers with shares of our Class A common stock underlying such awards. The terms of the PSU Agreement adopted in the first quarter fiscal 2020 provide for the grant of performance-based restricted stock units to our executive officers contingent on Dolby's achievement of annualized TSR targets measured against a comparator index over a three-year performance period following the date of grant. Anywhere from 0% to 200% of eligible restricted stock units may vest based on achievement of the performance conditions at the end of the three-year performance period. As of June 26, 2020, PSUs which would vest for an aggregate of 62,000 shares at the target amount (124,000 at 200% of the target award amount) were outstanding.

In valuing the PSUs which will be recognized as compensation cost, we used a Monte Carlo valuation model. Compensation cost is being amortized on a straight-line basis over the requisite service period.

The following table summarizes information about all stock options issued under our 2020 Stock Plan:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value (1)
	(in thousands)		*(in years)*	*(in thousands)*
Options outstanding at September 27, 2019	7,201	$ 48.03		
Grants	1,109	67.84		
Exercises	(1,334)	39.53		
Forfeitures and cancellations	(80)	62.24		
Options outstanding at June 26, 2020	6,896	52.70	6.37	$ 92,659
Options vested and expected to vest at June 26, 2020	6,592	52.10	6.28	92,352
Options exercisable at June 26, 2020	**4,157**	**$ 45.18**	**5.32**	**$ 85,543**

(1) Aggregate intrinsic value is based on the closing price of our Class A common stock on June 26, 2020 of $65.76 and excludes the impact of options that were not in-the-money.

Restricted Stock Units. Beginning in fiscal 2008, we began granting RSUs to certain directors, officers, and employees under our 2020 Stock Plan. Awards granted to employees and officers generally vest over four years, with equal annual cliff-vesting. Awards granted to directors prior to November 2010 generally vested over three years, with equal annual cliff-vesting. Awards granted after November 2010 and prior to fiscal 2014 to new directors vested over approximately two years, with 50% vesting per year, while awards granted from November 2010 onward to ongoing directors generally vest over approximately one year. Awards granted to new directors from fiscal 2014 onward vest on the earlier of the first anniversary of the award's date of grant, or the day immediately preceding the date of the next annual meeting of stockholders that occurs after the award's date of grant. Our 2020 Stock Plan also allows us to grant RSUs that vest based on the satisfaction of specific performance criteria, although no such awards had been granted as of June 26, 2020. At each vesting date, the holder of the award is issued shares of our Class A common stock. Compensation expense from these awards is equal to the fair market value of our Class A common stock on the date of grant and is recognized on a straight-line basis over the requisite service period.

The following table summarizes information about RSUs issued under our 2020 Stock Plan:

	Shares		Weighted-Average Grant Date Fair Value
	(in thousands)		
Non-vested at September 27, 2019	2,805	$	58.84
Granted	1,348		65.79
Vested	(1,021)		52.40
Forfeitures	(123)		60.92
Non-vested at June 26, 2020	**3,009**	**$**	**62.58**

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

Stock Option Valuation Assumptions

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

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

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

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

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

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

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	June 26, 2020	June 28, 2019	June 26, 2020	June 28, 2019
Expected life (in years)	4.91	4.90	4.91	4.90
Risk-free interest rate	0.4 %	2.4 %	1.7 %	2.7 %
Expected stock price volatility	29.4 %	22.5 %	24.0 %	22.9 %
Dividend yield	1.5 %	1.2 %	1.3 %	1.1 %

Stock-Based Compensation Expense

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

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

Expense - By Award Type

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	June 26, 2020	June 28, 2019	June 26, 2020	June 28, 2019
Compensation expense - by type				
Stock options	$ 4,053	$ 4,260	$ 12,573	$ 13,561
Restricted stock units	15,983	13,566	48,800	42,836
Employee stock purchase plan	1,249	1,037	3,477	3,183
Total stock-based compensation	21,285	18,863	64,850	59,580
Benefit from income taxes	(3,392)	(3,320)	(10,507)	(10,545)
Total stock-based compensation, net of tax	**$ 17,893**	**$ 15,543**	**$ 54,343**	**$ 49,035**

Expense - By Income Statement Line Item Classification

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	June 26, 2020	June 28, 2019	June 26, 2020	June 28, 2019
Compensation expense - by classification				
Cost of products and services	$ 505	$ 428	$ 1,555	$ 1,328
Research and development	6,202	5,830	19,368	17,856
Sales and marketing	7,892	6,918	$ 23,768	$ 22,352
General and administrative	6,686	5,687	20,159	18,044
Total stock-based compensation expense	21,285	18,863	64,850	59,580
Benefit from income taxes	(3,392)	(3,320)	(10,507)	(10,545)
Total stock-based compensation, net of tax	**$ 17,893**	**$ 15,543**	**$ 54,343**	**$ 49,035**

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

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	June 26, 2020	June 28, 2019	June 26, 2020	June 28, 2019
Tax benefit - shares issued under ESPP	$ 107	$ 104	$ 359	$ 305

Unrecognized Compensation Expense. At June 26, 2020, total unrecorded compensation expense associated with employee stock options expected to vest was approximately $26.7 million, which is expected to be recognized over a weighted-average period of 2.3 years. At June 26, 2020, total unrecorded compensation expense associated with RSUs expected to vest was approximately $133.6 million, which is expected to be recognized over a weighted-average period of 2.5 years.

Common Stock Repurchase Program

In November 2009, we announced a stock repurchase program ("program"), providing for the repurchase of up to $250.0 million of our Class A common stock. The following table summarizes the initial amount of authorized repurchases as well as additional repurchases approved by our Board of Directors as of June 26, 2020 (in thousands):

Authorization Period		Authorization Amount
Fiscal 2010: November 2009	$	250,000
Fiscal 2010: July 2010		300,000
Fiscal 2011: July 2011		250,000
Fiscal 2012: February 2012		100,000
Fiscal 2015: October 2014		200,000
Fiscal 2017: January 2017		200,000
Fiscal 2018: July 2018		350,000
Fiscal 2019: July 2019		350,000
Total	**$**	**2,000,000**

Stock repurchases under the program may be made through open market transactions, negotiated purchases, or otherwise, at times and in amounts that we consider appropriate. The timing of repurchases and the number of shares repurchased depend upon a variety of factors, including price, regulatory requirements, the rate of dilution from our equity compensation plans, and other market conditions. The program does not have a specified expiration date, and can be limited, suspended or terminated at our discretion at any time without prior notice. Shares repurchased under the program will be returned to the status of authorized but unissued shares of Class A common stock. As of June 26, 2020, the remaining authorization to purchase additional shares is approximately $232 million.

The following table provides information regarding share repurchase activity under the program during fiscal 2020:

Quarterly Repurchase Activity	Shares Repurchased		Cost in thousands (1)		Average Price Paid Per Share (2)
Q1 - Quarter ended December 27, 2019	432,042	$	30,003	$	69.44
Q2 - Quarter ended March 27, 2020	1,015,481		71,669		70.57
Q3 - Quarter ended June 26, 2020	474,340		27,081		57.09
Total	**1,921,863**	**$**	**128,753**		

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

Dividend Program

The following table summarizes dividends declared under the program in relation to fiscal 2020:

Fiscal Period	Announcement Date	Record Date	Payment Date		Cash Dividend Per Common Share	Dividend Payment
Fiscal 2020						
Q1 - Quarter ended December 27, 2019	January 29, 2020	February 10, 2020	February 20, 2020	$	0.22	$22.2 million
Q2 - Quarter ended March 27, 2020	May 4, 2020	May 18, 2020	May 27, 2020	$	0.22	$22.1 million
Q3 - Quarter ended June 26, 2020	August 3, 2020	August 17, 2020	August 26, 2020	$	0.22	$22.1 million (1)

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

10. Accumulated Other Comprehensive Income

Other comprehensive income consists of three components: unrealized gains or losses on our AFS marketable investment securities, gains and losses on derivatives in cash flow hedge relationships not yet recognized in earnings, and the gains and losses from the translation of assets and liabilities denominated in non-U.S. dollar functional currencies. Until realized and reported as a component of net income, these comprehensive income items accumulate and are included within accumulated other comprehensive income, a subsection within stockholders' equity in our consolidated balance sheets. Unrealized gains and losses on our investment securities are reclassified from AOCI into earnings when realized upon sale and are determined based on specific identification of securities sold. Unrealized gains and losses on our cash flow hedges are reclassified from AOCI into earnings when the hedged operating expenses are recognized.

The following table summarizes the changes in the accumulated balances during the period, and includes information regarding the manner in which the reclassifications out of AOCI into earnings affect our consolidated statements of operations (in thousands):

	Fiscal Quarter Ended June 26, 2020				Fiscal Year-To-Date Ended June 26, 2020			
	Investment Securities	Cash Flow Hedges	Currency Translation Adjustments	Total	Investment Securities	Cash Flow Hedges	Currency Translation Adjustments	Total
Beginning Balance	**$ 1,309**	**$ (3,724)**	**$ (29,200)**	**$ (31,615)**	**$ 2,198**	**$ —**	**$ (22,823)**	**$ (20,625)**
Other comprehensive income/(loss) before reclassifications:								
Unrealized gains/(losses)	(820)	4,820	—	4,000	(2,894)	1,057	—	(1,837)
Foreign currency translation gains/(losses) (1)	—	—	8,252	8,252	—	—	1,875	1,875
Income tax effect - benefit/(expense)	(186)	(110)	—	(296)	(116)	(110)	—	(226)
Net of tax	(1,006)	4,710	8,252	11,956	(3,010)	947	1,875	(188)
Amounts reclassified from AOCI into earnings:								
Realized gains/(losses) (1)	1,854	1,054	—	2,908	3,246	1,093	—	4,339
Income tax effect - benefit/(expense) (2)	(370)	—	—	(370)	(647)	—	—	(647)
Net of tax	1,484	1,054	—	2,538	2,599	1,093	—	3,692
Net current-period other comprehensive income/(loss)	**478**	**5,764**	**8,252**	**14,494**	**(411)**	**2,040**	**1,875**	**3,504**
Ending Balance	**$ 1,787**	**$ 2,040**	**$ (20,948)**	**$ (17,121)**	**$ 1,787**	**$ 2,040**	**$ (20,948)**	**$ (17,121)**

	Fiscal Quarter Ended June 28, 2019				Fiscal Year-To-Date Ended June 28, 2019			
	Investment Securities	Cash Flow Hedges	Currency Translation Adjustments	Total	Investment Securities	Cash Flow Hedges	Currency Translation Adjustments	Total
Beginning Balance	**$ (80)**	**$ —**	**$ (14,603)**	**$ (14,683)**	**$ (2,948)**	**$ —**	**$ (12,884)**	**$ (15,832)**
Other comprehensive income before reclassifications:								
Unrealized gains/(losses)	2,095	139	—	2,234	4,905	139	—	5,044
Foreign currency translation gains/(losses) (1)	—	—	(1,865)	(1,865)	—	—	(3,584)	(3,584)
Income tax effect - benefit/(expense)	(60)	—	—	(60)	39	—	—	39
Net of tax	2,035	139	(1,865)	309	4,944	139	(3,584)	1,499
Amounts reclassified from AOCI into earnings:								
Realized gains/(losses) (1)	(147)	(5)	—	(152)	(213)	(5)	—	(218)
Income tax effect - benefit/(expense) (2)	30	—	—	30	55	—	—	55
Net of tax	(117)	(5)	—	(122)	(158)	(5)	—	(163)
Net current-period other comprehensive income/(loss)	**1,918**	**134**	**(1,865)**	**187**	**4,786**	**134**	**(3,584)**	**1,336**
Ending Balance	**$ 1,838**	**$ 134**	**$ (16,468)**	**$ (14,496)**	**$ 1,838**	**$ 134**	**$ (16,468)**	**$ (14,496)**

(1) Realized gains or losses, if any, from the sale of our AFS investment securities or from foreign currency translation adjustments are included within other income/expense, net in our consolidated statements of operations. Realized gains or losses on cash flow hedges are included in operating expenses together with the hedged item.
(2) The income tax benefit or expense is included within provision for income taxes in our consolidated statements of operations.

11. Earnings Per Share

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

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

Potentially dilutive shares represent the hypothetical number of incremental shares issuable under the assumed exercise of outstanding stock options (both vested and non-vested) and vesting of outstanding RSUs. The calculation of dilutive shares outstanding excludes out-of-the-money stock options.

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

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	June 26, 2020	June 28, 2019	June 26, 2020	June 28, 2019
Numerator:				
Net income attributable to Dolby Laboratories, Inc.	$ 67,285	$ 39,574	$ 204,534	$ 211,233
Denominator:				
Weighted-average shares outstanding—basic	100,593	101,218	100,594	102,012
Potential common shares from options to purchase common stock	1,100	1,829	1,425	2,006
Potential common shares from restricted stock units	360	670	855	1,007
Potential common shares from ESPP	22	—	38	—
Weighted-average shares outstanding—diluted	102,075	103,717	102,912	105,025
Net income per share attributable to Dolby Laboratories, Inc.:				
Basic	$ 0.67	$ 0.39	$ 2.03	$ 2.07
Diluted	$ 0.66	$ 0.38	$ 1.99	$ 2.01
Antidilutive awards excluded from calculation:				
Stock options	3,439	2,610	3,149	2,277
Restricted stock units	111	37	13	1
ESPP	8	—	1	—

12. Income Taxes

Our income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect management's best assessment of estimated current and future taxes to be paid. We are subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax expense.

Unrecognized Tax Benefit

As of June 26, 2020, the total amount of gross unrecognized tax benefits was $60.9 million, of which $36.6 million, if recognized, would reduce our effective tax rate. As of September 27, 2019, the total amount of gross unrecognized tax benefits was $108.5 million, of which $72.8 million, if recognized, would reduce our effective tax rate. The fiscal 2020 decrease was primarily due to the release of liabilities related to unrecognized tax benefits affecting prior periods for which the statute of limitations lapsed in the quarter ended June 26, 2020. Our net liability for unrecognized tax benefits is classified within other non-current liabilities in our consolidated balance sheets.

Effective Tax Rate

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

Our effective tax rate in the third quarter of fiscal 2020 was (68.5)% or a tax benefit of $(27.4) million, compared to our Federal statutory rate of 21% and our effective tax rate in the third quarter of fiscal 2019 of 5.2% or a tax expense of $2.2 million. The decrease in our tax expense was primarily due to the release of liabilities related to unrecognized tax benefits from prior periods due to a lapse in the statute of limitations in the quarter ended June 26, 2020.

Our effective tax rate in the third quarter of fiscal 2020 year-to-date period was 0.3% or a tax expense of $0.6 million, compared to our Federal statutory rate of 21% and our effective tax rate in the third quarter of fiscal 2019 year-to-date period of 6.4% or a tax expense of 14.5 million. The decrease in our tax expense was primarily due to the release of liabilities related to unrecognized tax benefits from prior periods due to a lapse in the statute of limitations in the quarter ended June 26, 2020.

13. Restructuring

Restructuring charges recorded in our statements of operations represent costs associated with separate individual restructuring plans implemented in various fiscal periods. Costs arising from these actions, including fluctuations in related balances between fiscal periods, are based on the nature of activities under the various plans.

Fiscal 2019 Restructuring Events. In fiscal 2019, we recorded charges as a result of our early exit of a leased facility. In addition, we recorded charges associated with a strategic reorganization of our marketing function that resulted in severance and other related benefits provided to the affected employees.

As a result of these events, we recorded a total of $36.6 million in restructuring costs in fiscal 2019 and they are reflected as such in the accompanying consolidated statement of operations. The table presented below summarizes changes in restructuring accruals under these plans (in thousands):

	Severance	Leased facility exit costs	Fixed assets write-off	Other associated costs	Total
Balance at September 28, 2018	$ —	$ —	$ —	$ 124	$ 124
Restructuring charges/(credits)	3,134	18,261	15,216	(53)	36,558
Cash payments	(3,006)	(4,577)	—	(130)	(7,713)
Non-cash and other adjustments	—	2,039	(15,216)	59	(13,118)
Balance at September 27, 2019	$ 128	$ 15,723	$ —	$ —	$ 15,851
Restructuring charges	—	1,866	—	—	1,866
Cash payments	(75)	(21,965)	—	—	(22,040)
Non-cash and other adjustments	(53)	4,376	—	—	4,323
Balance at June 26, 2020	$ —	$ —	$ —	$ —	$ —

Accruals for restructuring charges incurred for the restructuring plans described above are included within accrued liabilities in our consolidated balance sheets while restructuring charges are included within restructuring charges in our condensed consolidated statements of operations.

14. Legal Matters

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

15. Commitments & Contingencies

In the ordinary course of business, we enter into contractual agreements with third parties that include non-cancelable payment obligations, for which we are liable in future periods. These arrangements can include terms binding us to minimum payments and/or penalties if we terminate the agreement for any reason other than an event of default as described by the agreement. The following table presents a summary of our contractual obligations and commitments as of June 26, 2020 (in thousands):

	Payments Due By Fiscal Period						
	Remainder of Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Thereafter	Total
Naming rights	$ —	$ 7,915	$ 8,015	$ 8,116	$ 8,219	$ 69,600	$ 101,865
Purchase obligations	12,119	5,210	2,660	—	—	—	19,989
Donation commitments	1,832	2,931	155	155	155	1,157	6,385
Total	**$ 13,951**	**$ 16,056**	**$ 10,830**	**$ 8,271**	**$ 8,374**	**$ 70,757**	**$ 128,239**

Naming Rights. We are party to an agreement for naming rights and related benefits with respect to the Dolby Theatre in Hollywood, California, the location of the Academy Awards®. The term of the agreement is 20 years, over which we will make payments on a semi-annual basis until fiscal 2032. Our ongoing annual payment obligations are conditioned in part on the Academy Awards being held and broadcast from the Dolby Theatre. Our payment obligations may be suspended or reduced in certain circumstances, including protracted closure of the Dolby Theatre.

Purchase Obligations. Purchase obligations primarily consist of our commitments made under agreements to purchase goods and services related to Dolby Cinema and for purposes that include IT and telecommunications, marketing and professional services, and manufacturing and other R&D activities.

Donation Commitments. Our donation commitments relate to non-cancelable obligations that consist of maintenance services and installation of imaging and audio products in exchange for various marketing, branding, and publicity benefits. The recipients of these donations participate in or promote the cinema and entertainment industry and our commitments vary in length, lasting up to 15 years.

Indemnification Clauses. On a limited basis, our contractual agreements contain a clause under which we agree to provide indemnification to the counterparty, most commonly to licensees in connection with licensing arrangements that include our IP. We have also entered into indemnification agreements with our officers, directors,
and certain employees, and our certificate of incorporation and bylaws contain similar indemnification obligations. Additionally, and although not a contractual requirement, we have at times elected to defend our licensees from third party IP infringement claims. Since the terms and conditions of our contractual indemnification clauses do not explicitly specify our obligations, we are unable to reasonably estimate the maximum potential exposure for which we could be liable. Furthermore, we have not historically made any payments in connection with any such obligation and believe there to be a remote likelihood that any potential exposure in future periods would be of a material amount. As a result, no amounts have been accrued in our consolidated financial statements with respect to the contingent aspect of these indemnities.

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

The following discussion and analysis should be read in conjunction with our unaudited interim condensed consolidated financial statements and the related notes that appear elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements reflecting our current expectations which are subject to risks and uncertainties, including, but not limited to statements regarding: operating results and underlying measures; demand

and acceptance for our technologies and products; the effect of the novel coronavirus pandemic ("COVID-19") on our business; market growth opportunities and trends; our plans, strategies and expected opportunities; future competition; our stock repurchase plan; and our dividend policy. Use of words such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," "continue" or similar expressions indicates a forward-looking statement. Actual results may differ materially from those discussed in these forward-looking statements due to a number of factors, including the risks set forth in Part II, Item 1A, "Risk Factors." Such forward-looking statements are based on management's reasonable current assumptions and expectations. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform our prior statements to new developments or actual results.

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

OVERVIEW

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

COVID-19

Please refer to the Executive Summary section of this Item for information concerning the continuing effect of COVID-19 on our business.

OUR STRATEGY

Key elements of our strategy include:

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

Providing Creative Solutions. We promote the use of our solutions as creative tools, and provide our products, services, and technologies to filmmakers, musical artists, sound mixers, and other content creators and providers. Our tools help showcase the quality and impact of their efforts and intent, which in turn may generate market demand.

Delivering Superior Experiences. Our technologies and solutions optimize playback and communications so that users may enjoy richer, clearer, and more immersive sound and sight experiences.

REVENUE GENERATION

We have active licensing arrangements with over 500 electronics product OEMs and software developers. As of June 26, 2020, we had approximately 12,700 issued patents relating to technologies from which we derive a significant portion of our licensing revenue. We have approximately 1,200 trademark registrations throughout the world for a variety of wordmarks, logos, and slogans. These trademarks are an integral part of our technology licensing program as licensees typically place them on their products which incorporate our technologies to inform consumers that they have met our quality specifications.

Licensing

We license our technologies to a range of customers who incorporate them into their products for enhanced audio and imaging functionality whether it be at home, at work, on mobile devices, or at the cinema. Our key technologies are summarized in the table below. As it relates to AAC, HE-AAC, AVC, and HEVC, we jointly participate in patent licensing programs with other patent owners.

Technology	Description
AAC & HE-AAC	An advanced digital audio codec solution with higher bandwidth efficiency used for a wide range of media applications.
AVC	A digital video codec with high bandwidth efficiency used in a wide range of media devices.
Dolby® AC-4	A next-generation digital audio coding technology that increases transmission efficiency while delivering new audio experiences, including Dolby Atmos, to a wide range of playback devices.
Dolby Atmos®	An object-oriented audio technology for cinema and a wide range of media devices that allows sound to be precisely placed and moved anywhere in the listening environment including the overhead dimension. Dolby Atmos is an immersive experience that can be provided via multiple Dolby audio coding technologies.
Dolby Digital®	A digital audio coding technology that provides multichannel sound to a variety of media applications.
Dolby Digital Plus™	An advanced digital audio coding technology that offers more efficient audio transmission for a wide range of media applications and devices.
Dolby® TrueHD	A digital audio coding technology providing lossless encoding for premium quality media applications.
Dolby Vision®	An imaging technology combining high dynamic range and dynamic metadata to deliver higher color contrast, brighter contrast, and improved details for cinema and a wide range of media devices.
Dolby Voice®	An audio conferencing technology with superior spatial perception, voice clarity, and background noise reduction that emulates the in-person meeting experience.
HEVC	A next-generation digital video codec with high bandwidth efficiency to support ultra-high definition experiences for a wide range of media devices.

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

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended		
Market	**June 26, 2020**	**June 28, 2019**	**June 26, 2020**	**June 28, 2019**	**Main Offerings Incorporating Our Technologies**
Broadcast	38%	49%	39%	42%	Televisions & STBs
Mobile	33%	17%	23%	18%	Smartphones & Tablets
CE	9%	11%	14%	14%	DMAs, Blu-ray Disc devices, AVRs, Soundbars, DVDs, & HTIBs
PC	10%	9%	12%	11%	Windows and macOS operating systems
Other	10%	14%	12%	15%	Gaming consoles, Auto DVD, Dolby Cinema, & Dolby Voice
Total	**100%**	**100%**	**100%**	**100%**	

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

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

Implementation licensees incorporate our technologies into their chipsets that, once approved by Dolby, are available for purchase from implementation licensees by OEMs for use in end-user products. Implementation licensees only pay us a nominal initial fee on contract execution as consideration for the ongoing services that we provide to assist in their implementation process. Revenues from these initial fees are recognized ratably over the contractual term as a component of licensing revenue.

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

Integrated Licensing Model. We also license our technologies to software operating system vendors and to certain other OEMs that act as combined implementation and system licensees. These licensees incorporate our technologies in their software used on PCs, in mobile applications, or in ICs they manufacture and incorporate into their products. As with the two-tier licensing model, the combined implementation and system licensee pays us an initial licensing fee in addition to royalties as determined by the mix of Dolby technologies used, the nature of the implementations, and the volume of products using our technologies that are shipped, and is subject to the same quality control evaluation process.

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

Recoveries. Licensing revenue recognized in any given quarter may include previous quarters' revenue from licensees and/or settlements with third parties. Within the Results of Operations section of Part I, Item 2 "*Management's Discussion and Analysis of Financial Condition and Results of Operations,*" previous quarters' revenue and settlements are collectively referred to as "recoveries." Such recoveries have become a recurring element of our business and are particularly subject to fluctuation and unpredictability.

Collaboration Arrangements.

Dolby Cinema: We partner with exhibitors to deliver a premium cinema offering with Dolby Vision and Dolby Atmos at new and pre-existing venues. We receive a share of revenue at Dolby Cinema sites through box office receipts at the installed theaters, which is recognized as licensing revenue.

Dolby Voice: We enter into arrangements with audio and video conferencing providers where, in return for licensing our IP and know-how, we earn revenue based on access to our technology and services.

Products and Services

We design and manufacture audio and imaging products for the cinema, television, broadcast, and entertainment industries. Distributed in over 90 countries, these products are used in content creation, distribution, and playback to enhance image and sound quality, and improve transmission and playback. We also sell and/or lease hardware that facilitates the Dolby conferencing experience, including the Dolby Conference Phone for audio use only, and the Dolby Voice Room, our integrated solution that provides a video camera and a control hub integrated with the Dolby Conference Phone. Additionally, some of our Dolby Cinema arrangements involve fixed or minimum amounts, which are typically included in products sales.

Key products from which we generate products revenue are summarized in the table below:

<table>
<tr><th colspan="2">Product</th><th>Description</th></tr>
<tr><td rowspan="2">Cinema</td><td>Cinema Imaging Products</td><td>Digital Cinema Servers used to load, store, decrypt, decode, watermark, and playback digital film files for presentation on digital cinema projectors and software used to encrypt, encode, and package digital media files for distribution.</td></tr>
<tr><td>Cinema Audio Products</td><td>Cinema Processors, amplifiers, and loudspeakers used to decode, render, and optimally playback digital cinema soundtracks including those using Dolby Atmos.</td></tr>
<tr><td rowspan="3">Other</td><td>Dolby Conference Phone</td><td>An integral hardware component of the Dolby Voice conferencing solution that enhances full-room voice capture, spatial voice separation, and playback.</td></tr>
<tr><td>Dolby Voice Room</td><td>Video conferencing solution for huddle rooms and conference rooms that combines a camera product with the Dolby Conference Phone and Dolby Voice technology.</td></tr>
<tr><td>Other Products</td><td>3-D glasses and kits, broadcast hardware and software used to encode, transmit, and decode multiple channels of high quality audio for DTV and HDTV distribution, monitors, and accessibility solutions for hearing and visually impaired consumers.</td></tr>
</table>

In addition, we offer various services to support theatrical and television production for cinema exhibition, broadcast, and home entertainment, including equipment training and maintenance, mixing room alignment, equalization, as well as audio, color, and light image calibration. We also provide PCS for products sold and equipment installed at Dolby Cinema theaters operated by exhibitor partners and support the implementation of our technologies into products manufactured by our licensees.

EXECUTIVE SUMMARY

COVID-19

In December 2019, a novel coronavirus disease was reported and in January 2020, the World Health Organization ("WHO") declared it a Public Health Emergency of International Concern. On March 11, 2020, the WHO characterized COVID-19 as a pandemic.

COVID-19 has triggered worldwide shutdowns, job losses, and other disruptions which in turn have negatively affected the global economy, including consumer purchasing activity. Because Dolby technologies are featured in a wide array of electronic products that are primarily purchased by consumers, our revenues have been negatively affected by COVID-19. The issues and circumstances relating to COVID-19 continue to change rapidly and are difficult to predict. We continue to monitor the evolving situation and the impact on our business.

The outbreak of COVID-19 has affected many of our partners, resulting in the disruption of consumer products' supply chains, delays in shipments, product development, and product launches. Consumer demand for products that include our technologies may continue to be negatively impacted due to economic uncertainty resulting from COVID-19. These factors have resulted in decreased revenue pertaining to customer-shipment royalties, and may cause delays in the adoption of our technologies by partners. The overall cinema market has been adversely impacted by COVID-19 shelter-in-place and social distancing mandates. Our exhibition partners and customers continue to have either partially or fully discontinued operations. This has resulted in the temporary closure of a substantial majority of Dolby Cinema sites, reducing revenues recognized from box office receipts, and reducing demand for our cinema products and services. As COVID-19 shelter-in-place mandates are lifted, it is uncertain how quickly cinema locations will be permitted to resume operations, or whether cinemas will be able to operate at full capacity. In addition, when cinemas reopen, exhibitor partners may operate fewer screens in response to social-distancing restrictions or decreased audience levels.

At Dolby, we implemented work-from home policies within all our affected office locations and put in place additional safety measures and global travel restrictions to ensure the well-being of our employees. We have enabled our employees with the tools and infrastructure they need to carry on our critical operations and progress the business forward in this remote working environment.

We expect the impact of COVID-19 will extend into fiscal 2021. The degree of impact on our business will depend on several factors, such as the full duration and the extent of the pandemic, as well as actions taken by governments, businesses and consumers in response to the pandemic, all of which continue to evolve and remain uncertain at this time.

Further discussion of the potential impacts of COVID-19 on our business can be found in Part II, Item 1A "*Risk Factors*."

EXPANDING OUR LEADERSHIP IN AUDIO AND IMAGING ENTERTAINMENT EXPERIENCES

We are focused on expanding our leadership in audio solutions for entertainment content and delivering dynamic new audio and imaging technologies. This will broaden the number of Dolby experiences that people can enjoy which in turn will help drive our revenue growth. Following is a discussion of the key markets that we address and the various Dolby technologies and solutions that serve these markets.

Licensing

The majority of our licensing revenue is derived from the licensing of audio and imaging technologies for premium entertainment playback. Our audio technologies are primarily comprised of DD+, Dolby Atmos, AC-4, and our AAC and HE-AAC technologies and related patent licensing programs. Our imaging technologies are primarily comprised of Dolby Vision and our AVC and HEVC technologies and related patent licensing programs. The following are certain highlights of our third quarter of fiscal 2020 and key challenges related to audio and imaging licensing, by market.

Broadcast

Highlights: We have an established global presence with respect to our DD+ and HE-AAC audio technologies in broadcast services and devices. In recent years, we have expanded our offerings in the broadcast market through the introduction of newer technologies, including our Dolby Atmos and AC-4 audio technologies, Dolby Vision, as well as AVC and HEVC imaging technologies which we license through patent pools.

We continue to see increased adoption of Dolby Vision and Dolby Atmos in the global broadcast market. Our growing list of TV partners continue to expand their support of the combined Dolby Vision and Dolby Atmos experience, by releasing more models supporting our technologies beyond their premium device lineups.

In the third quarter of fiscal 2020, Xiaomi launched their first TV model that supports Dolby Vision and Dolby Atmos. A number of existing partners also launched TV models enabled with Dolby Vision and Dolby Atmos in India this quarter such as TCL, One Plus, Sony, and Nokia. Panasonic expanded support of Dolby Vision IQ in more TV models. Dolby Vision IQ, which was launched at CES in January 2020, automatically adjusts the TV picture according to the surrounding light and the type of content being viewed, creating an enhanced viewing experience.

In addition, we continue to see engagement with partners supporting our newer technologies in STBs. In the third quarter of fiscal 2020, Free, one of the largest internet service providers in France, launched their first STB supporting Dolby Vision and Dolby Atmos.

Key Challenges: Our pursuit of growth and further adoption of our technologies may be impacted by a number of factors. In some emerging growth countries, such as China, we face difficulties enforcing our contractual and IP rights, including instances in which our licensees fail to accurately report the shipment of products using our technologies. We must continue to present compelling reasons for consumers to demand our audio and imaging technologies, including ensuring that there is a breadth of available content in our formats and such content is being widely distributed. To the extent that OEMs do not incorporate our technologies in current and future products, our revenue could be impacted. Additionally, in the broadcast market, as well as other markets, we face geopolitical challenges including changes in diplomatic and trade relationships, trade protection measures, and import or export licensing requirements. Further, COVID-19 is causing uncertainty about consumer demand for devices and services in the broadcast market, the ability of our partners to manufacture such devices due to supply chain disruption, timing of the adoption of our technologies into new products by partners and licensees, and the timing of launches for new products.

Mobile

Highlights: We continue to focus on adoption of our technologies across major mobile ecosystems such as Apple, Android, and Amazon. HE-AAC and HEVC are widely adopted audio and video technologies across mobile devices, respectively. We offer these technologies through our patent licensing programs. We also continue to focus on the expansion of our DD+, AC-4, Dolby Atmos, and Dolby Vision technologies in the mobile market.

The breadth of mobile devices supporting Dolby technologies continues to increase globally. A majority of Apple's current iOS product offerings support the combined experience of Dolby Vision and Dolby Atmos. In the third quarter of fiscal 2020, Apple announced that AirPods Pro will support Dolby Atmos with the release of iOS 14. Additional Dolby-Atmos enabled mobile devices are available in the market from partners such as Samsung, Amazon, Lenovo, Sony, Sharp, and Oppo.

Key Challenges: Growth in this market is dependent on several factors. Due to short product life cycles, mobile device OEMs can readily add or remove certain of our technologies from their devices. Our success depends on our ability to address the rapid pace of change in mobile devices, and we must continuously collaborate with mobile device OEMs to incorporate our technologies. Additionally, we must continue to support the development and distribution of Dolby enabled content via various ecosystems. We rely on a small number of partnerships with key participants in the mobile market. If we are unable to maintain these key relationships, we may experience a decline in mobile devices incorporating our technologies. To the extent that OEMs do not incorporate our technologies in current and future products, our revenue could be impacted. Further, COVID-19 is causing uncertainty about consumer demand for devices in the mobile market, the ability of our partners to manufacture such devices due to supply chain disruption, timing of the adoption of our technologies into new products by partners and licensees, and the timing of launches for new products.

Consumer Electronics

Highlights: We have an established presence in the home theater market across devices such as AVRs, soundbars, Blu-Ray players, and DMAs, through the inclusion of our DD+ technology, and increasingly through the inclusion of our Dolby Atmos technology, as well as our AAC and HE-AAC technologies and related patent licensing programs. These hardware offerings can be paired with a growing array of Dolby enabled content via OTT services and Blu-ray discs.

In the third quarter of fiscal 2020, Sonos launched a new soundbar that supports Dolby Atmos. Dolby Vision enabled content was added to Google Play. Additional OTT services currently supporting the combined experience of Dolby Vision and Dolby Atmos include Netflix, Disney+, Amazon, Apple TV+, Tencent, and iQiYi.

In the third quarter of fiscal 2020, Hotstar began to support Dolby Vision within their Disney+ content in India. Additionally, Amazon released their first Indian film in Dolby Atmos, and Sky Germany released their first original series in Dolby Atmos.

We continue to focus on expanding the availability of Dolby technologies to new devices and new forms of content such as music, bringing new Dolby experiences to the market. Currently, Dolby Atmos enabled music content is available in the market through Amazon Music HD and TIDAL HiFi streaming services. In the third quarter of fiscal 2020, TIDAL began enabling Dolby Atmos for music to a growing number of TVs, soundbars, and AVR devices through their streaming app. In addition, Dolby Atmos music is available through the Amazon Echo Studio smart speaker.

Key Challenges: We must continue to present compelling reasons for consumers to demand our technologies wherever they enjoy entertainment content, while promoting creation and broad availability of content in our formats. To the extent that OEMs do not incorporate our technologies in current and future products, our revenue could be impacted. Further, COVID-19 is causing uncertainty about consumer demand for devices in the home theater market, the ability of our partners to manufacture such devices due to supply chain disruption, timing of the adoption of our technologies into new products by partners and licensees, and the timing of launches for new products.

Personal Computers

Highlights: DD+ continues to enhance playback in both Mac and Windows operating systems, including native support in their respective Safari and Microsoft Edge browsers. Dolby's presence in these browsers enables us to reach more users through new types of content, including streaming video entertainment. A number of PCs are available in the market supporting Dolby Vision and Dolby Atmos from partners such as Apple, Lenovo, Dell, ASUS, and Samsung.

Key Challenges: PC revenues have been impacted by a decline in the portion of PCs that have optical disc functionality in recent years, which has resulted in a decline in our ASPs, and we expect this decline in ASPs to continue. If declining conditions and trends persist, and OEMs do not incorporate our technologies in current and future products, our PC revenues will face continuing downward pressure. We must continuously collaborate and maintain our key partnership relationships with PC manufacturers to incorporate our technologies, and we must continue to support the development and distribution of Dolby content via various ecosystems. Further, COVID-19 is causing uncertainty about consumer demand for devices in the PC market, the ability of our partners to manufacture such devices due to supply chain disruption, timing of the adoption of our technologies into new products by partners and licensees, and the timing of launches for new products.

Other Markets

Highlights: DD+ is incorporated in both the Xbox and PlayStation gaming consoles and platforms. The Xbox gaming console also supports the combined experience of Dolby Vision and Dolby Atmos. Customers can purchase an OEM gaming headset bundled with Dolby Atmos for Headphones, or an app on the Microsoft app store to enable Dolby Atmos on their headphones. We also generate revenue from the automotive industry primarily through disc playback devices as well as other elements of the entertainment system.

Key Challenges: Consumer demand for devices in the gaming industry may decline in anticipation of console refresh cycles. In addition, the gaming console market has competition from mobile devices and gaming PCs, which have faster refresh cycles and appeal to a broader consumer base. These factors may impact our future revenues. If OEMs do not incorporate our technologies in current and future products, our revenues will face downward pressure. Further, COVID-19 is causing uncertainty about consumer demand for devices in the gaming industry, the ability of our partners to manufacture such devices due to supply chain disruption, timing of the adoption of our technologies into new products by partners and licensees, and the timing of launches for new products.

In addition to licensing revenue derived from the licensing of audio and imaging technologies from the markets discussed above, we leverage our audio and imaging technologies to create Dolby experiences through Dolby Cinema.

Dolby Cinema

Highlights: We continued to expand our global presence for Dolby Cinema. In the third quarter of fiscal 2020, the first Dolby Cinema in South Korea was announced with exhibitor partner Megabox. At the end of the fiscal quarter, we had over 250 Dolby Cinema locations operable across 12 countries. The breadth of motion pictures for Dolby Cinema continues to grow with over 300 theatrical titles in Dolby Vision and Dolby Atmos having been announced or released from all the major studios.

Key Challenges: Although the premium large format market for the cinema industry has been growing, Dolby Cinema competes with other existing offerings. Our success depends on our partners and our partners' success, our ability to differentiate our offering, deploy new sites in accordance with plans, and attract and retain a global viewing audience. In addition, the success of our Dolby Cinema offering will be tied to global box office performance generally. COVID-19 has had, and is likely to continue to have, a significant effect on theatrical exhibition as exhibitors, including some of our partners, have temporarily suspended some or all operations due to government-imposed restrictions on social gatherings. Further, studios have delayed the release of a number of new movie titles and temporarily suspended the production of future releases. The effects of COVID-19 such as the closure of cinemas and shelter-in-place mandates have had, and are likely to continue to have, a negative impact on our cinema-related revenues and consumer demand. To the extent cinemas reopen, government-imposed social-distancing restrictions and sanitation requirements may impact the number of customers who can attend cinemas, and it is uncertain whether consumer demand for the cinema and other forms of indoor recreation will return to previous levels. In addition, when cinemas reopen, exhibitor partners may operate fewer screens in response to social-distancing restrictions or decreased audience levels.

Products & Services

A majority of our products and services revenues are derived from the sale of audio and imaging products for the cinema, television, broadcast, communication, and entertainment industries. Revenues from the sale of Dolby Conference Phones, Dolby Voice Room, as well as our recently launched interactivity and media processing APIs are included in products and services sales.

Cinema Products & Services

Highlights: To help enable the playback of content in Dolby formats, we offer a range of servers and audio processors to cinema exhibitors globally. Dolby Atmos has been adopted broadly across studios, content creators, post-production facilities, and exhibitors, and the number of Dolby Atmos enabled screens installed or committed is over 5,500. As of the end of the third quarter of fiscal 2020, there were over 1,800 Dolby Atmos theatrical titles announced or released.

We also offer a variety of cinema products, which include the IMS3000, an integrated imaging and audio server with Dolby Atmos, the Dolby Multichannel Amplifier, and our high-power flexible line of speakers. These products allow us to offer exhibitors a more complete Dolby Atmos solution that is often more cost effective than what was previously available to them.

Key Challenges: Demand for our cinema products is dependent upon our partners and our partners' success in the market, and generally dependent upon industry and economic cycles and box office performance. In addition, it is dependent upon our ability to develop and introduce new technologies, further our relationships with content creators, and promote new cinematic audio and imaging experiences. A significant portion of our growth opportunity lies in international markets, such as China, which are subject to economic risks as well as geo-political risks. We may also be faced with pricing pressures or competing technologies, which would affect our revenue. Additionally, the effects of COVID-19 such as the closure of cinemas, and shelter-in-place mandates have had, and are likely to continue to have, a negative impact on demand for cinema products and services, which can have a negative impact on the financial health of our cinema customers and partners. If cinemas permanently close, our equipment may be available for resale on the secondary market, and erode the demand for new products. These conditions are likely to continue after the end of government-imposed restrictions.

Dolby Voice

Highlights: We continue to focus on expanding Dolby Voice’s availability to the global market for audio and video conferencing solutions. This includes our "Room as a Service" offering, which enables access to our partner's conferencing solutions with our Dolby Voice Room solution for a monthly subscription fee.

Key Challenges: Our success in this market will depend on the number of service providers and enterprise customers we are able to attract, the volume of products that we are able to sell, and the volume of usage of the service. Disruptions from COVID-19 could negatively affect our customers' ability to install our conferencing solutions in the office, which could result in reduced demand. Additionally, any disruption to our manufacturing operations from external factors including natural disasters or public health issues, such as COVID-19, could impact our ability to meet the demand of our products.

Other Services

Highlights: We are focused on bringing our expertise in media and communications to elevating a broad range of digital experiences. In the third quarter of fiscal 2020, we launched Dolby.io, our developer platform, that enables developers to access our technologies through the form of APIs. The initial offerings include media processing APIs for analyzing and improving the sound of an existing audio file, and interactivity APIs for enabling developers to embed enhanced interactive experiences within their applications.

Key Challenges: Our success in this market will depend on the number of developers we are able to attract, the volume of usage of the service, and our ability to monetize our services. Although the market for online experiences has been growing, Dolby's interactivity API technologies compete with other existing offerings. In addition, our pursuit of growth and further adoption depends on our ability to continue to innovate and add additional value to our services.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The global outbreak of COVID-19 continues to evolve, creating significant uncertainties in global financial markets. Our estimates of royalty-based revenue take into consideration the macroeconomic effect of global events, such as COVID-19 or other natural disasters which may impact supply chain activities as well as demand for shipments. Generally, our estimates are adjusted in the subsequent quarter by recording a favorable or unfavorable adjustment based on the difference between estimated and actual sales when we receive royalty statements from licensees. For additional information on our accounting policies related to revenue recognition, refer to Footnote 3, "*Revenue Recognition*" within our unaudited interim condensed consolidated financial statements.

There have been no additional material changes, other than the aforementioned updates resulting from COVID-19, to the critical accounting policies from those included in our fiscal 2019 Annual Report on Form 10-K as per Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies and Estimates included therein.

RESULTS OF OPERATIONS

For each line item included on our interim condensed consolidated statements of operations described and analyzed below, the significant factors identified as the leading drivers contributing to the overall fluctuation are presented in descending order of their impact on the overall change (from an absolute value perspective). Note that adjustments related to previously under-reported sales-based royalties as well as unlicensed settlement activity, are collectively referred to as "recoveries." Amounts displayed, except percentages, are in thousands.

Revenue and Gross Margin

Licensing

Licensing revenue consists of fees earned from licensing our technologies to customers who incorporate them into their products and services to enable and enhance audio, imaging, and voice capabilities. The technologies that we license are either internally developed, acquired, or licensed from third parties. A significant portion of our licensing revenue pertains to customer-shipment royalties that we recognize based on estimates of our licensees' shipments in the current period. Within the current period, to the extent that shipment data reported by licensees differs from estimates we made and recorded in the prior quarter, we recognize an adjustment to revenue for such difference.

Our cost of licensing consists mainly of amortization of certain purchased intangible assets and intangible assets acquired in business combinations, depreciation, third party royalty obligations, and associated fees.

	Fiscal Quarter Ended		Change		Fiscal Year-To-Date Ended		Change	
Licensing	**June 26, 2020**	**June 28, 2019**	**$**	**%**	**June 26, 2020**	**June 28, 2019**	**$**	**%**
Revenue	$235,125	$271,897	$(36,772)	(14)%	$821,673	$842,484	$(20,811)	(2)%
Percentage of total revenue	*95%*	*90%*			*92%*	*89%*		
Cost of licensing	12,572	13,290	(718)	(5)%	38,157	40,761	(2,604)	(6)%
Gross margin	222,553	258,607	(36,054)	(14)%	783,516	801,723	(18,207)	(2)%
Gross margin percentage	*95%*	*95%*			*95%*	*95%*		

Current Quarter: Q3 2020 vs. Q3 2019

Factor	Revenue		Gross Margin	
Mobile	á	*Higher revenues from increased adoption of our patent licensing technologies and timing of revenue under contracts, partially offset by lower unit shipments of mobile devices attributable to COVID-19*	ßà	*No significant fluctuations*
Other	â	*Lower revenues from Dolby Cinema resulting from the closure of cinemas due to COVID-19, and lower gaming revenue, partially offset by higher automotive recoveries*		
Broadcast	â	*Lower revenues from recoveries and lower unit shipments of STBs and TVs attributable to COVID-19, partially offset by higher adoption of Dolby technologies*		
CE	â	*Lower revenues from decreased unit shipments attributable to COVID-19, lower revenues from recoveries, partially offset by higher revenues from increased adoption of our patent licensing technologies*		
PC	â	*Lower revenues from decreased unit shipments attributable to COVID-19, lower revenues from recoveries, partially offset by higher revenues from increased adoption of our patent licensing technologies*		

Year-To-Date: Q3 2020 vs. Q3 2019

Factor	Revenue		Gross Margin	
Other	â	*Lower automotive recoveries, lower revenues from Dolby Cinema due to COVID-19, and gaming, partially offset by higher patent administration fees from Via Licensing*	ßà	*No significant fluctuations*
Mobile	á	*Higher revenues from increased adoption of our patent licensing technologies, partially offset by lower unit shipments attributable to COVID-19*		
PC	á	*Higher revenues from recoveries and higher adoption of our newer technologies in more PC models, partially offset by lower revenues from patent licensing technologies and lower unit shipments due to COVID-19*		
Broadcast	â	*Lower revenues from decreased units shipments of STBs and TVs attributable to COVID-19, and lower revenues from patent licensing, partially offset by higher recoveries*		
CE	á	*Higher revenues from increased adoption of our patent licensing technologies, and increased adoption of our technologies in DMAs and soundbars, partially offset by lower unit shipments attributable to COVID-19*		

Products and Services

Products revenue is generated from the sale of audio, imaging, and voice products for the cinema, television broadcast, communications, and consumer products industries. Also included in products revenue are amounts relating to Dolby Cinema arrangements that involve fixed or minimum amounts. Cost of products consists of materials, labor, and manufacturing overhead, amortization of certain intangible assets, as well as third party royalty obligations.

Services revenue consists of fees charged to support theatrical and television production for cinema exhibition, broadcast, and home entertainment, including equipment training and maintenance, mixing room alignment, equalization, as well as audio, color, and light image calibration. Services revenue also includes PCS for products sold and equipment installed at Dolby Cinema theaters operated by exhibitor partners and support for the implementation of our technologies into products manufactured by our licensees. Cost of services consists of personnel and personnel-related costs for providing our professional services, software maintenance and support, external consultants, and other direct expenses incurred on behalf of customers.

	Fiscal Quarter Ended		**Change**		**Fiscal Year-To-Date Ended**		**Change**	
Products and Services	**June 26, 2020**	**June 28, 2019**	**$**	**%**	**June 26, 2020**	**June 28, 2019**	**$**	**%**
Revenue	$11,784	$30,262	$(18,478)	(61)%	$68,928	$100,309	$(31,381)	(31)%
Percentage of total revenue	*5%*	*10%*			*8%*	*11%*		
Cost of products and services	17,316	26,400	(9,084)	(34)%	65,876	74,133	(8,257)	(11)%
Gross margin	(5,532)	3,862	(9,394)	(243)%	3,052	26,176	(23,124)	(88)%
Gross margin percentage	*(47)%*	*13%*			*4%*	*26%*		

Current Quarter: Q3 2020 vs. Q3 2019

Factor	Revenue		Gross Margin	
Products	â	*Lower cinema equipment and lower units of Dolby Voice products attributable to COVID-19*	â	*Higher excess & obsolescence charges and lower utilization of manufacturing capacity*
Services	ßà	*No significant fluctuations*	â	*Lower utilization of available capacity*

Year-To-Date: Q3 2020 vs. Q3 2019

Factor	Revenue		Gross Margin	
Products	â	*Lower cinema equipment attributable to COVID-19 and lower revenues from Dolby Cinema sales-type leases (hybrid agreements) included in prior period, partially offset by higher units of Dolby Voice products*	â	*Higher excess & obsolescence charges and lower utilization of manufacturing capacity*
Services	ßà	*No significant fluctuations*	â	*Lower utilization of available capacity*

Operating Expenses

Research & Development

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

	Fiscal Quarter Ended		Change		Fiscal Year-To-Date Ended		Change	
	June 26, 2020	June 28, 2019	$	%	June 26, 2020	June 28, 2019	$	%
Research and development	$59,583	$60,408	$(825)	(1)%	$177,319	$177,680	$(361)	—%
Percentage of total revenue	*24%*	*20%*			*20%*	*19%*		

Current Quarter: Q3 2020 vs. Q3 2019

Category		Key Drivers
Travel	â	*Lower costs for company travel due to COVID-19 travel restrictions*
Professional & Consulting	â	*Lower costs for external professional and consulting services for various research projects and new product development*
Compensation & Benefits	á	*Higher costs associated with increased accrued employee paid-time-off benefits*

Year-To-Date: Q3 2020 vs. Q3 2019

Category		Key Drivers
Travel	â	*Lower costs for company travel due to COVID-19 travel restrictions*
Professional & Consulting	â	*Lower costs for external professional and consulting services for various research projects and new product development*
Compensation & Benefits	á	*Higher costs associated with increased accrued employee paid-time-off benefits*

Sales & Marketing

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

	Fiscal Quarter Ended		Change		Fiscal Year-To-Date Ended		Change	
	June 26, 2020	June 28, 2019	$	%	June 26, 2020	June 28, 2019	$	%
Sales and marketing	$70,934	$83,390	$(12,456)	(15)%	$254,537	$261,686	$(7,149)	(3)%
Percentage of total revenue	*29%*	*28%*			*29%*	*28%*		

Current Quarter: Q3 2020 vs. Q3 2019

Category		Key Drivers
Travel	â	*Lower costs for company travel and tradeshows due to COVID-19 travel restrictions*
Legal, Professional, & Consulting	â	*Lower costs for IP recovery related activities*
Marketing Programs	â	*Lower costs related to marketing programs and company branding activities*
Compensation & Benefits	á	*Higher costs associated with increased accrued employee paid-time-off benefits*

Year-To-Date: Q3 2020 vs. Q3 2019

Category		Key Drivers
Legal, Professional, & Consulting	â	*Lower costs for IP recovery related activities*
Marketing Programs	á	*Higher costs related to marketing programs and company branding activities*
Travel	â	*Lower costs for company travel and tradeshows due to COVID-19 travel restrictions*

General & Administrative

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

	Fiscal Quarter Ended		Change		Fiscal Year-To-Date Ended		Change	
	June 26, 2020	June 28, 2019	$	%	June 26, 2020	June 28, 2019	$	%
General and administrative	$50,843	$54,183	$(3,340)	(6)%	$164,172	$152,412	$11,760	8%
Percentage of total revenue	*21%*	*18%*			*18%*	*16%*		

Current Quarter: Q3 2020 vs. Q3 2019

Category		Key Drivers
Legal, Professional, & Consulting	â	*Lower costs associated with various legal activities and patent filings*
Compensation & Benefits	á	*Higher headcount and higher costs associated with increased accrued employee paid-time-off benefits*

Year-To-Date: Q3 2020 vs. Q3 2019

Category		Key Drivers
Compensation & Benefits	á	*Higher headcount and higher costs associated with increased accrued employee paid-time-off benefits*
Legal, Professional, & Consulting	â	*Lower costs associated with various legal activities and patent filings*

Restructuring

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

	Fiscal Quarter Ended		Change		Fiscal Year-To-Date Ended		Change	
	June 26, 2020	June 28, 2019	$	%	June 26, 2020	June 28, 2019	$	%
Restructuring	$1,522	$30,232	$(28,710)	(95)%	$1,866	$30,264	$(28,398)	(94)%
Percentage of total revenue	*1%*	*10%*			*—%*	*3%*		

Restructuring charges recorded in the fiscal quarter ended June 28, 2019 of $27.5 million were incurred in relation to our early exit of a leased office building, which includes the write-off of the carrying value of the fixed assets associated with the building from our balance sheet and accruals representing our remaining exit obligation for this facility.

Restructuring charges also include $2.8 million incurred for a reorganization of our marketing function during the quarter ended June 28, 2019 that resulted in severance and other related benefits for approximately 50 positions that were eliminated. For additional information on our Restructuring programs, see Note 13 "*Restructuring*" to our unaudited interim condensed consolidated financial statements.

Other Income/Expense

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

	Fiscal Quarter Ended		Change		Fiscal Year-To-Date Ended		Change	
	June 26, 2020	June 28, 2019	$	%	June 26, 2020	June 28, 2019	$	%
Other income/(expense)	$5,851	$7,544	$(1,693)	(22)%	$16,549	$20,199	$(3,650)	(18)%
Percentage of total revenue	*2%*	*2%*			2%	2%		

Current Quarter: Q3 2020 vs. Q3 2019

Category		Key Drivers
Interest Income	â	*Lower yields on current year investment balances due to decreased interest rates*
Other Income	á	*Higher valuation on equity investments and realized gains from sales of investments*

Year-To-Date: Q3 2020 vs. Q3 2019

Category		Key Drivers
Interest Income	â	*Lower yields on current year investment balances due to decreased interest rates*
Other Income	á	*Higher valuation on equity investments and realized gains from sales of investments*

Income Taxes

Our effective tax rate is based on our annual fiscal year results and is affected each period-end by several factors. These include changes in our projected fiscal year results, recurring items such as tax rates and relative income earned in foreign jurisdictions, as well as discrete items such as changes to our uncertain tax positions that may occur in, but are not necessarily consistent between, periods. For additional information related to effective tax rates, see Note 12 “*Income Taxes*” to our unaudited interim condensed consolidated financial statements.

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	June 26, 2020	June 28, 2019	June 26, 2020	June 28, 2019
(Provision for)/benefit from income taxes	$27,388	$(2,163)	$(580)	$(14,486)
Effective tax rate	(68.5)%	5.2%	0.3%	6.4%

Current Quarter: Q3 2020 vs. Q3 2019

Factor		Impact On Effective Tax Rate
Uncertain Tax Benefits	â	*Additional benefit in the current period due to lapse in statute of limitations for select uncertain tax positions*
Enactment of Tax Act	â	*Higher tax expense in the prior year due to a discrete tax expense from adjustments to the Tax Reform Transition Tax*
Tax Credits	á	*Lower benefit in current period from research and development tax credits*

Year-To-Date: Q3 2020 vs. Q3 2019

Factor		Impact On Effective Tax Rate
Uncertain Tax Benefits	â	*Additional benefit in the current period due to lapse in statute of limitations for select uncertain tax positions*
Enactment of Tax Act	á	*Lower tax expense in the prior year due to a discrete tax benefit from adjustments to the Tax Reform Transition Tax*
Foreign Operations	á	*Lower benefit from foreign earned income*

LIQUIDITY, CAPITAL RESOURCES, AND FINANCIAL CONDITION

Our principal sources of liquidity are cash, cash equivalents, and investments, as well as cash flows from operations. We believe that these sources will be sufficient to satisfy our currently anticipated cash requirements through at least the next twelve months, despite the uncertainty in the changing market and economic conditions related to COVID-19.

As of June 26, 2020, we had cash and cash equivalents of $855.1 million, which mainly consisted of cash and highly-liquid money market funds. In addition, we had short and long-term investments of $264.2 million, which consisted primarily of municipal debt securities, certificates of deposit, government bonds, commercial paper, corporate bonds, and U.S. agency securities.

The following table presents selected financial information as of June 26, 2020 and September 27, 2019 (amounts displayed are in thousands):

	June 26, 2020	September 27, 2019
Cash and cash equivalents	$ 855,103	$ 797,210
Short-term investments	189,383	119,146
Long-term investments	74,768	179,587
Accounts receivable, net	247,486	189,115
Accounts payable and accrued liabilities	220,288	283,356
Working capital	1,245,733	1,074,687

Capital Expenditures and Uses of Capital

Our capital expenditures consist of purchases of land, building, building fixtures, laboratory equipment, office equipment, computer hardware and software, leasehold improvements, and production and test equipment. Included in capital expenditures are amounts associated with Dolby Cinema locations. We continue to invest in S&M and R&D to promote the overall growth of our business and technological innovation.

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

Shareholder Return

We have returned cash to stockholders through repurchases of Class A common stock under our repurchase program initiated in fiscal 2010 and our quarterly dividend program initiated in fiscal 2015. Refer to Note 9 "*Stockholders' Equity & Stock-Based Compensation*" to our unaudited interim condensed consolidated financial statements for a summary of dividend payments made under the program during fiscal 2020 and additional information regarding our stock repurchase program.

Stock Repurchase Program. Our stock repurchase program was approved in fiscal 2010, and since then we have completed approximately $1.8 billion of stock repurchases.

Quarterly Dividend Program. During the first quarter of fiscal 2015, we initiated a recurring quarterly cash dividend program for our stockholders. For fiscal 2020, current quarterly dividends of $0.22 per share are paid on our Class A and Class B common stock to eligible stockholders of record.

Cash Flows Analysis

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

Operating Activities

	Fiscal Year-To-Date Ended	
	June 26, 2020	June 28, 2019
Net cash provided by operating activities	$ 231,187	$ 197,194

Net cash provided by operating activities increased $34.0 million in the fiscal year-to-date period ended June 26, 2020 as compared to the fiscal year-to-date period ended June 28, 2019, primarily due to the following:

Factor	Impact On Cash Flows	
Working Capital	á	*Higher inflows due to decreased contract assets*

Investing Activities

	Fiscal Year-To-Date Ended	
	June 26, 2020	June 28, 2019
Net cash used in investing activities	$ (20,261)	$ (73,321)

Net cash used in investing activities was $53.1 million lower in the fiscal year-to-date period ended June 26, 2020 as compared to the fiscal year-to-date period ended June 28, 2019, primarily due to the following:

Factor	Impact On Cash Flows	
Proceeds from Investments	á	*Higher inflows from the sale & maturity of marketable investment securities*
Purchase of Investments	â	*Higher outflows for the purchase of marketable investment securities*
Capital Expenditures	á	*Lower expenditures for PP&E*
Intangible Asset Acquisitions	á	*Lower outflows for purchases of intangible assets*

Financing Activities

	Fiscal Year-To-Date Ended	
	June 26, 2020	June 28, 2019
Net cash used in financing activities	$ (153,917)	$ (322,579)

Net cash used in financing activities was $168.7 million lower in the fiscal year-to-date period ended June 26, 2020 as compared to the fiscal year-to-date period ended June 28, 2019, primarily due to the following:

Factor	Impact On Cash Flows	
Share Repurchases	á	*Lower outflows for common stock repurchases*
Common Stock Issuance	á	*Higher inflows from employee stock option exercises*

Off-Balance Sheet Arrangements and Contractual Obligations

Our liquidity is not dependent upon the use of off-balance sheet financing arrangements, and we have not entered into any arrangements that are expected to have a material effect on liquidity or the availability of capital resources. Since the end of our most recent fiscal year ended September 27, 2019, there have been no material changes in either our off-balance sheet financing arrangements or contractual obligations outside the ordinary course of business. For additional details regarding our contractual obligations, see Note 15 "*Commitments & Contingencies*" to our unaudited interim condensed consolidated financial statements.

Indemnification Clauses

We are party to certain contractual agreements under which we have agreed to provide indemnification of varying scope and duration to the other party relating to our licensed IP. Historically, we have not made any payments for these indemnification obligations and no amounts have been accrued in our consolidated financial statements with respect to these obligations. Since the terms and conditions of the indemnification clauses do not explicitly specify our obligations, we are unable to reasonably estimate the maximum potential exposure for which we could be liable. In addition, we have entered into indemnification agreements with our officers, directors, and certain employees, and our certificate of incorporation and bylaws contain similar indemnification obligations. For additional details regarding indemnification clauses within our contractual agreements, see Note 15 "*Commitments & Contingencies*" to our unaudited interim condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity

As of June 26, 2020, we had cash and cash equivalents of $855.1 million, which consisted of cash, commercial paper, and highly liquid money market funds. In addition, we had both short and long-term investments of $264.2 million, which consisted primarily of municipal debt securities, corporate bonds, government bonds, and U.S. agency securities. Our investment policy is focused on the preservation of capital and support for our liquidity requirements. Under the policy, we invest in highly rated securities with a minimum credit rating of A- while limiting the amount of credit exposure to any one issuer other than the U.S. government. At June 26, 2020, the weighted-average credit quality of our investment portfolio was AA, with a weighted-average maturity of approximately seven months. We do not invest in financial instruments for trading or speculative purposes, nor do we use leveraged financial instruments. We utilize external investment managers who adhere to the guidelines of our investment policy.

The investments within our fixed-income portfolio are subject to fluctuations in interest rates, which could affect our financial position, and to a lesser extent, results of operations. Based on our investment portfolio balance as of June 26, 2020, hypothetical changes in interest rates of 1% and 0.5% would have an impact on the carrying value of our portfolio of approximately $1.7 million and $0.8 million, respectively.

Foreign Currency Exchange Risk

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

- Australian Dollar
- British Pound
- Chinese Yuan
- Euro
- Polish Zloty

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

We maintain a cash flow hedge program using forward currency contracts to reduce the impact of currency volatility on U.S. dollar operating expenses and margins. The effective portions of cash flow hedges are recorded at fair value with changes in the fair value as a component in AOCI, until the hedged item is recognized in earnings. Amounts in AOCI are expected to be released to the same line item in the consolidated statements of operations concurrently with the hedged costs, within the next eighteen months. As of June 26, 2020 and September 27, 2019, the outstanding derivative instruments had maturities of equal to or less than 18 months, and the total notional amounts of outstanding contracts were $119.2 million and $29.0 million, respectively.

For additional information related to our foreign currency forward contracts, see Note 2 "*Summary of Significant Accounting Policies*" to our consolidated financial statements.

A sensitivity analysis was performed on all of our foreign currency forward contracts as of June 26, 2020. This sensitivity analysis was based on a modeling technique that measures the hypothetical market value resulting from a 10% shift in the value of spot exchange rates relative to the U.S. dollar. A 10% increase in the value of the U.S. dollar would lead to a decrease in the fair value of these financial instruments by $7.4 million. Conversely, a 10% decrease of the U.S. dollar against all currencies would result in an increase in the fair value of these financial instruments by $7.4 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 (“Exchange Act”), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

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

Changes in Internal Control Over Financial Reporting

The Company's internal business operations, including financial reporting systems and internal control over financial reporting, have not been materially impacted by COVID-19. There were no changes in our internal control over financial reporting during the fiscal quarter ending June 26, 2020 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 IP rights, commercial, employment, and other matters. In our opinion, resolution of these pending matters is not expected to have a material adverse impact on our operating results or financial condition. Given the unpredictable nature of legal proceedings, it is possible that an unfavorable resolution of one or more such proceedings could materially affect our future operating results or financial condition in a particular period; however, based on the information known by us as of the date of this filing and the rules and regulations applicable to the preparation of our consolidated financial statements, any such amounts are either immaterial or it is not possible to provide an estimated amount of any such potential losses.

ITEM 1A. RISK FACTORS

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

REVENUE GENERATION

COVID-19

COVID-19 has had and will continue to have an adverse impact on our operations and financial performance. To date, the pandemic, which has affected nearly all regions around the world, and preventative measures taken to contain or mitigate the pandemic, are causing business slowdown or shutdown in affected areas and significant disruption in the financial markets. We cannot predict with any certainty the degree to, or the time period over, which our revenues and operations will be affected by this pandemic and related preventative measures.

The spread of COVID-19 impacts several of our partners and has resulted in disruption of the supply chain of consumer products and delays in shipments, product development and product launches. In addition, consumer demand for products that include our technologies has been, and we expect to continue to be, negatively impacted due to economic uncertainty from COVID-19 and a decline in discretionary spending by consumers. These factors have resulted in decreased revenue pertaining to customer-shipment royalties. Further, these factors have and may continue to result in delays in the release of new products or services that contain our technologies by partners and licensees. These factors may also result in delays in royalty reporting by partners and licensees, and in cases where a partner or licensee’s financial condition has significantly worsened, we may have difficulty collecting or be unable to collect amounts owed to us.

The overall cinema market has been, and we expect to continue to be, adversely impacted by COVID-19 social distancing recommendations. Our exhibition partners and customers have either partially or fully discontinued operations. In addition, the closure of Dolby Cinema sites for an unknown amount of time has adversely impacted, and we expect will continue to adversely impact, our revenue recognized on our share of box-office sales and demand for our cinema products and services. When cinema locations begin to reopen, it is uncertain how quickly such locations will be permitted to resume regular operations. Such cinemas may not operate at full capacity or may choose to operate fewer screens in response to decreased audience levels.

The spread of COVID-19 has caused us to modify our business practices (including temporary office closures, restricting employee travel, enabling and encouraging remote work, and cancellation of physical participation in meetings, events and conferences), and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, licensees, partners, and community. These actions may adversely impact our productivity and cause delays on new and existing projects. Such delays may negatively impact our revenues. Further, there is no certainty that the measures we have taken or will take will be sufficient to mitigate the risks posed by the virus to the well-being and productivity of our workforce.

The degree to which COVID-19 impacts our results will depend on future developments, which are highly uncertain and cannot be predicted with any certainty, including, but not limited to, the duration and extent of the pandemic, its severity, the actions to contain the virus or its impact, and how quickly and to what extent normal economic and operating conditions can resume.

Even after COVID-19 has subsided, we may continue to experience an adverse impact to our business as a result of its global economic impact, including any recession that has occurred or may occur. Specifically, difficult macroeconomic conditions, such as decreases in per capita income and level of disposable income, increased and prolonged unemployment or a decline in consumer confidence as a result of COVID-19, could have a continuing adverse effect on demand for products and services that contain our technologies as well as limited or significantly reduced points of access to such products and services.

Markets We Target

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

Trends in Media Content Distribution. For many years, a large portion of media content distribution has been through optical disc media, such as DVD and Blu-ray Disc, and cable and satellite television providers. However, the rapid advancement of online and mobile content delivery has resulted in a trend toward downloading and streaming services, resulting in decreased royalty revenue in certain of our end device markets.

We expect the shift away from optical disc media to continue to result in a decline in revenue from the sale of devices that include DVD and Blu-ray Disc players. For example, the number of PCs that include optical disc drives has decreased significantly in recent years. Because PC OEMs are required to pay us a higher per-unit royalty for Windows PCs that include optical disc playback functionality than Windows PCs that do not include such functionality, the continued decreasing inclusion of optical disc drives in PCs will result in lower per-unit royalties.

Further, consumers in certain markets are shifting away from subscription-based cable and satellite television providers toward streaming services, commonly referred to as “cord-cutting.” While cable and satellite television often require a STB, today consumers can also access streaming media through smart TVs or DMA devices. As consumers trend toward canceling subscriptions to these traditional cable and satellite providers and turn to streaming media, we expect demand for STBs in certain regions to continue to decline. If we are unable to derive additional revenue from the smart TV and DMA markets to make up for decreases in our STB-related revenue, our financial results may be negatively impacted.

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

In order to increase the value of our technologies in the mobile market, we have worked with online and mobile media content service providers to encode their content with our technologies, which could affect OEM and software vendor demand for our decoding technologies. However, the online and mobile media content services markets are also characterized by intense competition, evolving industry standards and business and distribution models, disruptive software and hardware technology developments, frequent product and service introductions and short life cycles, and price sensitivity on the part of consumers, all of which may result in downward pressure on pricing or the removal of our technologies by these providers and may result in decreased revenue from our mobile market. Further, COVID-19 may adversely impact consumer demand for mobile devices, the ability of our partners to manufacture such devices, impacts to supply chain and distribution, timing of the adoption of our technologies into products by partners and licensees, and the timing of launches for new products

PC Industry Risks. 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, including through operating systems, the inclusion of optical disc drives or otherwise, and the terms of any royalties or other payments we receive. Further, we rely on a small number of partnerships with key participants in the PC market. If we are unable to maintain these key relationships, we may experience a decline in PCs incorporating our technologies. COVID-19 may also adversely impact consumer demand for PCs, PC manufacturing, supply chain and distribution, timing of the adoption of our technologies into products by partners and licensees, and the timing of launches for new products.

Cinema Industry Risks. Revenue from Dolby Cinema and cinema product sales is subject to the pace of construction or upgrade of screens, the advent of new or competing technologies, the willingness of movie studios to produce films in our Dolby Atmos and Dolby Vision formats, consumer trends, box-office performance generally, and other events or conditions in the cinema industry. Although we have invested a substantial amount of time and resources developing Dolby Cinema, and expect to continue to invest and build partnerships in connection with the launch of Dolby Cinema locations, we may not continue to recognize a meaningful amount of revenue from these efforts in the near future. Additionally, we have collaborations with multiple exhibitors in foreign markets, including Asia, Europe, and the Middle East, and we may face a number of risks in expanding Dolby Cinema in these and other new international markets. The revenue we receive from Dolby Cinema exhibitors are based on a portion of box-office receipts from the installed theaters, and the timing of such theater installations is dependent upon a number of factors beyond our control. In addition, the success of our Dolby Cinema offering will be tied to the pipeline and success of motion pictures available at Dolby Cinema locations generally. The success of Dolby Cinema depends in large part on our ability to differentiate our offering, deploy new sites in accordance with plans, provide a compelling experience, and attract and retain a viewing audience. A decrease in our ability to develop and introduce new cinema products and services successfully could affect licensing of our consumer technologies, because the strength of our brand and our ability to use professional product developments to introduce new consumer technologies would be negatively impacted. These factors are subject to increased risk due to COVID-19 and related government actions, including the shutdown of cinemas and other non-essential businesses, delay in royalty and other payments and solvency of our exhibitor partners. Further, even when COVID-19 subsides, it is uncertain how quickly cinema locations will be permitted to resume operations or how quickly moviegoers will return to theaters once theaters resume operations, which may depend on continued concerns over safety and continued social distancing and/or depressed consumer sentiment due to adverse economic conditions.

Our revenue and associated demand from cinema product sales is dependent upon industry and economic cycles, which are subject to risks including delays in cinematic releases and closure of cinema locations related to COVID-19, along with our ability to develop and introduce new technologies, further our relationships with content creators, and promote new cinematic audio and imaging experiences. A significant portion of our growth opportunity lies in the China market, which is subject to economic risks as well as geo-political risks. Furthermore, future growth of our cinema products business also depends upon new theater construction and entering into an equipment replacement cycle whereby previously purchased cinema products are upgraded or replaced. To the extent that we do not make progress in these areas, or are faced with pricing pressures, competing technologies, or other global macroeconomic challenges our revenue may be adversely impacted.

Customers and Distributors

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

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

Consumer Spending Weakness. Weakness in general economic conditions may suppress consumer demand in our markets. Many of the products in which our technologies are incorporated are discretionary goods, such as PCs, TVs, STBs, Blu-ray Disc players, video game consoles, AVRs, mobile devices, in-car entertainment systems, and home-theater systems. Weakness in general economic conditions may also lead to licensees and customers becoming delinquent on their obligations to us or being unable to pay, resulting in a higher level of write-offs. Economic conditions, including business slowdown caused by COVID-19, may increase underreporting and non-reporting of royalty-bearing revenue by our licensees as well as increase the unauthorized use of our technologies.

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

Marketing and Branding

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

Industry Standards

The entertainment industry has historically depended upon industry standards to ensure compatibility across delivery platforms and a wide variety of consumer entertainment products. We make significant efforts to design our products and technologies to address capability, quality, and cost considerations so that they either meet, or more importantly, are adopted as industry standards across the broad range of entertainment industry markets in which we participate, as well as the markets in which we plan to compete in the future. To have our products and technologies adopted as industry standards, we must convince a broad spectrum of standards-setting organizations throughout the world, as well as our major customers and licensees who are members of such organizations, to adopt them as such. The market for broadcast technologies has traditionally been heavily based on industry standards, often mandated by governments choosing from among alternative standards, and we expect this to continue to be the case in the future. The continued advancement of OTT media delivery and consumption may alter the landscape for broadcast standards and impact the importance of inclusion in certain broadcast standards in the future, and we cannot predict if and to what extent this may impact our revenues.

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

Participants May Choose Among Alternative Technologies within Standards. Even when a standards-setting organization incorporates our technologies in an industry standard for a particular market, our technologies may not be the sole technologies adopted for that market. Furthermore, different standards may be adopted for different markets. Our operating results depend upon participants in that market choosing to adopt our technologies instead of competitive technologies that also may be acceptable under such standard. For example, the continued growth of our revenue from the broadcast market will depend upon both the continued global adoption of digital television generally, including in emerging markets, and the choice to use our technologies where it is one of several accepted industry standards.

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

Royalty Reporting

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

- Royalty reports including positive or negative corrective adjustments;
- Retroactive royalties that cover extended periods of time; and
- Timing of revenue recognition under licensing agreements and other contractual arrangements, including recognition of unusually large amounts of revenue in any given quarter.

Inaccurate Licensee Royalty Reporting. We generate licensing revenue primarily from OEMs who license our technologies and incorporate those technologies into their products. Our license agreements generally obligate our licensees to pay us a specified royalty for every product they ship that incorporates our technologies, and we rely on our licensees to report their shipments accurately. However, we have difficulty independently determining whether our licensees are reporting shipments accurately, particularly with respect to software incorporating our technologies because unauthorized copies of such software can be made relatively easily. A third party may disagree with our interpretation of the terms of a license agreement or, as a result of an audit, a third party could challenge the accuracy of our calculation. We are regularly involved in discussions with third party technology licensees regarding license terms. Most of our license agreements permit us to audit our licensees' records, and we routinely exercise these rights, but audits are generally expensive, time-consuming, and potentially detrimental to our ongoing business relationships with our licensees. In the past, licensees have understated or failed to report the number of products incorporating our technologies that they shipped, and we have not been able to collect and recognize revenue to which we were entitled. We expect that we will continue to experience understatement and non-reporting of royalties by our licensees. We have been able to obtain certain recovery payments from licensees (either in the form of back payments or settlements), and such recoveries have become a recurring element of our business; however, we are unable to predict with certainty the revenue that we may recover in the future or our ability to continue to obtain such recoveries at all. Further, as COVID-19 continues to impact our licensees, it may result in delays in royalty reporting or payment by some of our licensees.

Royalties We Owe Others. In some cases, the products we sell and the technologies we license to our customers include IP that we have licensed from third parties. Our agreements with these third parties generally require us to pay them royalties for that use, and give the third parties the right to audit our calculation of those royalties. A third party may disagree with our interpretation of the terms of a license agreement or, as a result of an audit, a third party could challenge the accuracy of our calculation. We are regularly involved in discussions with third party technology licensors regarding license terms. A successful challenge by a third party could result in the termination of a license agreement or an increase in the amount of royalties we have to pay to the third party.

Estimation of sales-based royalties. Beginning in the first quarter of fiscal 2019, we adopted Accounting Standards Update 2014-09, Revenue from Contracts with Customers, or ASC 606.

The first topic related to ASC 606 that significantly impacts us involves multi-year contracts. Most of our licensing arrangements with customers currently involve multi-year contracts. Under ASC 606, certain terms and conditions (such as “minimum volume commitments”) are more likely to result in upfront revenue recognition (*i.e.*, upon execution of the contract).

The second topic related to ASC 606 that significantly impacts us involves our estimation of shipments on which we generate sales–based royalties. Under ASC 606, we recognize a material portion of our licensing revenue based on our estimate of shipments to which we expect our licensees to submit royalty statements. Upon receipt of actual reporting of sales based royalties that we estimated previously, we record a favorable or unfavorable adjustment based on the difference, if any, between estimated and actual sales. This may cause volatility in our quarterly figures because of the estimation process and the corresponding true-up adjustments, which we disclose.

Our reporting practices under ASC 606 could significantly affect our results of operations to the extent that actual revenues differ significantly from estimated revenues, or that we are required to accelerate recognition of revenue under certain arrangements, potentially causing the amount of revenue we recognize to vary materially from quarter to quarter. While the adoption of ASC 606 does not change the cash flows or total revenues we receive from our contracts with customers, it could result in changes to the timing of our reported revenue and income, which in turn could cause volatility in the price of our Class A common stock.

TECHNOLOGY TRENDS AND DEVELOPMENTS

Technology Innovation. Our revenue growth will depend upon our success in new and existing markets for our technologies, such as digital broadcast, mobile devices, online and mobile media distribution, cinema, consumer imaging and communications. The markets for our technologies and products are defined by:

- Rapid technological change;
- New and improved technology and frequent product introductions;
- Changing consumer and licensee demands;
- Evolving industry standards; and
- Technology and product obsolescence.

Our future success depends on our ability to enhance our technologies and products and to develop new technologies and products that address the market needs in a timely manner. Technology development is a complex, uncertain process requiring high levels of innovation, highly-skilled engineering and development personnel, and the accurate anticipation of technological and market trends. We may not be able to identify, develop, acquire, market, or support new or enhanced technologies or products on a timely basis, if at all.

Experience with New Markets and Business Models. Our future growth will depend, in part, upon our continued expansion into areas beyond our audio licensing business. Over the past few years, we have introduced Dolby Voice technology for the communications market, Dolby Vision for the home and cinema markets, and our branded-theater experience, Dolby Cinema. In connection with entering into these new markets, we face new sources of competition, new business models, and new customer relationships. In order to be successful in these markets, we will need to cultivate new industry relationships and strengthen existing relationships to bring our products, services, and technologies to market. Our limited experience to date in one or more of these markets could limit our ability to successfully execute on our growth strategy.

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

For instance, to broaden adoption of Dolby Vision and Dolby Atmos, we will need to continue to expand the array of products and consumer devices that incorporate Dolby Atmos and Dolby Vision, expand the pipeline of Dolby Atmos and Dolby Vision content available from content creators, and encourage consumer adoption in the face of competing products and technologies. Similarly, the success of Dolby Cinema is dependent upon our ability to partner with movie theater exhibitors to launch new Dolby Cinema sites and deploy new sites in accordance with plans, as well as the continued release and box-office success of new films in the Dolby Vision and Dolby Atmos formats released through Dolby Cinemas. These factors are subject to increased risk due to COVID-19 and related government actions, including the shutdown of cinemas and other non-essential businesses, delay in royalty and other payments and solvency of our exhibitor partners.

Further, the commercial success of products incorporating Dolby formats, content released in Dolby formats, and Dolby Cinemas generally, depends upon a number of factors outside of our control, including, but not limited to, consumer preferences, critical reception, timing of release, marketing efforts of third-parties, and general market conditions. Moreover, release and distribution of such products and content can be subject to delays in production or changes in release schedule, including delays in release and distribution related to COVID-19 and the global response to COVID-19, which can negatively impact the quantity, timing and quality of such products and content released in Dolby formats and available at Dolby Cinema theaters.

INTELLECTUAL PROPERTY

Our business is dependent upon protecting our patents, trademarks, trade secrets, copyrights, and other IP rights, the loss or expiration of which may significantly impact our results of operations and financial condition. Effective IP rights protection, however, may not be available under the laws of every country in which our products and services and those of our licensees are distributed. The efforts we have taken to protect our proprietary rights may not be sufficient or effective. We also seek to maintain select IP as trade secrets, and third parties or our employees could intentionally or accidentally compromise the IP that we maintain as trade secrets. In addition, protecting our IP rights is costly and time consuming. We have taken steps in the past to enforce our IP rights and expect to do so in the future. However, it may not be practicable or cost effective for us to enforce our IP rights fully, particularly in some countries or where the initiation of a claim might harm our business relationships.

We generally seek patent protection for our innovations. However, our patent program faces a number of challenges, including:

- Possibility that innovations may not be protectable;
- Failure to protect innovations that later turn out to be important;
- Insufficient patent protection to prevent third parties from designing around our patent claims;
- Our pending patent applications may not be approved; and
- Possibility that an issued patent may later be found to be invalid or unenforceable.

Patent Royalties and Expiration. Many of the technologies that we license to our system licensees are covered by patents, and the licensing revenue that we receive from those licenses depends in large part upon the life of such patents. In general, our agreements with our licensees require them to pay us a full royalty with respect to a particular technology only until the last patent covering that technology expires in a particular country. As of June 26, 2020, we had approximately 12,700 issued patents in addition to approximately 3,900 pending patent applications in more than 100 jurisdictions throughout the world. Our currently issued patents expire at various times through November 2044. If we are unable to expand on our patent portfolio or refresh our technology with new patented inventions, our revenues could decline.

We seek to mitigate this risk in a variety of ways. We regularly look for opportunities to expand our patent portfolio through organic development and acquisitions. We develop proprietary technologies to replace licensing revenue from technologies covered by expiring patents with licensing revenue supported by patents with a longer remaining life. And, we develop and license our technologies in a manner designed to reduce the chance that a system licensee would develop competing technologies that do not include any Dolby IP.

In the case of our patent coverage related to DD, some of our relevant patents have expired, but others continue to apply. DD is our solution that includes technology necessary to implement AC-3 as it has been updated over time. We have continued to innovate and develop intellectual property to support the standard and its implementation. Our customers use our DD implementation for quality, reliability, and performance, even in locations where we have not had applicable patent coverage. While in the past, we derived a significant portion of our licensing revenue from our DD technologies, this is no longer the case as revenues attributed to DD technologies have declined and are expected to continue to decline.

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

Unauthorized Use of Our Intellectual Property. We have often experienced, and expect to continue to experience, problems with non-licensee OEMs and software vendors, particularly in China and certain emerging economies, incorporating our technologies and trademarks into their products without our authorization and without paying us any licensing fees. Manufacturers of ICs containing our technologies occasionally sell these ICs to third parties who are not our system licensees. These sales, and the failure of such manufacturers to report the sales, facilitate the unauthorized use of our IP. As emerging economies transition from analog to digital content, such as the transition from analog to digital broadcast, we expect to experience an increase in problems with this form of piracy.

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

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

Licensee Disputes. At times, we are engaged in disputes regarding the licensing of our IP rights, including matters related to our royalty rates and other terms of our licensing arrangements. These types of disputes can be asserted by our customers or prospective customers or by other third parties as part of negotiations with us or in private actions seeking monetary damages or injunctive relief, or in regulatory actions. In the past, licensees have threatened to initiate litigation against us based on potential antitrust claims or regarding our licensing royalty rate practices. Damages and requests for injunctive relief asserted in claims like these could be significant, and could be disruptive to our business.

U.S. and Foreign Patent Rights. Our licensing business depends in part on the uniform and consistent treatment of patent rights in the U.S. and abroad. Changes to the patent laws and regulations in the U.S. and abroad may limit our ability to obtain, license, and enforce our rights. Additionally, court and administrative rulings may interpret existing patent laws and regulations in ways that hurt our ability to obtain, license, and enforce our patents. We face challenges protecting our IP in foreign jurisdictions, including:

- Our ability to enforce our contractual and IP rights, especially in countries that do not recognize and enforce IP rights to the same extent as the U.S., Japan, Korea, and European countries do, which increases the risk of unauthorized use of our technologies;
- Limited or no patent protection for our DD technologies in countries such as China, Taiwan, and India, which may require us to obtain patent rights for new and existing technologies in order to grow or maintain our revenue; and
- Because of limitations in the legal systems in many countries, our ability to obtain and enforce patents in many countries is uncertain, and we must strengthen and develop relationships with entertainment industry participants worldwide to increase our ability to enforce our IP and contractual rights without relying solely on the legal systems in the countries in which we operate.

OPERATIONS

Reliance on Key Suppliers. Our reliance on suppliers for some of the key materials and components we use in manufacturing our products involves risks, including limited control over the price, timely delivery, and quality of such components, as well as the risk of delay caused by COVID-19 and related interruptions to the supply chain. We generally have no formal agreements in place with our suppliers for the continued supply of materials and components. Although we have identified alternate suppliers for most of our key materials and components, any required changes in our suppliers could cause delays in our operations and increase our production costs. In addition, our suppliers may not be able to meet our production demands as to volume, quality, or timeliness.

Moreover, we rely on sole source suppliers for some of the components that we use to manufacture our products, including specific charged coupled devices, light emitting diodes, and digital signal processors. These sole source suppliers may become unable or unwilling to deliver these components to us at an acceptable cost or at all, which could force us to redesign those specific products. Our inability to obtain timely delivery of key components of acceptable quality, any significant increases in the prices of components, or the redesign of our products could result in production delays, increased costs, and reductions in shipments of our products.

Product Quality. Our products, and products that incorporate our technologies, are complex and sometimes contain undetected software or hardware errors, particularly when first introduced or when new versions are released.

In addition, we have limited control over manufacturing performed by contract manufacturers, which could result in quality problems. Furthermore, our products and technologies are sometimes combined with or incorporated into products from other vendors, sometimes making it difficult to identify the source of a problem or, in certain instances, making the quality of our implementation dependent in part upon the quality of such other vendors' products. Any negative publicity or impact relating to these product problems could affect the perception of our brand and market acceptance of our products or technologies. These errors could result in a loss of or delay in market acceptance of our products or cause delays in delivering them and meeting customer demands, any of which could reduce our revenue and raise significant customer relations issues. In addition, if our products or technologies contain errors, we could be required to replace or reengineer them or rely upon parties who have incorporated our technologies into their products to implement updates to address such issues, which could cause delays or increase our costs. Moreover, if any such errors cause unintended consequences, we could incur substantial costs in defending and settling product liability claims. Although we generally attempt to contractually limit our liability, if these contract provisions are not enforced, or are unenforceable for any reason, or if liabilities arise that are not effectively limited, we could incur substantial costs in defending and settling product liability claims.

Production Processes and Production. Production difficulties or inefficiencies can interrupt production, resulting in our inability to deliver products on time or in a cost effective manner, which could harm our competitive position. While we have three production facilities, we increasingly use contract manufacturers for a significant portion of our production capacity. Our reliance on contract manufacturers for the manufacture of our products involves risks, including limited control over timely delivery and quality of such products. If production of our products is interrupted, we may not be able to manufacture products on a timely basis. A shortage of manufacturing capacity for our products could negatively impact our operating results and damage our customer relationships. We may be unable to quickly adapt our manufacturing capacity to rapidly changing market conditions and a contract manufacturer may encounter similar difficulties. Likewise, we may be unable to quickly respond to fluctuations in customer demand or contract manufacturer interruptions. At times we underutilize our manufacturing facilities as a result of reduced demand for some of our products. Further, delays in production caused by business slowdown or shutdowns related to COVID-19 could harm our production capacity and the conduct of our business.

Data Security. We rely on information technology systems in the conduct of our business, including systems designed and managed by third parties. Many of these systems contain sensitive and confidential information, including our trade secrets and proprietary business information, and personal data, as well as content and information owned by or pertaining to our customers, suppliers and business partners. The secure maintenance of this information is critical to our operations and business strategy. Increasingly, companies are subject to a wide variety of attacks on their networks and systems on an ongoing basis. Our information technology and infrastructure may be vulnerable to penetration or attacks by hackers, malware, software bugs or other technical malfunctions, or other disruptions. If we use a vendor that stores information as part of its service or product offerings, we assess the security of such services prior to using the service. Nevertheless, our sensitive, confidential or proprietary information may be misappropriated by that vendor or others who may inappropriately access the vendor's system.

While we have taken a number of steps to protect our information technology systems (including physical access controls, encryption, and authentication technologies), the number and sophistication of malicious attacks that companies have experienced has increased over the past few years. In addition, because techniques used by hackers (many of whom are highly sophisticated and well-funded) to access or sabotage networks and computer systems change frequently and often are not recognized until after they are used, we may be unable to anticipate or immediately detect these techniques. This could delay our response or the effectiveness of our response and impede our operations and ability to limit our exposure to third-party claims and other potential liability. Attacks on our systems are sometimes successful, and, in some instances, we might be unaware of an incident or its magnitude and effects. We also may suffer data security breaches and the unauthorized access to, misuse or acquisition of, personal data or other sensitive and confidential information as the result of intentional or inadvertent breaches or other compromises by our employees or service providers. Any data security breach or other incident, whether external or internal in origin, could compromise our networks and systems, creating system disruptions or slowdowns and exploiting security vulnerabilities of our products. Any such breach or other incident can result in the information stored on our networks and systems being improperly accessed or acquired, publicly disclosed, lost, or stolen, which could subject us to liability to our customers, suppliers, business partners and others. We seek to detect and investigate such attempts and incidents and to prevent their recurrence where practicable through changes to our internal processes and tools, but in some cases preventive and remedial action might not be successful. In addition, despite the implementation of network security measures, our networks also may be vulnerable to computer viruses, malware, ransomware, social engineering, denial of service, and similar other disruptions. Disruptions to our information technology systems, due to outages, security breaches or other causes, could also have severe consequences to our business, including financial loss and reputational damage.

A variety of provincial, state, national, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer and other processing of personal data. These laws and regulations are evolving and may result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions. For example, the California Consumer Privacy Act of 2018, or CCPA, which went into effect on January 1, 2020, may require us (among other obligations) to modify certain of our information practices, provide new disclosures to California consumers, and afford such consumers various privacy rights. Our actual or perceived failure to adequately comply with applicable laws and regulations relating to privacy and data protection could result in regulatory fines, investigations and enforcement actions, penalties and other liabilities, claims for damages by affected individuals, and damage to our reputation, any of which could have a material adverse effect on our operations, financial performance and business.

Fluctuations in Foreign Currency Exchange Rates. We earn revenues, pay expenses, own assets and incur liabilities in foreign countries using several currencies other than the U.S. dollar. As a result, we face exposure to adverse movements in currency exchange rates as the financial results of our international operations are translated from local currency into U.S. dollars upon consolidation. The majority of our revenue generated from international markets is denominated in U.S. dollars, while the operating expenses of our foreign subsidiaries are predominantly denominated in local currencies. Therefore, our operating expenses will increase when the U.S. dollar weakens against the local currency and decrease when the U.S. dollar strengthens against the local currency. Additionally, foreign exchange rate fluctuations on transactions denominated in currencies other than the functional currency result in gains or losses that are reflected in our consolidated statements of operations. Further, our hedging programs may not be effective to offset any, or more than a portion, of the adverse impact of currency exchange rate movements. Additional risks related to fluctuations in foreign currency exchange rates are described in the Foreign Currency Exchange Risk section of Part I, Item 3 "*Quantitative and Qualitative Disclosures About Market Risk.*"

Business Interruptions by Natural Disasters and Other Events Beyond Our Control. Although we maintain crisis management plans, our business operations are subject to interruption by natural disasters and catastrophic events beyond our control, including, but not limited to, earthquakes, hurricanes, typhoons, tropical storms, floods, tsunamis, fires, droughts, tornadoes, public health issues and pandemics, severe changes in climate, war, terrorism, and geo-political unrest and uncertainties. Further, outbreaks of pandemic diseases, or the fear of such events, could provoke (and in the case of COVID-19 has provoked) responses, including government-imposed travel restrictions and limits on access to entertainment venues. These responses could negatively affect consumer demand and our business, particularly in international markets. Additionally, several of our offices, including our corporate headquarters in San Francisco, are located in seismically active regions. Because we do not carry earthquake insurance for earthquake–related losses and significant recovery time could be required to resume operations, our financial condition and operating results could be materially adversely affected in the event of a major earthquake or catastrophic event.

COMPETITION

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

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

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

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

In addition, some of our current or potential competitors may be able to offer integrated systems in certain markets for entertainment technologies, including audio, imaging, and digital rights management technologies, which could make competing technologies that we develop or acquire obsolete. By offering an integrated system solution, these potential competitors may also be able to offer competing technologies at lower prices than we can, which could adversely affect our operating results.

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

STRATEGIC ACTIVITIES

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

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

Industry relationships have historically played an important role in the markets that we serve, particularly in the entertainment market. For example, sales of our products and services are particularly dependent upon our relationships with major film studios and broadcasters, and licensing of our technologies is particularly dependent upon our relationships with system licensees and IC manufacturers. If we fail to maintain and strengthen these relationships, these entertainment industry participants may be less likely to purchase and use our technologies, products, and services, or create content incorporating our technologies. Industry relationships also play an important role in other markets we serve; for instance, our partner relationships in the audio and video conferencing markets are important to our communications business.

Consequences of M&A Activity. We evaluate a wide array of possible strategic transactions, including acquisitions. We consider these types of transactions in connection with, among other things, our efforts to strengthen our audio and cinema businesses and expand beyond sound technologies. Although we cannot predict whether or not we will complete any such acquisitions or other transactions in the future, any of these transactions could be significant in relation to our market capitalization, financial condition, or results of operations. The process of integrating an acquired company, business, or technology may create unforeseen difficulties and expenditures.

Foreign acquisitions involve unique risks in addition to those mentioned above, including those related to integration of operations across different geographies, cultures, and languages; currency risks; and risks associated with the economic, political, and regulatory environment in specific countries, including delays related to COVID-19. Future acquisitions could result in potentially dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses, and write-offs of goodwill. Future acquisitions may also require us to obtain additional equity or debt financing, which may not be available on favorable terms or at all. Also, the anticipated benefits of our acquisitions may not materialize.

We face various risks in integrating acquired businesses, including:

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

LEGAL AND REGULATORY COMPLIANCE

International Business and Compliance. We are dependent on international sales for a substantial amount of our total revenue. Approximately 59% and 62% of our revenue was derived outside of the U.S. in the fiscal year-to-date period ended June 26, 2020 and June 28, 2019, respectively. We are subject to a number of risks related to conducting business internationally, including:

- U.S. and foreign government trade restrictions, including those which may impose restrictions on the importation of programming, technology, or components to or from the U.S., and those which may put restrictions or prohibitions on the exportation, reexportation, sale, shipment or other transfer of programming, technology, components, and/or services to foreign persons;
- Changes in trade relationships, including new tariffs, trade protection measures, import or export licensing requirements, trade embargoes and other trade barriers;
- Tariffs imposed by the U.S. on goods from other countries or tariffs imposed by other countries on U.S. goods, including the tariffs imposed over the course of 2018 and 2019 by the U.S. government on various imports from China and by the Chinese government on certain U.S. goods, the scope and duration of which remain uncertain;
- Compliance with applicable international laws and regulations, including antitrust and other competition laws, that may change unexpectedly, differ, or conflict with laws in other countries where we conduct business, or are otherwise not harmonized with one another;
- Foreign government taxes, regulations, and permit requirements, including foreign taxes that we may not be able to offset against taxes imposed upon us in the U.S., and other laws limiting our ability to repatriate funds to the U.S.;
- Potential adverse changes in the political and/or economic stability of foreign countries or in their diplomatic relations with the U.S.;
- Difficulty in establishing, staffing, and managing foreign operations, including but not limited to restrictions on the ability to obtain or retain licenses required for operation, relationships with local labor unions and works councils, investment restrictions and/or requirements, and restrictions on foreign ownership of subsidiaries;
- Adverse fluctuations in foreign currency exchange rates and interest rates, including risks related to any interest rate swap or other hedging activities we undertake;
- Poor recognition of IP rights;
- Difficulties in enforcing contractual rights;

- Multi-jurisdictional data protection and privacy laws, including the European Union's General Data Protection Regulation and restrictions on transferring personally identifiable information outside of a jurisdiction;
- Political or social instability in the U.K. and Europe (including but not limited to uncertainty resulting from the Brexit referendum in the U.K.) and in Russia, the Middle East, North Africa, Latin America and other emerging markets;
- Uncertainties related to any geopolitical, economic and regulatory effects or changes due to the current political climate in the U.S.;
- Natural disasters, war or events of terrorism;
- The global macroeconomic environment and potential slowing of key markets we serve, such as the current economic challenges in China; and
- Changes in the regulatory and compliance landscape resulting from COVID-19.

Any or all of these factors may impact the demand for, and profitability of, our technologies and products, as well as our customers' products that incorporate our technologies.

Certain foreign governments, particularly in China, have advanced arguments under their competition laws that exert downward pressure on royalties for IP. The regulatory enforcement activities in such jurisdictions can be unpredictable, in some cases because these jurisdictions have only recently implemented competition laws. From time to time, we are the subject of requests for information, market conduct examinations, inquires or investigations by industry groups and/or regulatory agencies in these jurisdictions. For instance, the Korean Fair Trade Commission has requested information relating to our business practices in South Korea on various occasions, and we have cooperated and are continuing to cooperate with such requests. In the event that we are involved in significant disputes or are the subject of a formal action by a regulatory agency, our results could be negatively impacted and we could be exposed to costly and time-consuming legal proceedings.

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

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

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

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

Tax Rates and Liabilities. We are a U.S. multi-national company that is subject to tax in multiple U.S. and foreign jurisdictions. We must use judgment to determine our worldwide tax provision. We receive significant tax benefits from a portion of our foreign sales, and realizability of these benefits are contingent upon existing current tax laws and regulations in the U.S. and countries where we operate. The following could materially affect our effective tax rate:

- Changes in geographic mix of earnings, where earnings are lower than anticipated in countries with lower tax rates and higher than anticipated in countries with higher tax rates;
- Changes in the valuation of our deferred tax assets and liabilities;
- Changes in transfer pricing arrangements;
- Outcomes of tax audits;
- Changes in accounting principles; or
- Changes in tax laws and regulations in the countries in which we operate, including an increase in tax rates, or an adverse change in the treatment of an item of income or expense.

The U.S. tax law changes enacted through the Tax Cuts and Jobs Act ("Tax Act") require us to exercise significant judgment in interpreting its provisions. As we evaluate the full impact of current and future guidance that is introduced, our results may materially differ from previous estimates, and those differences may materially affect our financial position. The application of the Tax Act and any changes that we make to our corporate trading structure could adversely affect our tax rate and cash flow in future years.

The Organization of Economic Cooperation and Development (“OECD”), an international association of many countries including the United States, has made changes to many long-standing transfer pricing and cross-border taxation rules. In addition, the European Union and its European Commission are proposing model legislation and investigating companies that might be in violation of European Union competition rules against unjustified state aid. Further, the OECD, European Union, European Commission, and individual countries have made and could make additional competing jurisdictional claims over the taxes owed on earnings of multinational companies in their respective countries or regions. To the extent these actions take place in the countries that we operate, it is possible that in the future, these efforts may increase uncertainty and have an adverse impact on our effective tax rates or operations.

We are subject to the periodic examination of our income tax returns by tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes, but an adverse decision by tax authorities exceeding our reserves could significantly impact our financial results.

STOCK-RELATED ISSUES

Controlling Stockholder. At June 26, 2020, the Dolby family and their affiliates owned 939,301 shares of our Class A common stock and 36,146,233 shares of our Class B common stock. As of June 26, 2020, the Dolby family and their affiliates had voting power of 99.8% of our outstanding Class B common stock, which combined with their shares of our Class A common stock, represented 85.0% 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.

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

Moreover, the Dolby family and their affiliates may take actions in their own interests that our other stockholders do not view as beneficial.

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

Stock Repurchase Program. Our stock repurchase program may reduce the public float of shares available for trading on a daily basis. Such purchases may be limited, suspended, or terminated at any time without prior notice. There can be no assurance that we will buy additional shares of our Class A common stock under our stock repurchase program or that any future repurchases will have a positive impact on our stock price or earnings per share. Important factors that could cause us to discontinue or decrease our share repurchases include, among others, unfavorable market conditions, the market price of our Class A common stock, the nature of other investment or strategic opportunities presented to us, the rate of dilution of our equity compensation programs, our ability to make appropriate, timely, and beneficial decisions as to when, how, and whether to purchase shares under the stock repurchase program, and the availability of funds necessary to continue purchasing stock. If we curtail our repurchase program, our stock price may be negatively affected.

Dividend Program. We cannot provide assurance that we will continue to increase dividend payments and/or pay dividends. We are not obligated to pay dividends on our Class A and Class B common stock. In October 2014, we announced a quarterly cash dividend program for our stockholders that was initiated by our Board of Directors. Since the initial commencement of our dividend program, our Board of Directors has annually approved an increase to our cash dividend. Although we anticipate paying regular quarterly dividends for the foreseeable future, dividend declarations and the establishment of future record and payment dates are subject to the Board of Directors' continuing determination that the dividend policy is in the best interests of our stockholders. The dividend policy may be changed or canceled at the discretion of the Board of Directors at any time. If we do not pay dividends, the market price of our Class A common stock must appreciate for investors to realize a gain on their investment. This appreciation may not occur and our Class A common stock may in fact depreciate in value.

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

Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Our Board of Directors announced a $250.0 million stock repurchase program on November 3, 2009. The program, which has no expiration date, approved the repurchase of shares of our Class A common stock, $0.001 par value per share. The authorized maximum was subsequently increased by $300.0 million, $250.0 million, $100.0 million, $200.0 million, $200.0 million, $350.0 million, and $350.0 million as announced on July 27, 2010, August 4, 2011, February 8, 2012, October 23, 2014, January 25, 2017, July 25, 2018, and July 31, 2019, respectively. Stock repurchases under this program may be made through open market transactions, negotiated purchases, or otherwise, at times and in such amounts as we consider appropriate.

The following table provides information regarding our share repurchases made under the program during the third quarter of fiscal 2020:

Repurchase Activity	Total Shares Repurchased	Average Price Paid Per Share (1)	Total Shares Purchased As Part Of Publicly Announced Programs	Remaining Authorized Share Repurchases (2)
March 28, 2020 - April 24, 2020	—	—	—	$259.3 million
April 25, 2020 - May 22, 2020	377,013	56.13	377,013	$238.1 million
May 23, 2020 - June 26, 2020	97,327	60.83	97,327	$232.2 million
Total	**474,340**		**474,340**	

(1) Average price paid per share excludes commission costs.
(2) Amounts represent the approximate dollar value of the maximum remaining number of shares that may yet be purchased under the stock repurchase program, and excludes commission costs.

ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporated By Reference Herein			Provided Herewith
		Form	File Number	Date	
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act				X
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act				X
32.1+	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act				X
101.INS	XBRL Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	XBRL Extension Definition				X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				X

+ Furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 3, 2020

DOLBY LABORATORIES, INC.

By: /S/ LEWIS CHEW

Lewis Chew

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

Exhibit 31.1

CERTIFICATION

I, Kevin J. Yeaman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Dolby Laboratories, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2020

/s/ KEVIN J. YEAMAN

Kevin J. Yeaman

President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Lewis Chew, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Dolby Laboratories, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2020

/s/ LEWIS CHEW

Lewis Chew

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

Exhibit 32.1

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

In connection with the Quarterly Report of Dolby Laboratories, Inc. (the “Company”), on Form 10-Q for the fiscal quarter ended June 26, 2020, as filed with the Securities and Exchange Commission (the “Report”), Kevin J. Yeaman, President and Chief Executive Officer of the Company and Lewis Chew, Executive Vice President and Chief Financial Officer of the Company, respectively, do each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: August 3, 2020

/s/ KEVIN J. YEAMAN

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

/s/ LEWIS CHEW

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