

Dolby Laboratories, Inc.  
Form 10-Q  
May 03, 2017  
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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 March 31, 2017

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, CA

94103-1410(415) 558-0200

(Address of principal executive offices)

(Zip Code) (Registrant's telephone number, including area code)

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

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

Indicate by a 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  (Do not check if a smaller reporting company)

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 April 28, 2017, the registrant had 57,958,551 shares of Class A common stock, par value \$0.001 per share, and 44,073,597 shares of Class B common stock, par value \$0.001 per share, outstanding.

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## GLOSSARY OF TERMS

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

Abbreviation	Term
AAC	Advanced Audio Coding
AFS	Available-For-Sale (Securities)
AOCI	Accumulated Other Comprehensive Income
APIC	Additional-Paid In-Capital
ASC	Accounting Standards Codification
ASP	Average Selling Price
ASU	Accounting Standards Update
ATSC	Advanced Television Systems Committee
AVR	Audio/Video Receiver
CE	Consumer Electronics
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
FIFO	First-in, First-out
G&A	General & Administrative
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
IMB	Integrated Media Block
IP	Intellectual Property
IPO	Initial Public Offering
IPTV	Internet Protocol Television
IT	Information Technology
LCD	Liquid Crystal Display
LIFO	Last-in, Last-out
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
OLED	Organic Light-Emitting Diode
OTT	Over-The-Top
PC	Personal Computer
PCS	Post-Contract Support
PP&E	Property, Plant And Equipment
PSO	Performance-Based Stock Option
R&D	Research & Development
RSU	Restricted Stock Unit
S&M	Sales & Marketing
SERP	Supplemental Executive Retirement Plan
SoC	System(s)-On-A-Chip
STB	Set-Top Box
TAM	Total Available Market
TPE	Third Party Evidence
TSR	Total Stockholder Return
UHD	Ultra High Definition
U.S. GAAP	Generally Accepted Accounting Principles In The United States
VSOE	Vendor Specific Objective Evidence

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## 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)

	March 31, 2017	September 30, 2016
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$532,508	\$ 516,112
Restricted cash	5,752	3,645
Short-term investments	194,997	121,629
Accounts receivable, net of allowance for doubtful accounts of \$3,258 and \$2,370	88,216	75,688
Inventories	17,697	16,354
Prepaid expenses and other current assets	32,501	26,302
Total current assets	871,671	759,730
Long-term investments	326,800	393,904
Property, plant and equipment, net	471,095	443,656
Intangible assets, net	203,723	215,342
Goodwill	308,751	309,616
Deferred taxes	176,288	166,790
Other non-current assets	29,469	21,068
Total assets	\$2,387,797	\$ 2,310,106
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$10,062	\$ 17,544
Accrued liabilities	179,029	169,055
Income taxes payable	25	2,304
Deferred revenue	23,940	24,180
Total current liabilities	213,056	213,083
Long-term deferred revenue	35,651	35,366
Other non-current liabilities	95,932	82,922
Total liabilities	344,639	331,371
Stockholders' equity:		
Class A, \$0.001 par value, one vote per share, 500,000,000 shares authorized: 57,702,863 shares issued and outstanding at March 31, 2017 and 57,018,362 at September 30, 2016	57	57
Class B, \$0.001 par value, ten votes per share, 500,000,000 shares authorized: 44,073,597 shares issued and outstanding at March 31, 2017 and 44,403,847 at September 30, 2016	44	44
Additional paid-in capital	37,459	42,032
Retained earnings	2,013,790	1,938,320
Accumulated other comprehensive (loss)	(14,708)	(10,197)
Total stockholders' equity – Dolby Laboratories, Inc.	2,036,642	1,970,256
Controlling interest	6,516	8,479

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Total stockholders' equity	2,043,158	1,978,735
Total liabilities and stockholders' equity	\$2,387,797	\$ 2,310,106
See accompanying notes to unaudited interim condensed consolidated financial statements		

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

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Revenue:				
Licensing	\$241,617	\$249,336	\$474,316	\$460,465
Products	20,713	20,063	48,924	44,872
Services	5,144	4,941	10,501	9,817
Total revenue	267,474	274,340	533,741	515,154
Cost of revenue:				
Cost of licensing	8,796	6,698	16,917	13,231
Cost of products	13,988	13,978	31,708	33,016
Cost of services	4,193	3,697	8,319	7,892
Total cost of revenue	26,977	24,373	56,944	54,139
Gross margin	240,497	249,967	476,797	461,015
Operating expenses:				
Research and development	58,341	52,088	115,859	105,416
Sales and marketing	75,620	71,815	146,795	146,269
General and administrative	43,253	42,482	84,793	86,560
Restructuring charges	—	1,255	—	1,255
Total operating expenses	177,214	167,640	347,447	339,500
Operating income	63,283	82,327	129,350	121,515
Other income/expense:				
Interest income	2,186	1,250	4,000	2,547
Interest expense	(37)	(33)	(63)	(62)
Other income/(expense), net	762	279	563	(693)
Total other income	2,911	1,496	4,500	1,792
Income before income taxes	66,194	83,823	133,850	123,307
Provision for income taxes	(15,467)	(16,278)	(29,549)	(24,751)
Net income including controlling interest	50,727	67,545	104,301	98,556
Less: net (income) attributable to controlling interest	(137)	(147)	(337)	(257)
Net income attributable to Dolby Laboratories, Inc.	\$50,590	\$67,398	\$103,964	\$98,299
Net income per share:				
Basic	\$0.50	\$0.67	\$1.02	\$0.98
Diluted	\$0.49	\$0.66	\$1.00	\$0.97
Weighted-average shares outstanding:				

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Basic	101,787	100,456	101,635	100,600
Diluted	103,883	101,555	103,867	101,716

Related party rent expense:

Included in operating expenses	\$793	\$756	\$1,575	\$1,537
Included in net income attributable to controlling interest	\$175	\$174	\$350	\$350

Cash dividend declared per common share	\$0.14	\$0.12	\$0.28	\$0.24
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Cash dividend paid per common share	\$0.14	\$0.12	\$0.28	\$0.24
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See accompanying notes to unaudited interim condensed consolidated financial statements



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## DOLBY LABORATORIES, INC.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Fiscal Quarter		Fiscal Year-To-Date	
	Ended	Ended	Ended	Ended
	March 31,	April 1,	March 31,	April 1,
	2017	2016	2017	2016
Net income including controlling interest	\$50,727	\$67,545	\$104,301	\$98,556
Other comprehensive income:				
Currency translation adjustments, net of tax	4,445	2,872	(3,279)	)2,122
Unrealized gains/(losses) on investments, net of tax	581	1,563	(1,438)	)703
Comprehensive income	55,753	71,980	99,584	101,381
Less: comprehensive (income)/loss attributable to controlling interest	(192)	(1)	(131)	)38
Comprehensive income attributable to Dolby Laboratories, Inc.	\$55,561	\$71,979	\$99,453	\$101,419
See accompanying notes to unaudited interim condensed consolidated financial statements				

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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 30, 2016	\$ 101	\$ 42,032	\$ 1,938,320	\$ (10,197 )	\$ 1,970,256	\$ 8,479	\$ 1,978,735
Net income	—	—	103,964	—	103,964	337	104,301
Currency translation adjustments, net of tax of \$666	—	—	—	(3,073 )	(3,073 )	(206 )	(3,279 )
Unrealized (losses) on investments, net of tax of \$2	—	—	—	(1,438 )	(1,438 )	—	(1,438 )
Distributions to controlling interest	—	—	—	—	—	(2,094 )	(2,094 )
Stock-based compensation expense	—	33,198	—	—	33,198	—	33,198
Repurchase of common stock	(1 )	(49,999 )	—	—	(50,000 )	—	(50,000 )
Cash dividends declared and paid on common stock	—	—	(28,494 )	—	(28,494 )	—	(28,494 )
Tax benefit from employee stock plans	—	3,818	—	—	3,818	—	3,818
Common stock issued under employee stock plans	2	24,208	—	—	24,210	—	24,210
Tax withholdings on vesting of restricted stock	(1 )	(15,798 )	—	—	(15,799 )	—	(15,799 )
Balance at March 31, 2017	\$ 101	\$ 37,459	\$ 2,013,790	\$ (14,708 )	\$ 2,036,642	\$ 6,516	\$ 2,043,158
	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 25, 2015	\$ 102	\$ 17,571	\$ 1,800,857	\$ (11,462 )	\$ 1,807,068	\$ 8,939	\$ 1,816,007
Net income	—	—	98,299	—	98,299	257	98,556
Currency translation adjustments, net of tax of \$188	—	—	—	2,417	2,417	(295 )	2,122
Unrealized gains on investments, net of tax of \$(17)	—	—	—	703	703	—	703
Distributions to controlling interest	—	—	—	—	—	(214 )	(214 )
Stock-based compensation expense	—	35,466	—	—	35,466	—	35,466
Repurchase of common stock	(2 )	(55,500 )	(21,354 )	—	(76,856 )	—	(76,856 )
Cash dividends declared and paid on common stock	—	—	(24,200 )	—	(24,200 )	—	(24,200 )
Tax (deficiency) from employee stock plans	—	(1,369 )	—	—	(1,369 )	—	(1,369 )
	—	14,575	—	—	14,575	—	14,575

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Common stock issued under  
employee stock plans

Tax withholdings on vesting of restricted stock	1	(10,743 )	—	—	(10,742 )	—	(10,742 )
Balance at April 1, 2016	\$ 101	\$ —	\$ 1,853,602	\$ (8,342 )	\$ 1,845,361	\$ 8,687	\$ 1,854,048

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Fiscal Year-To-Date Ended	
	March 31, 2017	April 1, 2016
Operating activities:		
Net income including controlling interest	\$ 104,301	\$ 98,556
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	44,061	42,917
Stock-based compensation	33,198	35,466
Amortization of premium on investments	1,376	2,661
Excess tax benefit from exercise of stock options	(3,981)	(338)
Provision for doubtful accounts	1,010	1,228
Deferred income taxes	(8,856)	(5,709)
Other non-cash items affecting net income	160	498
Changes in operating assets and liabilities:		
Accounts receivable	(13,538)	(1,727)
Inventories	(3,253)	(3,533)
Prepaid expenses and other assets	(11,280)	(6,979)
Accounts payable and other liabilities	495	(5,939)
Income taxes, net	11,089	(8,752)
Deferred revenue	85	8,495
Other non-current liabilities	480	22
Net cash provided by operating activities	155,347	156,866
Investing activities:		
Purchase of investments	(98,789)	(200,944)
Proceeds from sales of investment securities	23,071	227,094
Proceeds from maturities of investment securities	66,171	59,053
Purchases of PP&E	(51,230)	(48,984)
Purchase of intangible assets	(5,250)	(105,270)
Change in restricted cash	(2,107)	(2,342)
Net cash used in investing activities	(68,134)	(71,393)
Financing activities:		
Proceeds from issuance of common stock	24,210	14,575
Repurchase of common stock	(50,000)	(76,856)
Payment of cash dividend	(28,494)	(24,200)
Distribution to controlling interest	(2,094)	(214)
Excess tax benefit from exercise of stock options	3,981	338
Shares repurchased for tax withholdings on vesting of restricted stock	(15,799)	(10,742)
Net cash used in financing activities	(68,196)	(97,099)
Effect of foreign exchange rate changes on cash and cash equivalents	(2,621)	902
Net increase/(decrease) in cash and cash equivalents	16,396	(10,724)

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Cash and cash equivalents at beginning of period	516,112	531,926
Cash and cash equivalents at end of period	\$532,508	\$521,202
Supplemental disclosure:		
Cash paid for income taxes, net of refunds received	\$28,093	\$39,227
Non-cash investing and financing activities:		
Increase/(decrease) in PP&E purchases unpaid at period-end	\$2,248	\$(9,592 )
Purchase consideration payable for acquisition	\$—	\$95

See accompanying notes to unaudited interim condensed consolidated financial statements

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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 30, 2016 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 30, 2016, which are included in our Annual Report on Form 10-K filed with the SEC.

The results for the fiscal quarter ended March 31, 2017 are not necessarily indicative of the results to be expected for any subsequent quarterly or annual financial period, including the fiscal year ending September 29, 2017.

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

We operate as a single reportable segment. During the fiscal quarter ended December 30, 2016, we reorganized certain aspects of our internal business infrastructure primarily to integrate and align sales support more directly with our business units. Following the reorganization, we reassessed our business units and concluded that the composition of our reportable segments remains unchanged and that we continue to operate as a single reportable segment. This reflects the fact that our CODM, our Chief Executive Officer, continues to evaluate our financial information and resources, and continues to assess the performance of these resources, on a consolidated basis. All required financial segment information is therefore included in our unaudited interim condensed consolidated financial statements.

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 selling prices for elements sold in ME 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 period ended March 31, 2017 and the 14 week period ended April 1, 2016. Our fiscal year ended September 30, 2016 (fiscal 2016) consisted of 53 weeks while our fiscal year ending September 29, 2017 (fiscal 2017) will consist of 52 weeks.

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2. Summary of Significant Accounting Policies

We continually assess any ASUs or other new accounting pronouncements issued by the FASB to determine their applicability and impact on us. Where it is determined that a new accounting pronouncement will result in a change to our financial reporting, we take the appropriate steps to ensure that such changes are properly reflected in our consolidated financial statements or notes thereto.

Recently Issued Accounting Standards

Adopted Standards

**Consolidation.** During the first quarter of fiscal 2017, we adopted ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis, which amended the consolidation requirements in ASC 810 and significantly changed the consolidation analysis required under U.S. GAAP. The ASU significantly amended how variable interests held by a reporting entity's related parties or de facto agents affect its consolidation conclusion. Adoption of this new standard did not result in any changes to the entities we currently consolidate and did not otherwise have any impact on our consolidated financial statements or notes thereto.

**Inventory.** During the second quarter of fiscal 2017, we adopted ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, which affected reporting entities that measure inventory using FIFO or average cost. Specifically, ASU 2015-11 requires that inventory be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. Adoption of this new standard did not result in any material changes to inventory and did not otherwise have any impact on our consolidated financial statements or notes thereto.

There have been no new accounting standards made effective or otherwise adopted during the current interim period that caused any changes to our significant accounting policies from those that were described in our Form 10-K for the prior fiscal year ended September 30, 2016.

Standards Not Yet Effective

**Revenue Recognition.** In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which outlines a comprehensive revenue recognition model and supersedes most current revenue recognition guidance. The new standard defines a five-step approach for recognizing revenue, which may require a company to use more judgment and make more estimates than under the current guidance. It requires an entity to, among others, recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers, recognize certain direct costs associated with revenues and contract acquisition costs such as sales commissions, and make expanded disclosures. We may adopt the new standard by either the full retrospective method whereby the standard is applied to all periods presented or the modified retrospective method whereby the cumulative effect of applying the new guidance is recognized as an adjustment to the opening retained earnings balance.

We are evaluating the impact on all of our revenue streams and currently believe the most significant changes upon adoption will be as follows:

A change from recognizing our royalty-based revenue in the quarter it is reported to us by our licensees to estimating royalty-based revenue earned from our licensees' shipments in the reporting period with subsequent adjustments recorded as the royalties are reported.

Capitalizing applicable sales commissions that are direct and incremental to obtaining a contract.

A decrease in our deferred revenue balances.

We have not quantified the impact of the change in timing or the reduction in deferred revenue. We are currently evaluating our transition options. Although permitted, we do not intend to early-adopt the new standard, but we will adopt it beginning September 29, 2018.

**Leases.** In February 2016, the FASB issued ASU 2016-02, Leases, which amends the existing accounting standards for leases. Under the new guidance, a lessee will be required to recognize a lease liability and right-of-use asset for all long-term leases, which are those with terms in excess of twelve months. The new guidance also modifies the classification criteria and accounting for sales-type and direct financing leases, and requires additional





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disclosures to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases. Consistent with current guidance, a lessee's recognition, measurement, and presentation of expenses and cash flows arising from a lease will continue to depend primarily on its classification. The ASU is effective for us beginning September 28, 2019, and must be applied using a modified retrospective approach. Early adoption is permitted, including adoption in an interim period. Upon adoption, we will recognize a lease liability and right-of-use asset for each of our long-term lease arrangements which currently exceed 40 as of the end of the second quarter of fiscal 2017. We currently intend to early adopt this new standard concurrently with the adoption of the new revenue recognition standard beginning September 29, 2018.

**Share-Based Compensation.** In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory withholding requirements, as well as classification in the statement of cash flows. We will adopt the new standard beginning September 30, 2017. We are currently evaluating the impact of the standard on our consolidated financial statements.

**Going Concern.** In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards as specified in the guidance. The ASU is effective for us beginning September 29, 2018. Early adoption is permitted, including adoption in an interim period. We do not anticipate that the new standard will impact our consolidated financial statements.

**Cash Flow Classification.** In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The new guidance addresses eight specific cash flow issues, with the objective of reducing an existing diversity in practices regarding the manner in which certain cash receipts and payments are presented and classified in the statement of cash flows. The ASU is effective for us beginning September 29, 2018. Early adoption is permitted, including adoption in an interim period, and we are currently evaluating the timing and impact of the standard on our consolidated financial statements.

**Income Taxes: Intra-Entity Asset Transfers.** In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. The new guidance requires the recognition of the income tax consequences of an intercompany asset transfer, other than transfers of inventory, when the transfer occurs. For intercompany transfers of inventory, the income tax effects will continue to be deferred until the inventory has been sold to a third party. The ASU is effective for us beginning September 29, 2018. Early adoption is permitted, including adoption in an interim period, and we do not anticipate that the new standard will impact our consolidated financial statements.

**Restricted Cash.** In November 2016, the FASB issued ASU 2016-18, *Restricted Cash* — a consensus of the FASB Emerging Issues Task Force, which clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The new guidance requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The ASU is effective for us beginning September 29, 2018. Early adoption is permitted, including adoption in an interim period. Aside from conforming to new cash flow presentation and restricted cash disclosure requirements, we do not anticipate that the new standard will impact our consolidated financial statements.

### 3. Composition of Certain Financial Statement Captions

The following tables present detailed information from our consolidated balance sheets as of March 31, 2017 and September 30, 2016 (amounts displayed in thousands, except as otherwise noted).

#### Accounts Receivable

	March 31, September 30,	
	2017	2016
Trade accounts receivable	\$ 78,755	\$ 66,229
Accounts receivable from patent administration program customers	12,719	11,829

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Accounts receivable, gross	91,474	78,058
Less: allowance for doubtful accounts	(3,258 )	(2,370 )
Total	\$ 88,216	\$ 75,688

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## Inventories

	March 31, September 30,	
	2017	2016
Raw materials	\$ 3,934	\$ 3,526
Work in process	3,236	4,020
Finished goods	10,527	8,808
Total	\$ 17,697	\$ 16,354

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. In addition to the amounts shown in the table above, we have included \$2.0 million and \$1.6 million of raw materials inventory within other non-current assets in our consolidated balance sheets as of March 31, 2017 and September 30, 2016, respectively. Based on anticipated inventory consumption rates, and aside from existing write-downs due to excess and obsolete inventory, we do not believe that material risk of obsolescence exists prior to ultimate sale.

## Prepaid Expenses And Other Current Assets

	March 31, September 30,	
	2017	2016
Prepaid expenses	\$ 17,532	\$ 13,440
Other current assets	10,510	11,578
Income tax receivable	4,459	1,284
Total	\$ 32,501	\$ 26,302

## Accrued Liabilities

	March 31, September 30,	
	2017	2016
Accrued royalties	\$2,144	\$ 1,939
Amounts payable to patent administration program partners	49,953	34,472
Accrued compensation and benefits	59,458	71,261
Accrued professional fees	7,896	6,528
Other accrued liabilities	59,578	54,855
Total	\$ 179,029	\$ 169,055

Other accrued liabilities include amounts accrued for unpaid PP&E additions of \$21.2 million and \$17.1 million as of March 31, 2017 and September 30, 2016, respectively.

## Other Non-Current Liabilities

	March 31, September 30,	
	2017	2016
Supplemental retirement plan obligations	\$ 2,694	\$ 2,540
Non-current tax liabilities	80,925	68,254
Other liabilities	12,313	12,128
Total	\$ 95,932	\$ 82,922

## 4. Investments &amp; 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 investment securities are classified as AFS securities.



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Our investment securities primarily consist of 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 held municipal debt investments are supported by letters of credit or standby purchase agreements. Our cash and investment portfolio consists of the following (in thousands):

March 31, 2017

	Cost	Unrealized		Estimated Fair Value		
		Gains	Total	Level 1	Level 2	Level 3
Cash and cash equivalents:						
Cash	\$522,850		\$522,850			
Cash equivalents:						
Money market funds	9,498	—	9,498	9,498		
Corporate bonds	160	—	160		160	
Cash and cash equivalents	532,508	—	532,508	9,498	160	—
Short-term investments:						
Certificate of deposit (1)	28,318	10	28,331			