

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

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

For the Quarterly Period Ended December 27, 2019
OR

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

For the Transition Period From To
Commission File Number: 001-32431


DOLBY LABORATORIES, INC.

(Exact name of registrant as specified in its charter)

Delaware **90-0199783**
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1275 Market Street **San Francisco** **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:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
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 January 24, 2020, the registrant had 64,744,160 shares of Class A common stock, par value \$0.001 per share, and 36,224,820 shares of Class B common stock, par value \$0.001 per share, outstanding.

DOLBY LABORATORIES, INC.
FORM 10-Q
For the Fiscal Quarter Ended December 27, 2019
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[Signatures](#)

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)

	December 27, 2019	September 27, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 741,429	\$ 797,210
Restricted cash	11,726	8,383
Short-term investments	170,234	119,146
Accounts receivable, net of allowance for doubtful accounts of \$8,898 and \$9,775	191,001	189,115
Contract assets	204,963	195,651
Inventories, net	29,104	32,331
Prepaid expenses and other current assets	52,551	39,704
Total current assets	1,401,008	1,381,540
Long-term investments	141,720	179,587
Property, plant, and equipment, net	549,495	537,432
Operating lease right-of-use assets	71,071	—
Intangible assets, net	175,981	180,891
Goodwill	335,443	334,829
Deferred taxes	123,284	114,075
Other non-current assets	95,282	93,395
Total assets	\$ 2,893,284	\$ 2,821,749
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 13,700	\$ 15,212
Accrued liabilities	242,052	268,144
Income taxes payable	2,318	3,506
Contract liabilities	19,785	19,991
Operating lease liabilities	15,604	—
Total current liabilities	293,459	306,853
Non-current contract liabilities	23,917	24,404
Non-current operating lease liabilities	57,985	—
Other non-current liabilities	179,222	177,462
Total liabilities	554,583	508,719
Stockholders' equity:		
Class A, \$0.001 par value, one vote per share, 500,000,000 shares authorized: 64,649,011 shares issued and outstanding at December 27, 2019 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: 36,229,820 shares issued and outstanding at December 27, 2019 and 36,229,820 at September 27, 2019	41	41
Retained earnings	2,351,251	2,327,877
Accumulated other comprehensive (loss)	(18,060)	(20,625)
Total stockholders' equity – Dolby Laboratories, Inc.	2,333,290	2,307,351
Controlling interest	5,411	5,679
Total stockholders' equity	2,338,701	2,313,030
Total liabilities and stockholders' equity	\$ 2,893,284	\$ 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	
	December 27, 2019	December 28, 2018
Revenue:		
Licensing	\$ 257,683	\$ 260,279
Products and services	34,194	42,097
Total revenue	291,877	302,376
Cost of revenue:		
Cost of licensing	12,342	11,397
Cost of products and services	24,973	27,232
Total cost of revenue	37,315	38,629
Gross margin	254,562	263,747
Operating expenses:		
Research and development	57,650	58,647
Sales and marketing	95,118	85,602
General and administrative	52,529	50,813
Restructuring charges	675	14
Total operating expenses	205,972	195,076
Operating income	48,590	68,671
Other income/expense:		
Interest income	4,932	5,185
Interest expense	(72)	(45)
Other income, net	1,004	443
Total other income	5,864	5,583
Income before income taxes	54,454	74,254
(Provision for)/benefit from income taxes	(5,863)	24,104
Net income including controlling interest	48,591	98,358
Less: net loss/(income) attributable to controlling interest	162	(139)
Net income attributable to Dolby Laboratories, Inc.	\$ 48,753	\$ 98,219
Net income per share:		
Basic	\$ 0.49	\$ 0.96
Diluted	\$ 0.47	\$ 0.93
Weighted-average shares outstanding:		
Basic	100,336	102,677
Diluted	103,078	106,130
Related party rent expense:		
Included in operating expenses	\$ 70	\$ 880
Included in net income attributable to controlling interest	\$ (106)	\$ 176
Cash dividend declared per common share	\$ 0.22	\$ 0.19
Cash dividend paid per common share	\$ 0.22	\$ 0.19

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	
	December 27, 2019	December 28, 2018
Net income including controlling interest	\$ 48,591	\$ 98,358
Other comprehensive income:		
Currency translation adjustments, net of tax of \$40 and \$0	3,620	(3,728)
Unrealized gain/(loss) on investments, net of tax of (\$261) and \$40	(1,162)	770
Unrealized gain on cash flow hedges, net of tax of (\$37) and \$0	284	—
Total other comprehensive income/(loss), net of tax	2,742	(2,958)
Total comprehensive income	51,333	95,400
Less: comprehensive (income) attributable to controlling interest	(15)	12
Comprehensive income attributable to Dolby Laboratories, Inc.	\$ 51,318	\$ 95,412

See accompanying notes to unaudited interim condensed consolidated financial statements

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

Dolby Laboratories, Inc.								
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Dolby Laboratories, Inc.	Controlling Interest	Total	
Balance at September 27, 2019	\$ 99	\$ —	\$ 2,327,877	\$ (20,625)	\$ 2,307,351	\$ 5,679	\$	\$ 2,313,030
Net income	—	—	48,753	—	48,753	(162)	—	48,591
Other comprehensive income, net of tax	—	—	—	2,565	2,565	177	—	2,742
Distributions to controlling interest	—	—	—	—	—	(283)	—	(283)
Stock-based compensation expense	—	22,614	—	—	22,614	—	—	22,614
Repurchase of common stock	—	(26,705)	(3,298)	—	(30,003)	—	—	(30,003)
Cash dividends declared and paid on common stock	—	—	(22,081)	—	(22,081)	—	—	(22,081)
Common stock issued under employee stock plans	—	24,373	—	—	24,373	—	—	24,373
Tax withholdings on vesting of restricted stock	—	(20,282)	—	—	(20,282)	—	—	(20,282)
Balance at December 27, 2019	\$ 99	\$ —	\$ 2,351,251	\$ (18,060)	\$ 2,333,290	\$ 5,411	\$	\$ 2,338,701

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	\$ 102	\$ 66,127	\$ 2,313,539	\$ (15,832)	\$ 2,363,936	\$ 6,567	\$	\$ 2,370,503
Net income	—	—	98,219	—	98,219	139	—	98,358
Other comprehensive loss, net of tax	—	—	—	(2,807)	(2,807)	(151)	—	(2,958)
Distributions to controlling interest	—	—	—	—	—	(906)	—	(906)
Stock-based compensation expense	—	21,482	—	—	21,482	—	—	21,482
Repurchase of common stock	—	(82,203)	(30,342)	—	(112,545)	—	—	(112,545)
Cash dividends declared and paid on common stock	—	—	(19,573)	—	(19,573)	—	—	(19,573)
Common stock issued under employee stock plans	—	14,272	—	—	14,272	—	—	14,272
Tax withholdings on vesting of restricted stock	(1)	(19,678)	—	—	(19,679)	—	—	(19,679)
Balance at December 28, 2018	\$ 101	\$ —	\$ 2,361,843	\$ (18,639)	\$ 2,343,305	\$ 5,649	\$	\$ 2,348,954

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Fiscal Quarter-To-Date Ended	
	December 27, 2019	December 28, 2018
Operating activities:		
Net income including controlling interest	\$ 48,591	\$ 98,358
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,239	20,029
Stock-based compensation	22,614	21,482
Amortization of premium on investments	160	309
Provision for doubtful accounts	575	1,605
Deferred income taxes	(9,174)	(32,571)
Restructuring charge for exit of leased facility	486	—
Other non-cash items affecting net income	(10)	3,393
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,331)	17,736
Contract assets	(9,310)	(33,519)
Inventories	767	(2,709)
Operating lease right-of-use assets	(8,644)	—
Prepaid expenses and other assets	(13,245)	(13,157)
Accounts payable and accrued liabilities	(30,785)	(26,332)
Income taxes, net	945	1,546
Contract liabilities	(724)	(678)
Operating lease liabilities	8,664	—
Other non-current liabilities	2,341	1,460
Net cash provided by operating activities	31,159	56,952
Investing activities:		
Purchases of investment securities	(129,325)	(63,329)
Proceeds from sales of investment securities	97,717	32,582
Proceeds from maturities of investment securities	17,876	19,785
Purchases of property, plant, and equipment	(23,385)	(18,539)
Purchase of intangible assets	(290)	(12,065)
Net cash used in investing activities	(37,407)	(41,566)
Financing activities:		
Proceeds from issuance of common stock	24,373	14,272
Repurchase of common stock	(30,003)	(112,545)
Payment of cash dividend	(22,081)	(19,573)
Distribution to controlling interest	(283)	(906)
Shares repurchased for tax withholdings on vesting of restricted stock	(20,282)	(19,679)
Net cash used in financing activities	(48,276)	(138,431)
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash	2,086	(2,419)
Net decrease in cash, cash equivalents, and restricted cash	(52,438)	(125,464)
Cash, cash equivalents, and restricted cash at beginning of period	805,593	925,250
Cash, cash equivalents, and restricted cash at end of period	\$ 753,155	\$ 799,786
Supplemental disclosure:		
Cash paid for income taxes, net of refunds received	\$ 17,999	\$ 10,722
Non-cash investing activities:		
Property, plant, and equipment purchased and unpaid at period-end	\$ (582)	\$ 6,642
Purchase consideration payable for intangibles	\$ 2,610	\$ —

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 December 27, 2019 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, 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 December 27, 2019 and December 28, 2018. Our fiscal year ending September 25, 2020 (fiscal 2020) and our fiscal year ended September 27, 2019 (fiscal 2019) both consist of 52 weeks.

Reclassifications

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

2. Summary of Significant Accounting Policies

Recently Issued Accounting Standards

Adopted Standards

At the beginning of fiscal 2020, we adopted the following 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, current and non-current operating lease liabilities, 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. During 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.

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 the 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 first quarter of fiscal 2020, we recorded a favorable adjustment of approximately \$9 million, which was primarily related to July through September 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 r

venue. 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 monthly box office reports from exhibitors 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 equipment 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. 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 payments 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 December 27, 2019, we had \$41.5 million of remaining performance obligations, 36% of which we expect to recognize as revenue in fiscal 2020, 24% in fiscal 2021, and the balance of 40% 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:

<i>Revenue</i>	Fiscal Quarter Ended					
	December 27, 2019		December 28, 2018			
Licensing	\$	257,683	88%	\$	260,279	86%
Products and services		34,194	12%		42,097	14%
Total revenue	\$	291,877	100%	\$	302,376	100%

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

<i>Market</i>	Fiscal Quarter Ended					
	December 27, 2019		December 28, 2018			
Broadcast	\$	102,133	40%	\$	100,138	38%
Mobile		34,481	13%		34,173	13%
CE		48,845	19%		43,750	17%
PC		31,843	12%		23,157	9%
Other		40,381	16%		59,061	23%
Total licensing revenue	\$	257,683	100%	\$	260,279	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.

<i>Revenue By Geographic Location</i>	Fiscal Quarter Ended					
	December 27, 2019		December 28, 2018			
United States	\$	107,627	37%	\$	119,799	40%
International		184,250	63%		182,577	60%
Total revenue	\$	291,877	100%	\$	302,376	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 first quarter of fiscal 2020, we recognized \$6.8 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:

	December 27, 2019	September 27, 2019	Change (\$)	Change (%)
Accounts receivable, net	\$ 191,001	\$ 189,115	\$ 1,886	1 %
Contract assets	204,963	195,651	9,312	5 %
Contract liabilities - current	19,785	19,991	(206)	(1)%
Contract liabilities - non-current	23,917	24,404	(487)	(2)%

4. Composition of Certain Financial Statement Captions

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

Accounts Receivable

	December 27, 2019	September 27, 2019
Trade accounts receivable	\$ 148,625	\$ 151,996
Accounts receivable from patent administration program licensees	51,274	46,894
Accounts receivable, gross	199,899	198,890
Less: allowance for doubtful accounts	(8,898)	(9,775)
Total	\$ 191,001	\$ 189,115

Accounts receivable, gross includes unbilled accounts receivable balances of \$84.4 million as of December 27, 2019 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

	December 27, 2019	September 27, 2019
Raw materials	\$ 6,933	\$ 8,031
Work in process	4,432	4,872
Finished goods	17,739	19,428
Total	\$ 29,104	\$ 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 \$3.3 million and \$3.0 million of raw materials inventory within other non-current assets in our consolidated balance sheets as of December 27, 2019 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

	December 27, 2019	September 27, 2019
Prepaid expenses	\$ 28,774	\$ 17,997
Other current assets	23,105	20,924
Income tax receivable	672	783
Total	\$ 52,551	\$ 39,704

As of December 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. Based on current estimated selling prices in the market, we have determined that no indicators of potential impairment exist.

Accrued Liabilities

	December 27, 2019	September 27, 2019
Accrued royalties	\$ 3,107	\$ 2,957
Amounts payable to patent administration program partners	58,015	58,899
Accrued compensation and benefits	60,698	78,716
Accrued professional fees	16,165	19,216
Unpaid PP&E additions	14,350	15,332
Accrued customer refunds	18,222	24,299
Other accrued liabilities	71,495	68,725
Total	\$ 242,052	\$ 268,144

Other Non-Current Liabilities

	December 27, 2019	September 27, 2019
Supplemental retirement plan obligations	\$ 3,649	\$ 3,466
Non-current tax liabilities ⁽¹⁾	138,305	136,323
Other liabilities	37,268	37,673
Total	\$ 179,222	\$ 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):

	December 27, 2019						
	Cost	Unrealized		Total	Estimated Fair Value		
		Gains	Losses		Level 1	Level 2	Level 3
Cash and cash equivalents:							
Cash	\$ 719,126	\$ —	\$ —	\$ 719,126	\$ 719,126	\$ —	\$ —
Cash equivalents:							
Money market funds	22,303	—	—	22,303	22,303	—	—
Cash and cash equivalents	741,429	—	—	741,429	741,429	—	—
Short-term investments:							
Certificate of deposit	4,730	—	(2)	4,728	—	4,728	—
U.S. agency securities	6,396	4	(1)	6,399	—	6,399	—
Government bonds	44,911	15	—	44,926	41,658	3,268	—
Commercial paper	15,884	4	(8)	15,880	—	15,880	—
Corporate bonds	83,679	153	(22)	83,810	—	83,810	—
Municipal debt securities	14,470	22	(1)	14,491	—	14,491	—
Short-term investments	170,070	198	(34)	170,234	41,658	128,576	—
Long-term investments:							
U.S. agency securities	8,704	132	(1)	8,835	—	8,835	—
Government bonds	26,219	78	(20)	26,277	22,865	3,412	—
Corporate bonds	91,812	759	(88)	92,483	—	92,483	—
Municipal debt securities	12,532	99	(1)	12,630	—	12,630	—
Other long-term investments (1)	1,495	—	—	1,495	—	—	—
Long-term investments	140,762	1,068	(110)	141,720	22,865	117,360	—
Total cash, cash equivalents, and investments	\$ 1,052,261	\$ 1,266	\$ (144)	\$ 1,053,383	\$ 805,952	\$ 245,936	\$ —

Investments held in supplemental retirement plan:

Assets	3,746	—	—	3,746	3,746	—	—
<i>Included in prepaid expenses and other current assets & other non-current assets</i>							
Liabilities	3,746	—	—	3,746	3,746	—	—
<i>Included in accrued liabilities & other non-current liabilities</i>							

Currency derivatives as hedge instruments:

Assets	—	426	—	426	—	426	—
<i>Included in other current assets</i>							
Liabilities	—	—	(62)	(62)	—	(62)	—
<i>Included in other accrued expenses</i>							

(1) Other long-term investments as of December 27, 2019 include investments that are not carried at fair value including an equity method investment of \$1.5 million.

September 27, 2019							
	Cost	Unrealized			Estimated Fair Value		
		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	—	—
<i>Included in prepaid expenses and other current assets & other non-current assets</i>							
Liabilities	3,564	—	—	3,564	3,564	—	—
<i>Included in accrued liabilities & other non-current liabilities</i>							
Currency derivatives as hedge instruments:							
Assets	—	—	—	—	—	—	—
<i>Included in other current assets</i>							
Liabilities	—	—	(242)	(242)	—	(242)	—
<i>Included in other accrued expenses</i>							

(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 December 27, 2019 and September 27, 2019 (in thousands):

Investment Type	December 27, 2019				September 27, 2019			
	Less Than 12 Months		12 Months Or Greater		Less Than 12 Months		12 Months Or Greater	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Certificate of deposit	\$ 4,298	\$ (2)	\$ —	\$ —	\$ 300	\$ —	\$ —	\$ —
U.S. agency securities	333	—	4,797	(1)	—	—	4,787	(9)
Government bonds	38,385	(21)	—	—	1,426	—	—	—
Commercial paper	11,787	(9)	—	—	—	—	—	—
Corporate bonds	36,756	(100)	11,374	(10)	7,647	(3)	27,078	(32)
Municipal debt securities	3,968	(2)	—	—	9,552	(13)	900	—
Total	\$ 95,527	\$ (134)	\$ 16,171	\$ (11)	\$ 18,925	\$ (16)	\$ 32,765	\$ (41)

Although we had certain securities that were in an unrealized loss position as of December 27, 2019, 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 December 27, 2019 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 December 27, 2019 and September 27, 2019, which are recorded within cash equivalents and both short and long-term investments in our consolidated balance sheets (in thousands):

Range of maturity	December 27, 2019		September 27, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within 1 year	\$ 192,373	\$ 192,537	\$ 238,186	\$ 238,354
Due in 1 to 2 years	57,931	58,481	93,948	94,899
Due in 2 to 3 years	81,337	81,744	81,793	82,957
Total	\$ 331,641	\$ 332,762	\$ 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):

	December 27, 2019	September 27, 2019
Land	\$ 41,980	\$ 41,918
Buildings and building improvements	283,462	282,924
Leasehold improvements	67,253	66,730
Machinery and equipment	127,183	128,525
Computer equipment and software	219,773	219,455
Furniture and fixtures	31,571	34,191
Equipment provided under operating leases	174,155	161,372
Construction-in-progress	32,251	19,616
Property, plant, and equipment, gross	977,628	954,731
Less: accumulated depreciation	(428,133)	(417,299)
Property, plant, & equipment, net	\$ 549,495	\$ 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 most of 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 11 years. We have leases that include one or more options to extend the lease term for up to 8 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 December 27, 2019
Lease cost	
Operating lease cost	5,356
Variable lease cost	394
Total lease cost	5,750

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

	Fiscal Quarter Ended December 27, 2019
Other information	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	5,241
Right-of-use assets obtained in exchange for lease obligations:	
Operating lease liabilities	12,816

Supplemental balance sheet information related to leases was as follows:

	December 27, 2019
Weighted-average remaining lease term	
Operating leases	7.3 years
Weighted-average discount rate	
Operating leases	3.4%

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

	December 27, 2019 Operating Leases	September 27, 2019 Operating Leases
Remainder of Fiscal 2020	15,386	17,231
Fiscal 2021	13,643	9,329
Fiscal 2022	11,336	7,191
Fiscal 2023	9,375	6,218
Fiscal 2024	6,703	4,499
Thereafter	29,320	12,355
Total undiscounted lease payments	85,763	56,823
Less: imputed interest	(12,174)	
Total lease liabilities	73,589	

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 December 27, 2019, variable operating lease income was \$7.3 million and fixed operating lease income was \$0.7 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 December 27, 2019, 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):

	December 27, 2019	
	Operating Leases	Sales-Type Leases
Remainder of Fiscal 2020	1,669	4,059
Fiscal 2021	2,227	1,595
Fiscal 2022	2,227	1,595
Fiscal 2023	2,153	1,595
Fiscal 2024	1,107	795
Thereafter	—	790
Total undiscounted cash flows	9,383	10,429
Less: present value of lease payments (recognized as lease receivables)		(8,095)
Difference		2,334

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	614
Balance at December 27, 2019	\$ 335,443

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):

Intangible Assets	December 27, 2019			September 27, 2019		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Acquired patents and technology	\$ 340,519	\$ (183,283)	\$ 157,236	\$ 338,075	\$ (176,867)	\$ 161,208
Customer relationships	64,718	(46,417)	18,301	64,728	(45,510)	19,218
Other intangibles	22,942	(22,498)	444	22,902	(22,437)	465
Total	\$ 428,179	\$ (252,198)	\$ 175,981	\$ 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
Fiscal 2020		
Q1 - Quarter ended December 27, 2019	\$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, 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 \$7.2 million and \$6.6 million in the first quarter of fiscal 2020 and 2019, respectively. As of December 27, 2019, estimated amortization expense in future fiscal periods was as follows (in thousands):

Fiscal Year	Amortization Expense (in thousands)	
Remainder of 2020	\$	22,346
2021		29,585
2022		27,580
2023		23,898
2024		22,273
Thereafter		50,299
Total	\$	175,981

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 December 27, 2019, we had authorized 500,000,000 Class A shares and 500,000,000 Class B shares. At December 27, 2019, we had 64,649,011 shares of Class A common stock and 36,229,820 shares of Class B common stock issued and outstanding. Holders of our Class A and Class B common stock have identical rights, except that holders of our Class A common stock are entitled to one vote per share and holders of our Class B common stock are entitled to ten votes per share. Shares of Class B common stock can be converted to shares of Class A common stock at any time at the option of the stockholder and automatically convert upon sale or transfer, except for certain transfers specified in our amended and restated certificate of incorporation.

Stock Incentive Plans

2005 Stock Plan. In January 2005, our stockholders approved our 2005 Stock Plan, which our Board of Directors adopted in November 2004. The 2005 Stock Plan became effective on February 16, 2005, the day prior to the completion of our initial public offering. Our 2005 Stock Plan, as amended and restated, provides for the ability to grant incentive stock options, non-qualified stock options, restricted stock, RSUs, stock appreciation rights, deferred stock units, performance units, performance bonus awards, and performance shares. A total of 46.0 million shares of our Class A common stock is authorized for issuance under the 2005 Stock Plan. For awards granted prior to February 2011, any shares subject to an award with a per share price less than the fair market value of our Class A common stock on the date of grant and any shares subject to an outstanding RSU award will be counted against the authorized share reserve as two shares for every one share subject to the award, and if returned to the 2005 Stock Plan, such shares will be counted as two shares for every one share returned. For those awards granted from February 2011 onward, any shares subject to an award with a per share price less than the fair market value of our Class A common stock on the date of grant and any shares subject to an outstanding RSU award will be counted against the authorized share reserve as 1.6 shares for every one share subject to the award, and if returned to the 2005 Stock Plan, such shares will be counted as 1.6 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 2005 Stock Plan. Our 2005 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 non-performance based options granted under the 2005 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 December 27, 2019, PSOs which would be exercisable for an aggregate of 745,639 shares at the target award amount (1,169,120 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 December 27, 2019, 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 2005 Stock Plan:

	Shares <i>(in thousands)</i>	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life <i>(in years)</i>	Aggregate Intrinsic Value ⁽¹⁾ <i>(in thousands)</i>
Options outstanding at September 27, 2019	7,201	\$ 48.03		
Grants	1,058	68.41		
Exercises	(441)	38.92		
Forfeitures and cancellations	(23)	60.18		
Options outstanding at December 27, 2019	7,795	51.28	6.60	\$ 132,844
Options vested and expected to vest at December 27, 2019	7,369	50.45	6.48	131,897
Options exercisable at December 27, 2019	4,633	\$ 43.13	5.43	116,784

(1) Aggregate intrinsic value is based on the closing price of our Class A common stock on December 27, 2019 of \$68.34 and excludes the impact of options that were not in-the-money.

Restricted Stock Units. Beginning in fiscal 2008, we began granting RSUs to certain directors, officers, and employees under our 2005 Stock Plan. Awards granted to employees and officers generally vest over four years, with equal annual cliff-vesting. Awards granted to directors prior to November 2010 generally 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 2005 Stock Plan also allows us to grant RSUs that vest based on the satisfaction of specific performance criteria, although no such awards had been granted as of December 27, 2019. At each vesting date, the holder of the award is issued shares of our Class A common stock. Compensation expense from these awards is equal to the fair market value of our Class A common stock on the date of grant and is recognized on a straight-line basis over the requisite service period.

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

	Shares <i>(in thousands)</i>	Weighted-Average Grant Date Fair Value
Non-vested at September 27, 2019	2,805	\$ 58.84
Granted	1,214	66.28
Vested	(897)	51.77
Forfeitures	(43)	59.23
Non-vested at December 27, 2019	3,079	\$ 62.39

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	
	December 27, 2019	December 28, 2018
Expected life (in years)	4.91	4.90
Risk-free interest rate	1.7%	2.7%
Expected stock price volatility	23.9%	22.9%
Dividend yield	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	
	December 27, 2019	December 28, 2018
Compensation expense - by type		
Stock options	\$ 4,546	\$ 5,022
Restricted stock units	16,967	15,375
Employee stock purchase plan	1,101	1,085
Total stock-based compensation	22,614	21,482
Benefit from income taxes	(3,594)	(3,760)
Total stock-based compensation, net of tax	\$ 19,020	\$ 17,722

Expense - By Income Statement Line Item Classification

	Fiscal Quarter Ended	
	December 27, 2019	December 28, 2018
Compensation expense - by classification		
Cost of products and services	\$ 543	\$ 488
Research and development	6,987	6,241
Sales and marketing	8,174	8,217
General and administrative	6,910	6,536
Total stock-based compensation expense	22,614	21,482
Benefit from income taxes	(3,594)	(3,760)
Total stock-based compensation, net of tax	\$ 19,020	\$ 17,722

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	
	December 27, 2019	December 28, 2018
Tax benefit - shares issued under ESPP	\$ 202	\$ 142

Unrecognized Compensation Expense. At December 27, 2019, total unrecorded compensation expense associated with employee stock options expected to vest was approximately \$33.2 million, which is expected to be recognized over a weighted-average period of 2.7 years. At December 27, 2019, total unrecorded compensation expense associated with RSUs expected to vest was approximately \$156.8 million, which is expected to be recognized over a weighted-average period of 3.0 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 December 27, 2019 (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 December 27, 2019, the remaining authorization to purchase additional shares is approximately \$331 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
Total	432,042	\$ 30,003	

- (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 ⁽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 December 27, 2019			
	Investment Securities	Cash Flow Hedges	Currency Translation Adjustments	Total
Beginning Balance	\$ 2,198	\$ —	\$ (22,823)	\$ (20,625)
Other comprehensive income before reclassifications:				
Unrealized gains/(losses)	(2,209)	315	—	(1,894)
Foreign currency translation gains/(losses) (1)	—	—	3,403	3,403
Income tax effect - benefit/(expense)	—	(37)	40	3
Net of tax	(2,209)	278	3,443	1,512
Amounts reclassified from AOCI into earnings:				
Realized gains/(losses) (1)	1,308	6	—	1,314
Income tax effect - benefit/(expense) (2)	(261)	—	—	(261)
Net of tax	1,047	6	—	1,053
Net current-period other comprehensive income/(loss)	(1,162)	284	3,443	2,565
Ending Balance	\$ 1,036	\$ 284	\$ (19,380)	\$ (18,060)

	Fiscal Quarter Ended December 28, 2018			
	Investment Securities	Cash Flow Hedges	Currency Translation Adjustments	Total
Beginning Balance	\$ (2,948)	\$ —	\$ (12,884)	\$ (15,832)
Other comprehensive income before reclassifications:				
Unrealized gains/(losses)	931	—	—	931
Foreign currency translation gains/(losses) (1)	—	—	(3,577)	(3,577)
Income tax effect - benefit/(expense)	—	—	—	—
Net of tax	931	—	(3,577)	(2,646)
Amounts reclassified from AOCI into earnings:				
Realized gains/(losses) (1)	(201)	—	—	(201)
Income tax effect - benefit/(expense) (2)	40	—	—	40
Net of tax	(161)	—	—	(161)
Net current-period other comprehensive income/(loss)	770	—	(3,577)	(2,807)
Ending Balance	\$ (2,178)	\$ —	\$ (16,461)	\$ (18,639)

- (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	
	December 27, 2019	December 28, 2018
Numerator:		
Net income attributable to Dolby Laboratories, Inc.	\$ 48,753	\$ 98,219
Denominator:		
Weighted-average shares outstanding—basic	100,336	102,677
Potential common shares from options to purchase common stock	1,711	2,251
Potential common shares from restricted stock units	1,020	1,202
Potential common shares from ESPP	11	—
Weighted-average shares outstanding—diluted	103,078	106,130
Net income per share attributable to Dolby Laboratories, Inc.:		
Basic	\$ 0.49	\$ 0.96
Diluted	\$ 0.47	\$ 0.93
Antidilutive awards excluded from calculation:		
Stock options	2,623	1,583
Restricted stock units	8	10
ESPP	3	—

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 December 27, 2019, the total amount of gross unrecognized tax benefits was \$110.2 million, of which \$74.5 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. 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 first quarter of fiscal 2020 was 10.8% or a tax expense of \$5.9 million, compared to our Federal statutory rate of 21%. The decrease from the Federal statutory rate was primarily due to tax benefits relating to stock-based compensation. Compared to our effective tax rate in the first quarter of fiscal 2019 of (32.5)% or a tax benefit of \$24.1 million, the increase in our tax expense was primarily due to a benefit in fiscal 2019 related to a reduction to our provisional Tax Act amount which did not recur in fiscal 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	—	675	—	—	675
Cash payments	(72)	(8,502)	—	—	(8,574)
Non-cash and other adjustments	158	24	—	—	182
Balance at December 27, 2019	\$ 214	\$ 7,920	\$ —	\$ —	\$ 8,134

Accruals for restructuring charges incurred for the restructuring plans described above are included within accrued liabilities in our consolidated balance sheets while restructuring charges/(credits) are included within restructuring charges/(credits) 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. 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 estimate of any such potential losses.

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 December 27, 2019 (in thousands):

	Payments Due By Fiscal Period							Total
	Remainder of Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Thereafter		
Naming rights	\$ 3,954	\$ 8,008	\$ 8,108	\$ 8,209	\$ 8,312	\$ 70,344	\$ 106,935	
Purchase obligations	23,161	4,615	2,176	—	—	—	29,952	
Donation commitments	4,077	141	141	141	141	1,059	5,700	
Total	\$ 31,192	\$ 12,764	\$ 10,425	\$ 8,350	\$ 8,453	\$ 71,403	\$ 142,587	

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

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 to the Museum of the Academy of Motion Picture Arts and Sciences in Los Angeles, California, and the Smithsonian Institution in Washington, DC. Our commitment to the Museum of the Academy of Motion Picture Arts and Sciences is for 15 years from its expected opening date in fiscal 2020, and the Smithsonian Institution is for the next 5 years. Both donation commitments consist of the installation of imaging and audio products in its theaters and providing maintenance services in exchange for various marketing, branding, and publicity benefits.

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 and are subject to risks and uncertainties, including, but not limited to statements regarding: operating results and underlying measures; demand and acceptance for our technologies and products; market growth opportunities and trends; our plans, strategies and expected opportunities; future competition; our stock repurchase plan; and our dividend policy. Use of words such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," "continue" or similar 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.

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 December 27, 2019, we had approximately 11,900 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:

Market	Fiscal Quarter Ended		Main Offerings Incorporating Our Technologies
	December 27, 2019	December 28, 2018	
Broadcast	40%	38%	STBs & Televisions
Mobile	13%	13%	Smartphones & Tablets
CE	19%	17%	DMAs, Blu-ray Disc devices, AVRs, Soundbars, DVDs, & HTIBs
PC	12%	9%	Windows and macOS operating systems
Other	16%	23%	Gaming consoles, Auto DVD, Dolby Cinema, & Dolby Voice
Total	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 patent licensing.

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. In some instances, we also receive fixed or minimum amounts upfront, which are accounted for in our products and services revenue, when the appropriate parameters are met.

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.

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.

Products and services revenue is derived primarily from sales of the following:

Product		Description
Cinema	Cinema Imaging Products	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.
	Cinema Audio Products	Cinema Processors, amplifiers, and loudspeakers used to decode, render, and optimally playback digital cinema soundtracks including those using Dolby Atmos.
Other	Dolby Conference Phone	An integral hardware component of the Dolby Voice conferencing solution that enhances full-room voice capture, spatial voice separation, and playback.
	Dolby Voice Room	Video conferencing solution for huddle rooms and small conference rooms that combines a camera product with the Dolby Conference Phone and Dolby Voice technology.
	Other Products	3-D glasses and kits, broadcast hardware and software used to encode, transmit, and decode multiple channels of high quality audio for DTV and HDTV distribution, monitors, and accessibility solutions for hearing and visually impaired consumers.

EXECUTIVE SUMMARY

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.

EXPANDING OUR LEADERSHIP IN AUDIO AND IMAGING ENTERTAINMENT EXPERIENCES

AUDIO AND IMAGING 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 first quarter of fiscal 2020 and key challenges related to audio and imaging licensing, by market.

Broadcast

Highlights: We have an established presence in developed markets 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 broadcast market. At CES in January 2020, partners Skyworth, Sony, and Hisense each launched new TV lineups supporting the combined Dolby Vision and Dolby Atmos experience. Also at CES, we launched Dolby Vision IQ along with our TV partners LG and Panasonic. Dolby Vision IQ automatically adjusts the TV picture according to the surrounding light and the type of content being viewed, creating a more optimized viewing experience.

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.

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. Apple's latest iOS devices support the combined experience of Dolby Vision and Dolby Atmos. In the first quarter of fiscal 2020, TIDAL launched support for Dolby Atmos music within their HiFi streaming service, which consumers can experience on Dolby Atmos-enabled Android devices, such as Samsung and Oppo mobile phones.

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 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.

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 first quarter of fiscal 2020, a number of streaming services supporting Dolby Vision and Dolby Atmos enabled content were launched in the market, including Disney+ and Apple TV+. Additional OTT services currently supporting the combined experience of Dolby Vision and Dolby Atmos include Netflix, Amazon, Tencent, and iQiyi, offering a growing collection of content available in Dolby Vision and in Dolby Atmos.

In addition, during the first quarter of fiscal 2020, the first Dolby Atmos enabled smart speaker, the Amazon Echo Studio, was released in the market along with the Amazon HD music service.

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.

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.

In the PC market, we continue to see more PC models supporting Dolby Vision and Dolby Atmos. At CES, Lenovo launched their new lineup of PCs that support the combined Dolby Vision and Dolby Atmos experience, and ASUS announced their first gaming laptops supporting Dolby Atmos. Currently, there are several other computer models available in the market supporting Dolby Vision and Dolby Atmos from partners such as Apple, Dell, 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.

Other

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: The gaming console market continues to be challenged by competition from mobile devices and gaming PCs, which have faster refresh cycles and appeal to a broader consumer base. This may impact our future revenues.

CINEMA AND OTHER

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. We continue to see adoption of Dolby Atmos by studios, content creators, post-production facilities, and exhibitors. As of the end of the first quarter of fiscal 2020, there were over 5,000 Dolby Atmos-enabled screens installed or committed across 90 countries around the world, and over 1,600 Dolby Atmos theatrical titles announced or released.

We also offer a variety of newer 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 industry and economic cycles and box office performance generally, 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 international markets, such as China, which are subject to economic risks as well as geo-political risks. To the extent that these factors persist or worsen, we may be faced with pricing pressures or competing technologies, which would affect our revenue. Additionally, international markets are subject to current event risks such as fears of pandemic disease outbreaks, which could provoke responses, including government-imposed travel restrictions, which could negatively affect consumer demand and the business we do in these markets.

Dolby Cinema

Highlights: We continued to expand our global presence for Dolby Cinema with new partnerships. At the end of the fiscal quarter, we had over 245 Dolby Cinema locations in operation across 11 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 is currently growing, Dolby Cinema competes with other existing offerings. Our success depends on 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.

Dolby Voice

Highlights: We continue to focus on expanding Dolby Voice's availability to the global market for audio and video conferencing services. Our newest audio and video conferencing offering is Dolby Voice Room, which is aimed at customers in the growing huddle room space. We continue to see growth in Dolby Voice Room including the "Room as a Service" offering, which enables our customers access to our partner's conferencing services 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

For a description of the critical accounting policies that involve significant judgments and estimates used in the preparation of our consolidated financial statements, refer to Item 7 on Management's Discussion and Analysis of Financial Condition and Results in our fiscal 2019 Annual Report on Form 10-K filed with the SEC. There have been no material changes to the critical accounting policies from those included in our fiscal 2019 Annual Report on Form 10-K.

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	
	December 27, 2019	December 28, 2018	\$	%
Licensing				
Revenue	\$257,683	\$260,279	\$(2,596)	(1)%
<i>Percentage of total revenue</i>	88%	86%		
Cost of licensing	12,342	11,397	945	8%
Gross margin	245,341	248,882	(3,541)	(1)%
<i>Gross margin percentage</i>	95%	96%		

Current Quarter: Q1 2020 vs. Q1 2019

Factor	Revenue		Gross Margin	
PC	↑	Higher revenues from recoveries and higher adoption of our newer technologies in more PC models	← →	No significant fluctuations
Other	↓	Lower revenues from automotive recoveries and gaming		
CE	↑	Higher adoption of our technologies, driven by higher volume of DMAs		
Broadcast	↑	Higher recoveries and higher revenues from increased adoption		
Mobile	← →	Higher adoption of our technologies, offset by lower recoveries		

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 for 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	
	December 27, 2019	December 28, 2018	\$	%
Products and Services				
Revenue	\$34,194	\$42,097	\$(7,903)	(19)%
<i>Percentage of total revenue</i>	12%	14%		
Cost of products and services	24,973	27,232	(2,259)	(8)%
Gross margin	9,221	14,865	(5,644)	(38)%
<i>Gross margin percentage</i>	27%	35%		

Current Quarter: Q1 2020 vs. Q1 2019

Factor	Revenue		Gross Margin	
Products	↓	Prior period included revenue from Dolby Cinema sales-type leases (hybrid agreements), partially offset by higher units of Dolby Voice products and cinema equipment	↓	Lower margins due to less revenue from Dolby Cinema hybrid agreements which are typically higher in gross margin relative to other product sales
Services	↔	No significant fluctuations	↑	Higher 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	
	December 27, 2019	December 28, 2018	\$	%
Research and development	\$57,650	\$58,647	\$(997)	(2)%
<i>Percentage of total revenue</i>	20%	19%		

Current Quarter: Q1 2020 vs. Q1 2019

Category	Key Drivers	
Research & Development	↔	No significant fluctuations

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	
	December 27, 2019	December 28, 2018	\$	%
Sales and marketing	\$95,118	\$85,602	\$9,516	11%
<i>Percentage of total revenue</i>	33%	28%		

Current Quarter: Q1 2020 vs. Q1 2019

Category	Key Drivers	
Marketing Programs	↑	Higher costs related to marketing efforts for growth initiatives and company branding activities
Legal, Professional, & Consulting	↑	Increased IP related activities aimed at revenue generation

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	
	December 27, 2019	December 28, 2018	\$	%
General and administrative	\$52,529	\$50,813	\$1,716	3%
<i>Percentage of total revenue</i>	18%	17%		

Current Quarter: Q1 2020 vs. Q1 2019

Category	Key Drivers	
Compensation & Benefits	↑	Higher headcount and merit increases across the existing employee base

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	
	December 27, 2019	December 28, 2018	\$	%
Other income/(expense)	\$5,864	\$5,583	\$281	5%
<i>Percentage of total revenue</i>	2%	2%		

Current Quarter: Q1 2020 vs. Q1 2019

Category	Key Drivers	
Other Income/Expense	↔	No significant fluctuations

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	
	December 27, 2019	December 28, 2018
(Provision for)/benefit from income taxes	\$(5,863)	\$24,104
<i>Effective tax rate</i>	10.8%	(32.5)%

Current Quarter: Q1 2020 vs. Q1 2019

Factor	Impact On Effective Tax Rate	
Enactment of Tax Act	↑	Lower tax expense in the prior year due to a discrete tax benefit from adjustments to the Tax Reform Transition Tax
Stock-Based Compensation	↓	Higher benefit related to the settlement of stock-based awards

LIQUIDITY, CAPITAL RESOURCES, AND FINANCIAL CONDITION

Our principal sources of liquidity are cash, cash equivalents, and investments, as well as cash flows from operations. We believe that these sources will be sufficient to satisfy our currently anticipated cash requirements through at least the next twelve months. As of December 27, 2019, we had cash and cash equivalents of \$741.4 million, which mainly consisted of cash and highly-liquid money market funds. In addition, we had short and long-term investments of \$312.0 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 December 27, 2019 and September 27, 2019 (amounts displayed are in thousands):

	December 27, 2019	September 27, 2019
Cash and cash equivalents	\$ 741,429	\$ 797,210
Short-term investments	170,234	119,146
Long-term investments	141,720	179,587
Accounts receivable, net	191,001	189,115
Accounts payable and accrued liabilities	255,752	283,356
Working capital	1,107,549	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 \$1.7 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 Quarter Ended	
	December 27, 2019	December 28, 2018
Net cash provided by operating activities	\$ 31,159	\$ 56,952

Net cash provided by operating activities decreased \$25.8 million in the fiscal quarter-to-date period ended December 27, 2019 as compared to the fiscal quarter-to-date period ended December 28, 2018, primarily due to the following:

Factor	Impact On Cash Flows	
Net Income	↓	Lower revenues and increased expenses compared to the prior year
Deferred Income Taxes	↑	Prior period deferred tax asset activity included an additional tax benefit related to adjustments to the Tax Reform Transition Tax

Investing Activities

	Fiscal Quarter Ended	
	December 27, 2019	December 28, 2018
Net cash used in investing activities	\$ (37,407)	\$ (41,566)

Net cash used in investing activities was \$4.2 million lower in the fiscal quarter-to-date period ended December 27, 2019 as compared to the fiscal quarter-to-date period ended December 28, 2018, primarily due to the following:

Factor	Impact On Cash Flows	
Intangible Asset Acquisitions	↓	Lower outflows for purchases of intangible assets

Financing Activities

	Fiscal Quarter Ended	
	December 27, 2019	December 28, 2018
Net cash used in financing activities	\$ (48,276)	\$ (138,431)

Net cash used in financing activities was \$90.2 million lower in the fiscal quarter-to-date period ended December 27, 2019 as compared to the fiscal quarter-to-date period ended December 28, 2018, primarily due to the following:

Factor	Impact On Cash Flows	
Share Repurchases	↑	Lower outflows from common stock repurchases
Common Stock Issuance	↑	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 December 27, 2019, we had cash and cash equivalents of \$741.4 million, which consisted of cash, commercial paper, and highly liquid money market funds. In addition, we had both short and long-term investments of \$312.0 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 December 27, 2019, the weighted-average credit quality of our investment portfolio was AA-, with a weighted-average maturity of approximately fourteen months. We do not invest in financial instruments for trading or speculative purposes, nor do we use leveraged financial instruments. We utilize external investment managers who adhere to the guidelines of our investment policy.

The investments within our fixed-income portfolio are subject to fluctuations in interest rates, which could affect our financial position, and to a lesser extent, results of operations. Based on our investment portfolio balance as of December 27, 2019, hypothetical changes in interest rates of 1% and 0.5% would have an impact on the carrying value of our portfolio of approximately \$3.5 million and \$1.7 million, respectively.

Foreign Currency Exchange Risk

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

- Australian Dollar
- British Pound
- Chinese Yuan
- Euro
- 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 twelve months.

We also enter into foreign currency forward contracts to hedge against assets and liabilities for which we have foreign currency exchange rate exposure and selected anticipated expenses. The contracts hedging receivables and payables are carried at fair value with changes in the fair value recorded to other income, net, in our consolidated statements of operations. The contracts hedging foreign currency denominated operating expenses are carried at fair value with changes in the fair value recorded to other comprehensive income until the hedged expenses are reported in our consolidated statements of operations. As of December 27, 2019 and September 27, 2019, the outstanding derivative instruments had maturities of equal to or less than 12 months, and the total notional amounts of outstanding contracts were \$106.8 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 December 27, 2019. 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 our financial instruments by \$7.3 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 \$7.3 million.

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.

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 adopted ASC 842, “Leases” beginning September 28, 2019. As a result of this adoption, we implemented new processes and internal controls over financial reporting during the fiscal quarter ended December 27, 2019 that have materially affected, or are reasonably likely to materially affect, or 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

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.

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.

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, and expect to continue to invest, a substantial amount of time and resources developing Dolby Cinema and building our partnerships in connection with the launch of Dolby Cinema locations, this is a relatively new market for us and we may not recognize a meaningful amount of revenue from these efforts in the near future, or at all, if new Dolby Cinema locations are not ultimately successful, or if there is a decrease in the performance of our existing locations. 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. In addition, a decrease in our ability to develop and introduce new cinema products and services successfully could affect licensing of our consumer technologies, because the strength of our brand and our ability to use professional product developments to introduce new consumer technologies would be negatively impacted.

Our revenue and associated demand from cinema product sales is dependent upon industry and economic cycles, along with our ability to develop and introduce new technologies, further our relationships with content creators, and promote new 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 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. However, the continued advancement of OTT media delivery and consumption may impact the importance of inclusion in certain broadcast standards in the future.

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

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

standards.

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.

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. As disclosed in Note 2 "Summary of Significant Accounting Policies--Recently Issued Accounting Standards," beginning in the first quarter of fiscal 2019, we adopted ASU 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.

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

INTELLECTUAL PROPERTY

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

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

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

Patent Royalties and Expiration. Many of the technologies that we license to our system licensees are covered by patents, and the licensing revenue that we receive from those licenses depends in large part upon the life of such patents. In general, our agreements with our licensees require them to pay us a full royalty with respect to a particular technology only until the last patent covering that technology expires in a particular country. As of December 27, 2019, we had approximately 11,900 issued patents in addition to approximately 4,100 pending patent applications in more than 100 jurisdictions throughout the world. Our currently issued patents expire at various times through February 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. 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.

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, such as coronavirus, or the fear of such events, could provoke 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. 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 63% and 60% of our revenue was derived outside of the U.S. in the fiscal quarter ended December 27, 2019 and December 28, 2018, 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; and

- The global macroeconomic environment and potential slowing of key markets we serve, such as the current economic challenges in China.

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, inquiries or investigations by industry groups and/or regulatory agencies in these jurisdictions. For instance, in October 2018 and September 2019, the Korean Fair Trade Commission requested information relating to our business practices in South Korea, and we are cooperating 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 recent 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. In addition, the Tax Act includes certain international provisions that became effective for us beginning in fiscal 2019. 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 December 27, 2019, the Dolby family and their affiliates owned 1,041,855 shares of our Class A common stock and 36,146,233 shares of our Class B common stock. As of December 27, 2019, 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 84.9% of the combined voting power of our outstanding Class A and Class B common stock. Under our certificate of incorporation, holders of Class B common stock are entitled to ten votes per share while holders of Class A common stock are entitled to one vote per share. Generally, shares of Class B common stock automatically convert into shares of Class A common stock upon transfer of such Class B common stock, other than transfers to certain specified persons and entities, including the spouse and descendants of Ray Dolby and the spouses and domestic partners of such descendants.

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 first 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⁾
September 28, 2019 - October 25, 2019	—	—	—	\$360.9 million
October 26, 2019 - November 22, 2019	289,875	69.51	289,875	\$340.8 million
November 23, 2019 - December 27, 2019	142,167	69.29	142,167	\$330.9 million
Total	432,042		432,042	

(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	
10.1	Form of Executive Performance-Based Restricted Stock Unit Agreement				X
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: January 29, 2020

DOLBY LABORATORIES, INC.

By: _____ /S/ LEWIS CHEW

Lewis Chew

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

DOLBY LABORATORIES, INC.

2005 STOCK PLAN

**NOTICE OF GRANT OF EXECUTIVE PERFORMANCE-BASED
RESTRICTED STOCK UNITS**

Unless otherwise defined herein, the terms defined in the Dolby Laboratories, Inc. 2005 Stock Plan, as amended from time to time (the “Plan”) shall have the same defined meanings in this Notice of Grant of Executive Performance-Based Restricted Stock Units (the “Notice of Grant”) and the Global Restricted Stock Unit Agreement attached hereto as Exhibit A (collectively, the “Executive Performance-Based Restricted Stock Unit Agreement” or the “Agreement”), including any terms and conditions for participants outside the U.S. in the Appendix.

Participant:

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

Date of Grant:

Performance Period:

Threshold Number of Restricted Stock Units (“Threshold”):
(Target number x [#]%)

Target Number of Restricted Stock Units (“Target”):

Maximum Number of Restricted Stock Units (“Maximum”):
(Target number x [#]%)

Vesting Schedule:

The Restricted Stock Units subject to the Award will vest only upon achievement of both (a) the Performance-Based Vesting Component and (b) the Service-Based Vesting Component, as described below.

Performance-Based Vesting Component

The actual number of Restricted Stock Units that will be eligible to vest will be determined based on the achievement of annualized total stockholder return of the Company over the Performance Period as compared to the annualized total stockholder return of the [] Index (ticker symbol []), or its successor (and in the case of multiple successors, the successor of which the Company is a member, and if the Company is a member of multiple successors, such applicable successor as determined by the Administrator) (the “Index”), as follows (such vesting component, the “Performance-Based Vesting Component”, and any Restricted Stock Units that become eligible to vest after satisfaction of the Performance-Based Vesting Component, the “Eligible RSUs”):

	Relative TSR	Eligible RSUs
Threshold	[#]%	[#]
Target	[#]%	[#]
Maximum	[#]%	[#]

“Relative TSR” shall be determined in accordance with the following formula:

$$\text{“Relative TSR”} = \text{Annualized TSR} - \text{Index TSR.}$$

“Annualized TSR” shall be determined in accordance with the following formula:

$$\text{“Annualized TSR”} = ((P_2 / P_1)^{(1/N)}) - 1.$$

For purposes of the foregoing formula, the following definitions shall apply:

“P₁” or “Beginning Stock Price” means the thirty (30) trading day average closing price of a share of Class A common stock, \$0.001 par value, of the Company as of and including the last trading day immediately preceding the start of the Performance Period, as adjusted to reflect the reinvestment of dividends.

“P₂” or “Ending Stock Price” means the thirty (30) trading day average closing price of a share of Class A common stock, \$0.001 par value, of the Company as of and including the last trading day of the Performance Period, as adjusted to reflect the reinvestment of dividends.

“N” shall mean three ([#]), which is the number of years of the Performance Period, unless the Performance Period is deemed to end earlier due to a merger or Change in Control, in which instance “N” shall equal the product of (i) [#] (3) multiplied by (ii) the Proration Ratio, as defined below.

This Annualized TSR calculation shall be adjusted to reflect any event described in Section 17 of the Plan, as determined by the Administrator in its sole discretion.

“Index TSR” shall be determined in accordance with the following formula:

$$\text{“Index TSR”} = ((I_2 / I_1)^{(1/N)}) - 1.$$

For purposes of the foregoing formula, the following definitions shall apply:

“I₁” or “Beginning Index Price” means the thirty (30) trading day average closing price of a share of the Index, as adjusted to reflect the reinvestment of dividends.

“I₂” or “Ending Index Price” means the thirty (30) trading day average closing price of a share of the Index as of and including the last trading day of the Performance Period, as adjusted to reflect the reinvestment of dividends.

No Restricted Stock Units subject to the Award shall become Eligible RSUs for any performance below Threshold. Additionally, the maximum number of Restricted Stock Units subject to the Award that may become Eligible RSUs is capped as indicated in the “Maximum” row of the “Eligible RSUs” column in the table above.

Performance results between Threshold and Target performance levels and between Target and Maximum performance levels shall be determined on a straight line interpolation basis based on the above figures.

All determinations regarding the Performance-Based Vesting Component (including the calculation of Relative TSR, Annualized TSR and Index TSR) shall be made by the Administrator in its sole discretion and all such determinations shall be final and binding on all parties. Restricted Stock Units, if any, will be deemed to have become Eligible RSUs as of the date on which the Administrator has certified in writing as to the level of achievement of the Performance-Based Vesting Component (the “Certification Date”). The Certification Date shall be made no later than [].

To the extent the foregoing schedule would result in fractional Restricted Stock Units becoming Eligible RSUs, Eligible RSUs will be rounded down to the nearest whole Restricted Stock Unit.

Any portion of the Restricted Stock Units subject to the Award that fail to qualify as Eligible RSUs as of the Certification Date shall be cancelled, forfeited and of no further effect.

Service-Based Vesting Component

In order to vest in any Eligible RSUs, you must remain a Service Provider through the Certification Date (such vesting component, the “Service-Based Vesting Component”), provided that, in the event of your death between the last day of the Performance Period and the Certification Date, you will be deemed to satisfy the Service-Based Vesting Component on the date of your death, and any Restricted Stock Units that become Eligible RSUs on the Certification Date will vest on the Certification Date.

Change in Control

In the event of a merger or Change in Control of the Company that occurs while you are a Service Provider and before the last day of the Performance Period:

1. Notwithstanding anything to the contrary in this Agreement, the Performance Period shall be deemed to end on the closing date of such merger or Change in Control and the per share value of the consideration of the Company's Class A Common Stock in such transaction shall be used to calculate Annualized TSR instead and in lieu of the Ending Stock Price (it being understood, for the avoidance of doubt, that such calculation will be adjusted to reflect the reinvestment of dividends paid during the Performance Period). The Administrator may determine Annualized TSR pursuant to this clause 1, in its sole discretion, within the ten (10) day period prior to the closing date of such merger or Change in Control;
2. In the event the successor corporation assumes, substitutes or replaces the Award:
 - a. Vested Eligible RSUs (as defined below) will vest on the date of the closing of the merger or Change in Control. "Vested Eligible RSUs" will equal (x) the number of Eligible RSUs subject to the Award, after giving effect to the Administrator's determination of Annualized TSR in clause 1, above, multiplied by (y) a fraction, the numerator of which equals the numbers of days from the Date of Grant to the closing date of such merger or Change in Control and the denominator of which equals the number of days in the Performance Period had such merger or Change in Control not occurred (the "Proration Ratio").
 - b. Time-Based Eligible RSUs (as defined below) shall vest in equal monthly installments following the closing of the merger or Change in Control through the remainder of the Performance Period based solely on your continuing status as a Service Provider, subject to the terms of any acceleration provision provided for in any applicable written agreement between you and the Company (a "Company Agreement") or any applicable Plan provision. Additionally, unless superseded by an acceleration provision in any Company Agreement, upon your termination by the Company or a Related Entity without Cause or your resignation for Good Reason, in either event, within the twelve (12) month period following the closing date of a merger or Change in Control, a number of your then outstanding Time-Based Eligible RSUs will vest equal to the product of (i) the number of Time-Based Eligible RSUs that would have vested had you remained a Service Provider for one year following your termination date, *multiplied by* (ii) the number of full years of service you have performed for the Company or a Related Entity as of the date of your termination, provided that in no event will more than 100% of the Time-Based Eligible RSUs subject to the Award vest pursuant to this provision. "Time-Based Eligible RSUs" will equal the portion of the Eligible RSUs subject to the Award, after giving effect to the Administrator's

determination of Annualized TSR in clause 1, above, that would constitute Vested Eligible RSUs but for the Proration Ratio.

c. Restricted Stock Units subject to the Award that do not become Eligible RSUs, after giving effect to the Administrator's determination of Annualized TSR in clause 1, above, will, as of the closing date of the merger or Change in Control, be cancelled, forfeited and of no further effect.

3. In the event the successor corporation does not assume, substitute or replace the Award, consistent with and subject to the terms of Section 17(c)(ii) of the Plan, you shall, immediately prior to the merger or Change in Control, fully vest in the Award as to all of the Eligible RSUs subject to the Award, after giving effect to the Administrator's determination of Annualized TSR in clause 1, above.

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

You hereby agree to accept as binding, conclusive, and final all decisions or interpretations of the Administrator upon any questions relating to the Plan, the Recoupment Policy (as defined in Exhibit A hereto) and this Agreement.

By your electronic signature and the electronic signature of the Company's representative, you and the Company agree that the Award is granted under and governed by the terms and conditions of the Plan, the Recoupment Policy and the Agreement. You have reviewed the Plan, the Recoupment Policy and the Agreement in their entirety, have had an opportunity to obtain the advice of counsel prior to executing the Agreement and fully understand all provisions of the Plan, the Recoupment Policy and the Agreement. You hereby agree to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan, the Recoupment Policy and the Agreement.

You must execute and deliver or electronically accept the terms set forth in the Agreement, in the manner specified by the Administrator. The Administrator may, in its sole discretion, cancel the Award if you fail to execute and deliver or electronically accept the Agreement and related documents by the first scheduled vesting date.

EXHIBIT A

DOLBY LABORATORIES, INC.

2005 STOCK PLAN

GLOBAL RESTRICTED STOCK UNIT AGREEMENT

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

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

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

4. Forfeiture upon Termination of Service. Notwithstanding any contrary provision of this Agreement or the Notice of Grant, if Participant ceases to be a Service Provider, for any or no reason prior to vesting, the unvested RSUs awarded by this Agreement will thereupon be forfeited at no cost to the Company; provided that, in the event of Participant’s death between the last day of the Performance Period and the Certification Date, Participant will be deemed to satisfy the Service-Based Vesting Component specified in the Notice of Grant on the date of Participant’s death, and any RSUs that become Eligible RSUs on the Certification Date will vest on the Certification Date.

5. Payment after Vesting. Any RSUs that vest in accordance with this Agreement will be paid to Participant (or in the event of Participant’s death, to his or her estate) in whole Shares. Subject to the provisions of paragraph 10, such vested RSUs shall be paid in whole Shares as soon as practicable after vesting, but in each such case within sixty (60) days following the vesting date. In no event will Participant be permitted, directly or indirectly, to specify the taxable year of payment of any RSUs payable under this Agreement. Payment upon vesting will be subject to Participant (or his or her estate) satisfying the applicable Tax-Related Items (defined below) withholding obligations set forth in paragraph 11.

6. Payments after Death. Any distribution or delivery to be made to Participant under this Agreement will, if Participant is then deceased, be made to the administrator or executor of Participant's estate. Any such administrator or executor must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

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

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

9. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company at 1275 Market Street, San Francisco, CA 94103, U.S.A., Attn: Stock Administration, or at such other address as the Company may hereafter designate in writing or electronically.

10. Acceleration.

(a) Discretionary Acceleration. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested RSUs at any time, subject to the terms of the Plan. If so accelerated, such RSUs will be considered as having vested as of the date specified by the Administrator. If Participant is a U.S. taxpayer, the payment of Shares vesting pursuant to this Section 10 shall in all cases be paid at a time or in a manner that is exempt from, or complies with, Section 409A of the Code and the Treasury Regulations and guidance thereunder, and any applicable state law equivalent, as each may be promulgated, amended or modified from time to time ("Section 409A"). The prior sentence may be superseded in a future agreement or amendment to this Agreement only by direct and specific reference to such sentence.

(b) Acceleration in Connection with Termination of Service. Notwithstanding anything in the Plan or this Agreement or any other agreement (whether entered into before, on or after the Date of Grant), if the vesting of the balance, or some lesser portion of the balance, of the RSUs is accelerated in connection with Participant's termination as a Service Provider (provided that such termination is a "separation from service" within the meaning of Section 409A, as determined by the Company), other than due to Participant's death, and if (x) Participant is a U.S. taxpayer and a "specified employee" within the meaning of Section 409A at the time of such termination as a Service Provider and (y) the payment of such accelerated RSUs will result in the imposition of additional tax under Section 409A if paid to Participant on or within the six (6) month period following Participant's termination as a Service Provider, then the payment of such accelerated RSUs will not be made until the date six (6) months and one (1) day following the date of Participant's termination as a Service Provider, unless Participant dies following his or her termination as a Service Provider, in which case, the RSUs will be paid in Shares to Participant's estate as soon as practicable following his or her death.

(c) Section 409A. It is the intent of this Agreement that it and all payments and benefits to U.S. taxpayers hereunder be exempt from, or comply with, the requirements of Section 409A so that none of the RSUs provided under this Agreement or Shares issuable thereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to be so exempt or so comply. Each payment payable under this Agreement is intended to constitute a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2). However, in no event will the Company reimburse Participant, or be otherwise responsible for, any taxes or costs that may be imposed on Participant as a result of Section 409A or any other tax law or rule.

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

Prior to any relevant taxable or tax withholding event, Participant shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, Participant authorizes and directs the Company and/or the Employer or their respective agents, in their sole discretion and without any notice or authorization by Participant, to satisfy any applicable withholding obligations with regard to all Tax-Related Items by withholding in Shares to be issued upon settlement of the RSUs. In the event that such withholding in Shares is problematic under applicable tax or securities law or has materially adverse accounting consequences, by Participant's acceptance of the RSUs, Participant authorizes the Company and any brokerage firm to satisfy the obligations with regard to all Tax-Related Items by withholding from Participant's wages or other cash compensation paid to Participant by the Company and/or the Employer; or to sell on Participant's behalf a whole number of Shares from those Shares issued to Participant as the Company determines to be appropriate to generate cash proceeds sufficient to satisfy the obligation for Tax-Related Items.

Depending upon the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates in the Participant's jurisdiction, including maximum applicable rates, in which case Participant may receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent Shares. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes Participant is deemed to have been issued the full number of Shares subject to the vested RSUs, notwithstanding that a number of the Shares is held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of Participant's participation in the Plan. No fractional Shares will be withheld or issued pursuant to the grant of RSUs and the issuance of Shares thereunder.

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

12. Acknowledgements. In accepting the RSUs, Participant acknowledges, understands and agrees that:

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

the Recoupment Policy or this Agreement. Participant further agrees to notify the Company upon any change in the residence address in the Notice of Grant;

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

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

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

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

(f) Participant is voluntarily participating in the Plan;

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

(h) unless otherwise agreed with the Company, the RSUs and the Shares subject to the RSUs, and the income and value of same, are not granted as consideration for, or in connection with, the service Participant may provide as a director of a Related Entity;

(i) the RSUs and the Shares subject to the RSUs, and the income and value of same, are not intended to replace any pension rights or compensation;

(j) although provided by the Company, the RSUs and the Shares subject to the RSUs, and the income and value of same, are not part of Participant's normal or expected salary or compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, holiday pay, long-service awards, leave-related pay, pension, retirement or welfare benefits or any other similar payments;

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

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

(m) in the event of termination of Participant's status as a Service Provider (whether or not in breach of any employment laws in the country where Participant resides, even if otherwise applicable to Participant's employment benefits from the Employer, and/or whether

later found to be invalid), Participant's right to vest in the RSUs under the Plan, if any, will terminate effective as of the date that Participant is no longer actively employed and will not be extended by any notice period mandated under local law (e.g., active employment would not include a period of "garden leave" or similar period pursuant to local law); the Administrator shall have the exclusive discretion to determine when Participant is no longer actively employed for purposes of the Award (including whether Participant may still be considered actively employed while on an approved leave of absence);

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

(o) if Participant is providing services to Employer outside the United States:

(i) the RSUs and the Shares subject to the RSUs are not part of Participant's normal or expected compensation or salary for any purpose;

(ii) neither the Company, the Employer nor any other Related Entity shall be liable for any foreign exchange rate fluctuation between Participant's local currency and the United States Dollar that may affect the value of the RSUs or of any amounts due to Participant pursuant to the settlement of the RSUs or the subsequent sale of any Shares acquired upon settlement; and

(iii) no claim or entitlement to compensation or damages shall arise from forfeiture of the RSUs resulting from termination of Participant's status as a Service Provider by the Company or the Employer (for any reason whatsoever and whether or not in breach of any employment laws in the country where Participant resides, even if otherwise applicable to Participant's employment benefits from the Employer, and/or whether later found to be invalid).

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

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

Participant understands that the Company and the Employer may hold certain personal information about Participant, including, but not limited to, Participant's name, home address and telephone number, e-mail address, date of birth, social insurance number, passport number or other identification number, salary, nationality, residency status, job title, any Shares or directorships held in the Company or any Related Entity, details of all RSUs or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in

Participant's favor ("Data"), for the purpose of implementing, administering and managing the Plan.

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

Participant understands that Data will be held only as long as is necessary to implement, administer and manage Participant's participation in the Plan. Participant understands that he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case, without cost, by contacting in writing Participant's local human resources representative, or if there is no local human resources representative, the human resources department of the Company. Further, Participant understands that he or she is providing the consents herein on a purely voluntary basis. If Participant does not consent, or if Participant later seeks to revoke his or her consent, his or her employment status or service with the Employer will not be affected; the only consequence of refusing or withdrawing Participant's consent is that the Company would not be able to grant Participant RSUs or other equity awards or administer or maintain such awards. Participant understands, however, that refusal or withdrawal of consent may affect Participant's ability to participate in the Plan. For more information on the consequences of Participant's refusal to consent or withdrawal of consent, Participant understands that he or she may contact his or her local human resources representative, or if there is no local human resources representative, the human resources department of the Company.

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

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

17. **Additional Conditions to Issuance of Stock.** If at any time the Company will determine, in its discretion, that the listing, registration, or qualification of the Shares upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to Participant (or his or her estate), such issuance will not occur unless and until such listing, registration, qualification, consent, or approval will have been effected or obtained free of any conditions not acceptable to the Company. The Company will make all reasonable efforts to meet the requirements of any such state or federal law or securities exchange and to obtain any such consent or approval of any such governmental authority.

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

19. **Governing Law and Venue.** The Award will be governed by the internal substantive laws, but not the choice of law rules, of the State of California, U.S.A. without regard to principles of conflict of laws. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by the Award or this Agreement, the parties hereby submit to and consent to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of San Francisco County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this grant is made and/or to be performed.

(a) **Language.** Participant has received the terms and conditions of this Agreement and any other related communications in English. Participant acknowledges that he or she is sufficiently proficient in English to understand the terms and conditions of this RSU Agreement. Furthermore, if Participant consents to having received these documents in English. If Participant has received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

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

20. **Administrator Authority.** The Administrator will have the power to interpret the Plan, the Recoupment Policy and this Agreement and to adopt such rules for the administration,

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

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

22. Appendix. Notwithstanding any provisions in this Agreement, the Award shall be subject to any terms and conditions set forth in any Appendix to this Agreement for Participant's country. Moreover, if Participant relocates to one of the countries included in the Appendix, the terms and conditions for such country will apply to Participant, to the extent the Company determines that the application of such terms and conditions is necessary or advisable under Applicable Laws with regard to the issuance or sale of Shares or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

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

24. Insider Trading/Market Abuse Restrictions. Depending on Participant's or Participant's Broker's country of residence or where the Shares are listed, Participant may be subject to insider trading restrictions and/or market abuse laws, which may affect Participant's ability to, directly or indirectly, accept, acquire, sell, attempt to sell or otherwise dispose of Shares, rights to Shares (e.g., RSUs), or rights linked to the value of Shares (e.g., phantom awards, futures) during such times as Participant is considered to have "inside information" regarding the Company as defined by the laws or regulations in the applicable jurisdiction or Participant's country. Local insider trading laws and regulations may prohibit the cancellation or amendment of orders Participant placed before Participant possessed insider information. Furthermore, Participant could be prohibited from (i) disclosing the inside information to any third party (other than on a "need to know" basis) and (ii) "tipping" third parties or causing them otherwise to buy or sell securities. Third parties include fellow employees. Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under the Company's Insider Trading Policy. Participant is responsible for ensuring compliance with any applicable restrictions and should consult his or her personal legal advisor on this matter.

25. Exchange Control, Tax and/or Foreign Asset/Account Reporting. Participant acknowledges that there may be exchange control, tax, foreign asset and/or account reporting requirements which may affect Participant's ability to acquire or hold Shares acquired under the

Plan or cash received from participating in the Plan (including from any dividends paid on Shares acquired under the Plan) in a brokerage, bank account or legal entity outside Participant's country. Participant may be required to report such accounts, assets or transactions to the tax or other authorities in Participant's country. Participant also may be required to repatriate sale proceeds or other funds received as a result of participation in the Plan to Participant's country through a designated bank or broker within a certain time after receipt. Participant acknowledges that it is his or her responsibility to be compliant with such regulations, and should consult his or her personal legal advisor for any details.

26. Waiver. Participant acknowledges that a waiver by the Company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by Participant or any other participant.

27. Reduction, Cancellation, Forfeiture or Recoupment. This Award, any Shares issued in payment for vested RSUs pursuant to this Award and any other rights, payments and benefits with respect to this Award shall be subject to reduction, cancellation, forfeiture or recoupment pursuant to the Company's Policy on Recoupment of Incentive Compensation, as in effect on the Date of Grant or as may be amended to the extent required to comply with applicable law (the "Recoupment Policy").

APPENDIX TO DOLBY LABORATORIES, INC.
2005 STOCK PLAN
GLOBAL RESTRICTED STOCK UNIT AGREEMENT

Terms and Conditions for Participants Outside the U.S.

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

The information is based on the securities and other laws in effect in the respective countries as of November 2018. Such laws are often complex and change frequently. As a result, the Company strongly recommends that Participant not rely on the information in this Appendix as the only source of information relating to the consequences of Participant's participation in the Plan because the information may be out of date when Participant vests in the RSUs or Shares acquired under the Plan are sold.

In addition, the information contained herein is general in nature and may not apply to Participant's particular situation, and the Company is not in a position to assure Participant of a particular result. Accordingly, Participant should seek appropriate professional advice as to how the relevant laws in Participant's country may apply to his or her situation.

Finally, if Participant is a citizen or resident of a country other than the one in which he or she is currently working or Participant transfers employment or residency after the Date of Grant, or if Participant is considered resident of another country for local law purposes, then the provisions contained herein may not be applicable to Participant. The Company shall, in its sole discretion, determine to what extent the terms and conditions included herein will apply under these circumstances.

Countries Within the European Union and European Economic Area

Data Privacy: The Dolby Employee Privacy Notice supersedes and replaces paragraph 14 of the Agreement. The Dolby Employee Privacy Notice for each respective country in the European Union and European Economic Area can be found at <https://dolby.sharepoint.com/policy/Policy%20Repository/Forms/Grouped%20by%20Function.aspx>.

Australia

Securities Law Notice.

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

Australian Offer Document.

Participant understands that the offering of the Plan in Australia is intended to qualify for exemption from the prospectus requirements under Australian Securities & Investments Commission (“ASIC”) Class Order 14/1000 and the relevant provisions of the *Corporations Act 2001*. Participant acknowledges his or her right to acquire Shares is subject to the terms and conditions set forth in the Plan, as supplemented for implementation in Australia by the terms of the Australia Offer Document and the Agreement.

Tax Notice.

The Plan is a plan to which subdivision 83A-C of the Income Tax Assessment Act 1997 (Cth) applies (subject to conditions in the Act).

Exchange Control Notice.

Exchange control reporting is required for cash transactions exceeding AUD 10,000 and for international fund transfers. Participant understands that if an Australian bank is assisting with the transaction, the bank will file the report on Participant’s behalf. Participant understands that if there is no Australian bank involved in the transfer, Participant will have to file the exchange control report on his or her own behalf.

Brazil

Compliance with Law.

By accepting the RSUs, Participant acknowledges that he or she agrees to comply with applicable Brazilian laws and to pay any and all applicable taxes associated with Participant’s participation in the Plan, including the vesting of the RSUs, the receipt of any dividends, and the sale of Shares acquired under the Plan.

Nature of Award Grants.

By accepting the RSUs, Participant agrees that (1) he or she is making an investment decision, (2) the Shares will be issued to Participant only if the vesting conditions are met and any necessary services are rendered by Participant over the vesting period and (3) the value of the underlying Shares is not fixed and may increase or decrease in value over time without compensation to Participant.

Exchange Control Notice.

If Participant is resident or domiciled in Brazil, he or she will be required to submit a declaration of assets and rights held outside of Brazil to the Central Bank of Brazil if the aggregate value of such assets and rights equals or exceeds US\$100,000. Assets and rights that must be reported include any Shares acquired under the Plan.

Tax on Financial Transaction (IOF).

Payments to foreign countries and repatriation of funds into Brazil and the conversion between BRL and US\$ associated with such fund transfers may be subject to the Tax on Financial Transactions. It is Participant's responsibility to comply with any applicable Tax on Financial Transactions arising from Participant's participation in the Plan. Participant should consult with his or her personal tax advisor for additional details.

Canada

Form of Settlement.

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

Termination of Service Provider Relationship.

The following provision replaces paragraph 12(m) of the Agreement:

For purposes of the Award, Participant's status as a Service Provider will be considered terminated and vesting of the RSUs will cease as of the date that is the earliest of: (i) the date Participant's employment with the Company or Related Entity is terminated; (ii) the date Participant receives written notice of termination of employment or service from the Company or Related Entity; or (iii) the date Participant is no longer actively providing services to the Company or Related Entity and, in any case, will not be extended by any notice period mandated under local law (*e.g.*, Participant's period of employment or service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws or the terms of Participant's employment or service agreement, if any). The Administrator shall have the exclusive discretion to determine when Participant is no longer actively employed or providing services for purposes of the Award (including whether Participant may still be considered actively providing services while on an approved leave of absence).

Sale of Shares.

Participant acknowledges that he or she is permitted to sell the Shares acquired under the Plan through E*TRADE or such other broker as may be selected by the Company in the future, provided the sale of the Shares takes place outside of Canada through facilities of a stock exchange on which the Shares are listed. The Shares are currently listed on the New York Stock Exchange.

Consent to Receive Information in English for Quebec Service Providers

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

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

Authorization to Release and Transfer Necessary Personal Information for Quebec Service Providers.

The following provision supplements paragraph 14 of the Agreement:

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

Foreign Asset/Account Reporting Notice.

Canadian residents may be required to report foreign specified property on Form T1135 (Foreign Income Verification Statement) if the total cost of the foreign specified property exceeds CAD 100,000 at any time in the year. Foreign specified property includes Shares acquired under the Plan and may include RSUs. The RSUs must be reported - generally at a nil cost - if the CAD 100,000 cost threshold is exceeded because of other foreign specified property Participant holds. The cost of RSUs generally is the adjusted cost base ("ACB") of the Shares. The ACB ordinarily would equal the fair market value of the Shares at the time of acquisition, but if the Canadian resident owns other Shares of the Company, this ACB may have to be leveraged with the ACB of the other Shares. The Form T1135 generally must be filed by April 30 of the following year. Canadian residents should consult with a personal advisor to ensure compliance with the applicable reporting requirements.

China

Settlement of RSUs and Sale of Shares.

The following provision supplements paragraph 5 of the Agreement:

Due to local regulatory requirements, Participant agrees that the Company may force the sale of any Shares to be issued upon settlement of the Award. The sale may occur (i) immediately upon vesting, (ii) following Participant's termination as a Service Provider, or (iii) or within any

other time frame as the Company determines to be necessary or recommended to comply with local regulatory requirements. Participant agrees that he or she must maintain any Shares acquired under the Plan in an account maintained by E*TRADE or such other stock plan service provider as may be selected by the Company.

Participant further agrees that the Company is authorized to instruct E*TRADE or such other stock plan service provider as may be selected by the Company in the future to assist with the mandatory sale of such Shares (on Participant's behalf pursuant to this authorization) and Participant expressly authorizes E*TRADE or such other stock plan service provider as may be selected by the Company in the future to complete the sale of such Shares. Participant acknowledges that E*TRADE or such other stock plan service provider as may be selected by the Company in the future is under no obligation to arrange for the sale of the Shares at any particular price. Upon the sale of the Shares, the Company agrees to pay Participant the cash proceeds from the sale of the Shares, less any brokerage fees or commissions and subject to any obligation to satisfy Tax-Related Items. In the event Participant is permitted to hold Shares upon exercise, the Company may force the sale of the Shares within any time frame as the company determines to be necessary to comply with local regulatory requirements.

Exchange Control Acknowledgement.

Participant understands and agrees that participation in the Plan is subject to the Company or the Employer obtaining any required approval from the China State Administration of Foreign Exchange ("SAFE"), as determined by the Company in its sole and absolute discretion. If the Company or the Employer is unable to obtain such approval, Participant may not be entitled to receive any benefit in connection with the Plan without any liability to the Company, the Employer or any Related Entity.

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

Foreign Asset/Account Reporting Notice.

Chinese residents are required to report to the SAFE all details of his or her foreign financial assets and liabilities, as well as details of any economic transactions conducted with non-Chinese residents, either directly or through financial institutions.

France

Consent to Receive Information in English

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

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

Foreign Asset/Account Reporting Notice.

French residents may hold Shares outside France, provided that they declare all foreign accounts, whether open, current or closed, on their annual income tax return. Further, French residents with foreign account balances exceeding €1,000,000 may have additional monthly reporting obligations.

Germany

Exchange Control Notice.

Cross-border payments in excess of EUR 12,500 must be reported monthly to the German Federal Bank (Bundesbank). In case of payments in connection with securities (including proceeds realized upon the sale of Shares or the receipt of dividends), the report must be made by the fifth (5th) day of the month following the month in which the payment is received. The report must be filed electronically. The form of report ("Allgemeine Meldeportal Statistik") can be accessed via the Bundesbank's website (www.bundesbank.de) and is available in both German and English.

Hong Kong

Form of Settlement.

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

Sale of Shares.

Any Shares acquired under the Plan are accepted as a personal investment. In the event that the Award is exercised and Shares are issued to Participant (or Participant's heirs) within six months of the Date of Grant, Participant (or Participant's heirs) agrees that the Shares will not be offered to the public or otherwise disposed of prior to the six-month anniversary of the date of grant.

Securities Law Notice.

Warning: None of the documents related to the Plan have been reviewed by any regulatory authority in Hong Kong. If Participant is in any doubt about any of the contents of the Agreement, including this Appendix, the Plan, or any other communication materials, Participant should obtain independent professional advice. The RSUs and Shares issued at vesting do not constitute a public offering of securities under Hong Kong law and are available only to employees of the Company and its Related Entities. The Agreement, including this Appendix, the Plan and other incidental communication materials have not been prepared in accordance with and are not intended to constitute a “prospectus” for a public offering of securities under the applicable securities legislation in Hong Kong. The RSUs are intended only for the personal use of each eligible employee of the Employer, the Company or any Related Entity and may not be distributed to any other person.

India

Exchange Control Notice.

Participant understands that the RSUs are subject to compliance with the exchange control requirements of the Reserve Bank of India. Participant understands that he or she must repatriate any proceeds from the sale of Shares and any dividends received acquired under the Plan within such period of time as required under applicable regulations. Participant must obtain a foreign inward remittance certificate (“FIRC”) from the bank where Participant deposits the funds and must maintain the FIRC as evidence of the repatriation of funds in the event the Reserve Bank of India or the Employer requests proof of repatriation.

Foreign Asset/Account Reporting Notice.

Indian residents are required to declare the following items in their annual tax return: (i) any foreign assets held by them (including Shares acquired under the Plan), and (ii) any foreign bank accounts for which they have signing authority. Indian residents should consult with their personal tax advisor to ensure that they are properly reporting foreign assets and bank accounts.

Japan

Foreign Asset/Account Reporting Notice.

Japanese residents are required to report details of any assets held outside of Japan as of December 31, including Shares acquired under the Plan, to the extent such assets have a total net fair market value exceeding ¥50,000,000. Such report will be due by March 15 each year. Japanese residents are responsible for complying with this reporting obligation.

Korea

Foreign Asset/Account Reporting Notice.

Korean residents must declare all foreign financial accounts (*i.e.*, non-Korean bank accounts, brokerage accounts, etc.) to the Korean tax authority and file a report with respect to such accounts if the value of such accounts exceeds KRW 500 million (or an equivalent amount in foreign currency). Korea residents should consult with their personal tax advisor for additional information about this reporting obligation.

Netherlands

No country-specific provisions.

Poland

Exchange Control Notice.

If Participant maintains bank or brokerage accounts holding cash and foreign securities (including Shares) outside of Poland, Participant will be required to report information to the National Bank of Poland on transactions and balances in such accounts if the value of such cash and securities exceeds PLN 7 million. If required, such reports must be filed on special forms available on the website of the National Bank of Poland. Participant should consult with his or her personal legal advisor to determine whether Participant will be required to submit reports to the National Bank of Poland.

Further, Polish residents transferring funds in excess of €15,000 into or out of Poland must do so through a bank account in Poland. In such case, the resident is required to store all documents connected with any foreign exchange transactions engaged in for a period of five (5) years, as measured from the end of the year in which such transaction occurred.

Russia

Securities Law Notice.

This Agreement, the Plan and all other materials that Participant may receive concerning the grant of the RSUs and Participant's participation in the Plan do not constitute advertising or an offering of securities in Russia. The Shares to be issued upon vesting of the RSUs have not and will not be registered in Russia and, therefore, the Shares described in any Plan documents may not be offered or placed in public circulation in Russia. In no event will Shares to be issued upon vesting of the RSUs be delivered to Participant in Russia. All Shares acquired under the Plan will be maintained on Participant's behalf outside of Russia. Participant will not be permitted to sell Shares directly to a Russian legal entity or resident.

Exchange Control Notice.

Participant is responsible for complying with all applicable exchange control regulations in Russia. Participant should consult with his or her personal legal advisor to ensure compliance with applicable requirements.

Authorization to Release and Transfer Necessary Personal Information

The following provision supplements paragraph 14 of the Agreement:

Participant hereby acknowledges that Participant has read and understood the terms regarding collection, processing and transfer of Data contained in the Data Privacy section of the Agreement and, by participating in the Plan, Participant agrees to such terms. In this regard, upon request of the Company or the Employer, Participant agrees to provide an executed data privacy consent form to the Employer or the Company (or any other agreements or consents that may be required by the Employer or the Company) that the Company and/or the Employer may deem necessary to obtain under the data privacy laws in Russia, either now or in the future. Participant understands that Participant will not be able to participate in the Plan if Participant fails to execute any such consent or agreement.

Foreign Asset/Account Reporting Notice.

Russian residents will be required to notify the Russian tax authorities within one month of opening or closing a foreign bank account or of changing any account details. Russian residents are also required to report (i) the beginning and ending balances in such a foreign bank account each year and (ii) transactions related to such a foreign account during the year to the Russian tax authorities, on or before June 1 of the following year. For example, the relevant form for 2018 is due on or before June 1, 2019. The tax authorities can require Participant to provide appropriate supporting documents related to transactions in a foreign bank account.

Russian residents should consult with their personal tax advisor for additional information about these reporting obligations.

Anti-Corruption Notice.

Anti-corruption laws prohibit certain public servants, their spouses, and their dependent children from owning any foreign source financial instruments (e.g. shares of foreign corporations such as the Company). Accordingly, Participant should inform the Company if he or she is covered by these laws because Participant should not hold Shares acquired under the Plan.

Labor Law Notice.

If Participant continues to hold Shares acquired after vesting of the RSUs after an involuntary termination of Participant's employment, Participant may not be eligible to receive unemployment benefits in Russia.

Singapore

Securities Law Notice.

The RSUs are being granted pursuant to the “Qualifying Person” exemption under section 273(1)(f) of the Singapore Securities and Futures Act (Chapter 289, 2006 Ed.) (“SFA”). The Plan has not been and will not be lodged or registered as a prospectus with the Monetary Authority of Singapore. Participant should note that such RSU grant is subject to section 257 of the SFA and Participant will not be able to make any subsequent sale in Singapore, or any offer of such subsequent sale of the Shares in Singapore, or any offer of the Shares underlying the RSUs unless such sale or offer in Singapore is made (a) after six (6) months of the Date of Grant, or (b) pursuant to the exemptions under Part XIII Division (1) Subdivision (4) (other than section 280) of the SFA.

Chief Executive Officer and Director Reporting Notice.

If Participant is the Chief Executive Officer (“CEO”), director, associate director or shadow director of a Singapore Related Entity of the Company, as the terms are used in the Singapore Companies Act (the “SCA”), Participant agrees to comply with notification requirements under the SCA. Among these requirements is an obligation to notify the Singapore Related Entity in writing when Participant receives an interest (*e.g.*, RSUs, Shares) in the Company or any related companies (including when Participant sells Shares acquired under the Plan). In addition, Participant must notify the Singapore Related Entity when Participant sells or receives Shares of the Company or any related company (including when Participant sells or receives Shares acquired under the Plan). These notifications must be made within two (2) business days of acquiring or disposing of any interest in the Company or any related company. In addition, a notification must be made of Participant’s interests in the Company or any related company within two (2) business days of becoming CEO or a director, associate director or shadow director. Participant should consult with his or her personal legal advisor regarding his or her notification obligations under the SCA.

Spain

No Entitlement for Claims or Compensation.

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

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

Participant understands and agrees that, as a condition of the grant of the RSUs, the termination of Participant’s status as a Service Provider for any reason (including for the reasons listed below) prior to the vesting date will automatically result in the loss of the unvested RSUs that may have been granted to Participant. In particular, Participant understands and agrees that any unvested RSUs shall be forfeited without entitlement to the underlying Shares or to any amount as indemnification in the event of a termination of status as a Service Provider, including, but not limited to: resignation, disciplinary dismissal adjudged to be with cause, disciplinary dismissal adjudged or recognized to be without good cause (*i.e.*, subject to a “despido improcedente”), individual or collective layoff on objective grounds, whether adjudged to be with cause or adjudged or recognized to be without cause, material modification of the terms of employment under Article 41 of the Workers’ Statute, relocation under Article 40 of the Workers’ Statute, Article 50 of the

Workers' Statute, unilateral withdrawal by the Employer, and under Article 10.3 of Royal Decree 1382/1985.

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

Securities Law Notice.

No "offer of securities to the public," as defined under Spanish law, has taken place or will take place in the Spanish territory in connection with the grant of RSUs. The Agreement, this Appendix and the Plan have not been registered with the *Comisión Nacional del Mercado de Valores* (Spanish Securities Exchange Commission) and do not constitute a public offering prospectus.

Exchange Control Notice.

Spanish taxpayers must declare the acquisition, ownership and disposition of Shares in a foreign company (including Shares acquired under the Plan) to the *Spanish Dirección General de Comercio e Inversiones* (the "DGCI"), which is a department of the Ministry of Economy and Competitiveness. Generally, the declaration must be filed in January for Shares acquired or disposed of during the prior year and/or for Shares owned as of December 31 of the prior year; however, if the value of the Shares acquired under the Plan and/or the amount of the sale proceeds exceeds the applicable threshold (currently €1,502,530), the declaration must be filed within one month of the acquisition or disposition, as applicable.

In addition, Spanish taxpayers may be required to declare electronically to the Bank of Spain any foreign accounts (including brokerage accounts held abroad), any foreign instruments (including any Shares acquired under the Plan) and any transactions with non-Spanish residents (including any payments of Shares made by the Company) depending on the value of such accounts and instruments and the amount of the transactions during the relevant year as of December 31 of the relevant year. This reporting requirement will apply if the balances in such accounts together with the value of such instruments as of December 31, or the volume of transactions with non-Spanish residents during the prior or current year, exceed €1,000,000. Once the €1,000,000 threshold has

been surpassed in either respect, a report is required on all foreign accounts, foreign instruments and transactions with non-Spanish residents, even if the relevant threshold has not been crossed for an individual item. Generally, the report is required on an annual basis (by January 20 of each year).

Foreign Asset/Account Reporting Notice.

Spanish residents are required to report rights or assets deposited or held outside of Spain (including Shares acquired under the Plan or cash proceeds from the sale of such Shares) as of December 31 of each year, if the value of such rights or assets exceeds EUR 50,000 per type of right or asset. After such rights and/or assets are initially reported, the reporting obligation will only apply for subsequent years if the value of any previously-reported rights or assets increases by more than EUR 20,000. If reporting is required, the report must be filed on Form 720 by March 31 following the end of the relevant year.

Sweden

No country-specific provisions.

Taiwan

Securities Law Notice.

The offer of participation in the Plan is available only for Service Providers of the Company and Related Entities. The offer of participation in the Plan is not a public offer of securities by a Taiwanese company.

Data Privacy Acknowledgement.

Participant hereby acknowledges that he or she has read and understood the terms regarding collection, processing and transfer of Data contained in paragraph 14 of the Agreement and by participating in the Plan, Participant agrees to such terms. In this regard, upon request of the Company or the Employer, Participant agrees to provide an executed data privacy consent form to the Employer or the Company (or any other agreements or consents that may be required by the Employer or the Company) that the Company and/or the Employer may deem necessary to obtain under the data privacy laws in Participant's country, either now or in the future. Participant understands he or she will not be able to participate in the Plan if Participant fails to execute any such consent or agreement.

Exchange Control Notice.

Taiwanese residents may acquire and remit foreign currency (including proceeds from the sale of Shares or the receipt of any dividends paid on such Shares) into Taiwan up to US\$5,000,000 per year. If the transaction amount is TWD 500,000 or more in a single transaction, residents must submit a Foreign Exchange Transaction Form and also provide supporting documentation to the satisfaction of the remitting bank. If the transaction amount is US\$500,000 or more, Taiwanese residents may be required to provide additional supporting documentation to the satisfaction of the

remitting bank. Taiwanese residents should consult their personal legal advisor to ensure compliance with applicable exchange control laws in Taiwan.

Turkey

Securities Law Notice.

Pursuant to Turkish securities law, selling shares acquired under the Plan is not permitted within Turkey. The Shares are currently traded on the New York Stock Exchange, which is located outside of Turkey, under the ticker symbol “DLB” and the Shares may be sold through this exchange.

Financial Intermediary Requirement Notice.

The purchase and sale of securities traded in foreign financial markets (e.g., the purchase and sale of Shares) are permitted. However, transactions in foreign securities must be conducted through the local banks and financial intermediary institutions licensed by the Turkish Capital Markets Board in accordance with relevant regulations and Central Bank communiqués. Participants should contact a personal legal advisor for further information regarding these requirements.

United Arab Emirates (“UAE”)

Securities Law Notice.

The offer of participation in the Plan is available only for select employees of the Company and Related Entities and is in the nature of providing employee incentives in the UAE. The Agreement, this Appendix, the Plan and other incidental communication materials are intended for distribution only to Service Providers for the purposes of an employee compensation or reward scheme, and must not be delivered to, or relied on, by any other person.

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

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

Residents of the UAE who do not understand or have questions regarding the Agreement, this Appendix or the Plan should consult an authorized financial adviser.

United Kingdom

Form of Settlement.

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

Joint Election.

As a condition of the vesting of the RSUs under the Plan, Participant agrees to accept any liability for secondary Class 1 NICs (“Employer NICs”) which may be payable by the Company or the Employer with respect to the vesting of the RSUs or otherwise payable in connection with the RSUs and the issuance of Shares. Without prejudice to the foregoing, Participant agrees to execute a joint election with the Company and/or the Employer (the “Election”), the form of such Election being formally approved by HM Revenue and Customs (“HMRC”), and any other consent or elections required to accomplish the transfer of the Employer NICs to Participant. Participant further agrees to execute such other joint elections as may be required between Participant and any successor to the Company and/or the Employer. Participant agrees to enter into an Election prior to the vesting of the RSUs. Participant further agrees that the Company and/or the Employer may collect the Employer NICs by any of the means set forth in paragraph 11 of the Agreement.

Tax Withholding Obligations.

The following supplements paragraph 11 of the Agreement:

Without limitation to paragraph 11 of the Agreement, Participant agrees that he or she is liable for all Tax-Related Items and hereby covenant to pay all such Tax-Related Items, as and when requested by the Company or the Employer or by HMRC (or any other tax authority or any other relevant authority). Participant also agrees to indemnify and keep indemnified the Company and the Employer against any Tax-Related Items that they are required to pay or withhold or have paid or will pay to HMRC on Participant’s behalf (or any other tax authority or any other relevant authority).

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: January 29, 2020

/s/ KEVIN J. YEAMAN

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

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: January 29, 2020

/s/ LEWIS CHEW

Lewis Chew

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

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

In connection with the Quarterly Report of Dolby Laboratories, Inc. (the "Company"), on Form 10-Q for the fiscal quarter ended December 27, 2019, 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: January 29, 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)