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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 December 29, 2023

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:

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§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 26, 2024, the registrant had 59,493,054 shares of Class A common stock, par value $0.001 per share, and 36,085,779 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 29, 2023
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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 (Loss)
API	Application Programming Interface
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
CODM	Chief Operating Decision Maker
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 and Administrative
HD	High Definition
HDR	High-Dynamic Range
HDTV	High Definition Television
HE-AAC	High Efficiency Advanced Audio Coding
HEVC	High Efficiency Video Coding
IC	Integrated Circuit
IBR	Incremental Borrowing Rate
IP	Intellectual Property
LP	Limited Partner/Partnership
NOL	Net Operating Loss
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, and Equipment
PSO	Performance-Based Stock Option
PSU	Performance-Based Restricted Stock Unit
R&D	Research and Development
ROU	Right-Of-Use
RSU	Restricted Stock Unit
S&M	Sales and Marketing
SEC	U.S. Securities and Exchange Commission
SERP	Supplemental Executive Retirement Plan
STB	Set-Top Box
TSR	Total Stockholder Return
UHD	Ultra-High Definition
U.S. GAAP	Generally Accepted Accounting Principles In The United States
VVC	Versatile Video Coding

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 29, 2023	September 29, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 656,816	$ 745,364
Restricted cash	51,842	72,602
Short-term investments	140,823	139,148
Accounts receivable, net of allowance for credit losses of $7,428 and $9,683	293,228	262,245
Contract assets, net of allowance for credit losses of $108 and $138	217,559	182,130
Inventories, net	37,568	35,623
Prepaid expenses and other current assets	53,519	50,692
Total current assets	1,451,355	1,487,804
Long-term investments	92,876	97,812
Property, plant, and equipment, net	479,321	481,581
Operating lease right-of-use assets	38,001	40,199
Intangible assets, net	159,894	167,427
Goodwill	410,435	408,409
Deferred taxes	206,667	201,860
Other non-current assets	96,980	94,674
Total assets	**$ 2,935,529**	**$ 2,979,766**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 14,395	$ 20,925
Accrued liabilities	327,186	351,399
Income taxes payable	6,189	4,769
Contract liabilities	33,404	31,505
Operating lease liabilities	12,922	13,628
Total current liabilities	394,096	422,226
Non-current contract liabilities	36,994	39,997
Non-current operating lease liabilities	34,319	37,020
Other non-current liabilities	107,810	108,339
Total liabilities	573,219	607,582
Stockholders' equity:		
Class A, $0.001 par value, one vote per share, 500,000,000 shares authorized: 59,765,465 shares issued and outstanding at December 29, 2023 and 59,673,633 at September 29, 2023	53	53
Class B, $0.001 par value, ten votes per share, 500,000,000 shares authorized: 36,085,779 shares issued and outstanding at December 29, 2023 and 36,085,779 at September 29, 2023	41	41
Retained earnings	2,367,182	2,391,990
Accumulated other comprehensive loss	(21,428)	(36,984)
Total stockholders' equity – Dolby Laboratories, Inc.	2,345,848	2,355,100
Noncontrolling interest	16,462	17,084
Total stockholders' equity	2,362,310	2,372,184
Total liabilities and stockholders' equity	**$ 2,935,529**	**$ 2,979,766**

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 29, 2023	**December 30, 2022**
Revenue:		
Licensing	$ 293,767	$ 308,011
Products and services	21,807	26,910
Total revenue	315,574	334,921
Cost of revenue:		
Cost of licensing	15,736	13,359
Cost of products and services	16,324	21,091
Total cost of revenue	32,060	34,450
Gross profit	283,514	300,471
Operating expenses:		
Research and development	67,033	64,450
Sales and marketing	79,003	82,205
General and administrative	65,166	59,972
Restructuring charges/(credits)	6,091	(244)
Total operating expenses	217,293	206,383
Operating income	66,221	94,088
Other income/(expense):		
Interest income/(expense), net	9,187	4,797
Other income, net	5,425	1,097
Total other income	14,612	5,894
Income before income taxes	80,833	99,982
Provision for income taxes	(13,252)	(20,534)
Net income including noncontrolling interest	67,581	79,448
Less: net income attributable to noncontrolling interest	(600)	(73)
Net income attributable to Dolby Laboratories, Inc.	**$ 66,981**	**$ 79,375**
Net income per share:		
Basic	$ 0.70	$ 0.83
Diluted	$ 0.69	$ 0.82
Weighted-average shares outstanding:		
Basic	95,376	95,905
Diluted	97,439	97,047
Related party rent expense:		
Included in net income attributable to noncontrolling interest	$ 71	$ 71
Cash dividend declared per common share	$ 0.30	$ 0.27
Cash dividend paid per common share	$ 0.30	$ 0.27

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 29, 2023	December 30, 2022
Net income including noncontrolling interest	$ 67,581	$ 79,448
Other comprehensive income:		
Currency translation adjustments gains, net of tax benefit/(expense) of $0 and $0	11,649	14,381
Unrealized gains on investments, net of tax benefit of $12 and $37	1,956	1,356
Unrealized gains on cash flow hedges, net of tax benefit/(expense) of ($684) and $156	2,091	4,332
Total other comprehensive income, net of tax	15,696	20,069
Total comprehensive income	83,277	99,517
Less: comprehensive income attributable to noncontrolling interest	(740)	(376)
Comprehensive income attributable to Dolby Laboratories, Inc.	**$ 82,537**	**$ 99,141**

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 Loss	Total Stockholders' Equity - Dolby Laboratories, Inc.	Noncontrolling Interest	Total Stockholders' Equity
Balance at September 29, 2023	**$ 94**	**$ —**	**$ 2,391,990**	**$ (36,984)**	**$ 2,355,100**	**$ 17,084**	**$ 2,372,184**
Net income	—	—	66,981	—	66,981	600	67,581
Other comprehensive income, net of tax	—	—	—	15,556	15,556	140	15,696
Distributions to noncontrolling interest	—	—	—	—	—	(1,047)	(1,047)
Stock-based compensation expense	—	31,894	—	—	31,894	—	31,894
Capitalized stock-based compensation expense	—	95	—	—	95	—	95
Repurchase of common stock	(1)	(16,087)	(63,914)	—	(80,002)	—	(80,002)
Cash dividends declared and paid on common stock	—	—	(28,552)	—	(28,552)	—	(28,552)
Common stock issued under employee stock plans	1	18,300	—	—	18,301	—	18,301
Tax withholdings on vesting of restricted stock	—	(34,562)	—	—	(34,562)	—	(34,562)
Deconsolidation of subsidiary	—	—	677	—	677	(677)	—
Equity issued in connection with business combination	—	360	—	—	360	362	722
Balance at December 29, 2023	**$ 94**	**$ —**	**$ 2,367,182**	**$ (21,428)**	**$ 2,345,848**	**$ 16,462**	**$ 2,362,310**

	Dolby Laboratories, Inc.						
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity - Dolby Laboratories, Inc.	Noncontrolling Interest	Total Stockholders' Equity
Balance at September 30, 2022	**$ 94**	**$ —**	**$ 2,297,730**	**$ (51,641)**	**$ 2,246,183**	**$ 4,837**	**$ 2,251,020**
Net income	—	—	79,375	—	79,375	73	79,448
Other comprehensive income, net of tax	—	—	—	19,766	19,766	303	20,069
Distributions to noncontrolling interest	—	—	—	—	—	(266)	(266)
Stock-based compensation expense	—	31,240	—	—	31,240	—	31,240
Capitalized stock-based compensation expense	—	341	—	—	341	—	341
Repurchase of common stock	(1)	(17,533)	(31,878)	—	(49,412)	—	(49,412)
Cash dividends declared and paid on common stock	—	—	(25,869)	—	(25,869)	—	(25,869)
Common stock issued under employee stock plans	2	10,952	—	—	10,954	—	10,954
Tax withholdings on vesting of restricted stock	—	(25,000)	—	—	(25,000)	—	(25,000)
Balance at December 30, 2022	**$ 95**	**$ —**	**$ 2,319,358**	**$ (31,875)**	**$ 2,287,578**	**$ 4,947**	**$ 2,292,525**

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 Ended	
	December 29, 2023	**December 30, 2022**
Operating activities:		
Net income including noncontrolling interest	$ 67,581	$ 79,448
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,872	19,155
Stock-based compensation	31,894	31,240
Amortization of operating lease right-of-use assets	3,088	3,207
Amortization of premium on investments	(895)	81
Benefit from credit losses	(2,101)	(1,030)
Deferred income taxes	(5,397)	(8,255)
Other non-cash items affecting net income	(1,745)	(3,467)
Changes in operating assets and liabilities:		
Accounts receivable, net	(28,935)	(45,153)
Contract assets, net	(35,400)	(39,843)
Inventories	(9,297)	(501)
Operating lease right-of-use assets	570	1,690
Prepaid expenses and other assets	5,866	2,168
Accounts payable and accrued liabilities	(31,993)	5,765
Income taxes, net	6,184	15,292
Contract liabilities	(1,116)	3,277
Operating lease liabilities	(4,264)	(5,430)
Other non-current liabilities	(3,503)	(1,249)
Net cash provided by operating activities	8,409	56,395
Investing activities:		
Purchases of marketable securities	(35,753)	(72,790)
Proceeds from sales of marketable securities	1,226	51,782
Proceeds from maturities of marketable securities	41,259	56,525
Purchases of property, plant, and equipment	(6,099)	(7,217)
Net cash provided by investing activities	633	28,300
Financing activities:		
Proceeds from issuance of common stock	18,301	10,954
Repurchase of common stock	(80,002)	(49,412)
Payment of cash dividend	(28,552)	(25,869)
Distribution to noncontrolling interest	(1,047)	(266)
Shares repurchased for tax withholdings on vesting of restricted stock	(34,562)	(25,000)
Equity issued in connection with business combination	722	—
Payment of deferred consideration for prior business combinations	—	(500)
Net cash used in financing activities	(125,140)	(90,093)
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash	6,790	8,504
Net increase/(decrease) in cash, cash equivalents, and restricted cash	(109,308)	3,106
Cash, cash equivalents, and restricted cash at beginning of period	817,966	628,371
Cash, cash equivalents, and restricted cash at end of period	**$ 708,658**	**$ 631,477**
Supplemental disclosure:		
Cash paid for income taxes, net of refunds received	$ 11,759	$ 12,626
Non-cash investing activities and financing activities:		
Change in property, plant, and equipment purchased, unpaid at period-end	$ 1,073	$ 499

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 29, 2023 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 29, 2023, which are included in our Annual Report on Form 10-K filed with the SEC.

The results for the fiscal quarter ended December 29, 2023 are not necessarily indicative of the results to be expected for any subsequent quarterly or annual financial period, including the fiscal year ending September 27, 2024.

Principles of Consolidation

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

Operating Segments

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

Use of Estimates

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

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

Additional significant items subject to such estimates and assumptions include ESPs for performance obligations within revenue arrangements; allowance for credit losses for accounts receivable; carrying values of inventories and certain PP&E, goodwill and intangible assets; fair values of investments; accrued liabilities including unrecognized tax benefits, deferred income tax assets and liabilities, and contingent 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 December 29, 2023 and December 30, 2022. Our fiscal years ending September 27, 2024 (fiscal 2024) and September 29, 2023 (fiscal 2023) each consist of 52 weeks.

2. Summary of Significant Accounting Policies

Concentration of Credit Risk

Our financial instruments that are exposed to concentrations of credit risk principally consist of cash, cash equivalents, investments, accounts receivable, and contract assets. We maintain cash, cash equivalents, and investments with multiple financial institutions that have high credit standing, and that we believe are financially sound and have minimal credit risk exposure, although at times our balances may exceed the applicable insurance coverage limits. We monitor and manage the overall counterparty credit risk exposure of our cash balances to individual financial institutions on an ongoing basis. Our investment portfolio consists of investment-grade securities diversified amongst security types, industries, and issuers. All of our securities are held in custody by large national financial institutions. Our investment policy limits the amount of credit exposure to a maximum of 5% of our total portfolio to any one issuer, except for the U.S. Treasury, and we believe no significant concentration risk exists with respect to these investments. We also mitigate counterparty risk through entering into derivative contracts with high-credit-quality financial institutions. Actual or potential defaults of one or more financial institutions could impact our results of operations or financial position, and make it challenging to find alternative qualified counterparties.

The majority of our licensing revenue is generated from customers outside of the United States ("U.S."). We manage the credit risk posed by non-U.S. customers by performing regular evaluations of the creditworthiness of our licensing customers and recognize revenue in accordance with US GAAP.

Recently Issued Accounting Standards

Standards Not Yet Effective

Segment Reporting. In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures,* which enhances the disclosures required for operating segments by requiring disclosure of significant segment expenses that are regularly provided to the CODM and included within each reported measure of segment profit or loss, among other expanded disclosures. This standard will be effective for annual periods beginning September 28, 2024 and interim periods beginning September 27, 2025, with early adoption permitted, and will be applied retrospectively to all periods presented in the financial statements. We are currently in the process of evaluating the impact of the standard's adoption on our unaudited interim condensed consolidated financial statements.

Income Taxes. In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which requires further enhancement of income tax disclosures, primarily through standardization and disaggregation of rate reconciliation categories and income taxes paid by jurisdiction. This standard is effective for Dolby beginning September 27, 2025 on a prospective basis, but early adoption is permitted. We are currently in the process of evaluating the impact of the standard's adoption on our unaudited interim condensed consolidated financial statements.

3. Revenue Recognition

We enter into revenue arrangements with our customers to license technologies, trademarks and patents for sound and imaging 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 revenue 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 and imaging 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, 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. We also offer solutions through our platform Dolby.co to companies building real-time digital experiences that increase audience engagement. Our solution provides the capability to stream high quality audiovisual content in ultra-low latency which reduces the delay between the action and the viewer.
- *PCS.* We provide PCS for products sold and for equipment leased, and we support the implementation of our licensing technologies in our licensees' products.
- *Equipment Leases.* We collaborate with established cinema exhibitors to offer Dolby Cinema, a branded premium cinema offering for movie audiences by leasing equipment and licensing our IP.
- *Licensing Administration Fees.* We generate administrative fees for managing patent pools on behalf of third party patent owners through our subsidiary, Via Licensing Alliance LLC ("Via LA").

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 dependent on and 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 of 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 revenue 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. Revenue from these initial fees is 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 within the following two quarters. 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 2024, we recorded a favorable adjustment of approximately $1 million, which was primarily related to shipments that occurred in the prior two quarters.

Fixed and guaranteed licensing fees. In certain cases, our arrangements require the licensee to pay fixed, non-refundable fees. 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. Revenue from these arrangements is included as a component of licensing revenue.

Recoveries. Through compliance efforts, we identify misreported licensed activity 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. Revenue from these arrangements is included as a component of licensing revenue.

We undertake activities aimed at identifying potential unauthorized uses of our technologies, which, when successful, result in the recognition of revenue. Recoveries 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 the time of use of our technology, and therefore, we recognize revenue recoveries upon execution of the agreement as that is the point in time at which a contract exists and control is transferred. This revenue is 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 unaudited interim condensed 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. Payments are generally made within 90 days of sale.

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.

Cloud Services. We provide access to audio and video APIs through our developer platform as well as cloud encoding services, generally, on either a consumption or subscription basis. Revenue related to cloud services provided on a consumption basis is recognized when the customer utilizes the services, based on the quantity of services consumed. Revenue related to cloud services provided on a subscription basis is recognized ratably over the contract term as the customer receives and consumes the benefits of the cloud services.

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

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

Licensing Administration Fee. We generate administrative fees for managing patent pools on behalf of third party patent owners through our subsidiary, Via LA. As an agent to licensors in the patent pool, Via LA 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 LA also has contracts where the fees are fixed. The revenue share Via LA 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. As of December 29, 2023, we had $70.4 million of remaining performance obligations, 39% of which we expect to recognize as revenue in fiscal 2024, 23% in fiscal 2025, and the balance of 38% in fiscal years beyond 2025.

F. *Disaggregation of Revenue*

The following table presents a summary of the composition of our revenue for all periods presented (in thousands, except percentage amounts):

	Fiscal Quarter Ended			
Revenue	**December 29, 2023**		**December 30, 2022**	
Licensing	$ 293,767	93 %	$ 308,011	92 %
Products and services	21,807	7 %	26,910	8 %
Total revenue	**$ 315,574**	**100 %**	**$ 334,921**	**100 %**

The following table presents the composition of our licensing revenue for all periods presented (in thousands, except percentage amounts):

Market	Fiscal Quarter Ended December 29, 2023		Fiscal Quarter Ended December 30, 2022	
Broadcast	$ 112,416	38 %	$ 117,334	38 %
Mobile	35,287	12 %	64,286	21 %
CE	53,220	18 %	55,083	18 %
PC	29,679	10 %	24,286	8 %
Other	63,165	22 %	47,022	15 %
Total licensing revenue	**$ 293,767**	**100 %**	**$ 308,011**	**100 %**

We license our technologies in approximately 70 countries, and our licensees distribute products that incorporate our technologies throughout the world. We generate the majority of our revenue from outside the U.S. 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. The following table presents the composition of our revenue by geographic location for all periods presented (in thousands, except percentage amounts):

Geographic Location	Fiscal Quarter Ended December 29, 2023		Fiscal Quarter Ended December 30, 2022	
United States	$ 115,185	37 %	$ 100,262	30 %
International	200,389	63 %	234,659	70 %
Total revenue	**$ 315,574**	**100 %**	**$ 334,921**	**100 %**

G. *Contract Balances*

Our contract assets represent rights to consideration from licensees for the use of our IP that we have estimated in a given period 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 data, industry estimates of expected shipments, anticipated sales price and performance, and third party data supporting the percentage of markets using our technologies. In the event that our estimates differ from actual amounts reported, we record an adjustment in the quarter in which the royalty statement is received, which is typically the quarter following our estimate. Actual amounts reported are typically paid within 60 days following the end of the quarter of shipment. The main drivers for change in the contract assets account are variances in quarterly estimates, and to a lesser degree, timing of receipt of actual royalty statements.

Our contract liabilities consist of advance payments and billings in advance of performance and deferred revenue that is typically satisfied within one year. The non-current portion of contract liabilities is separately disclosed in our unaudited interim condensed consolidated balance sheets. We present the net contract asset or liability when we have both contract assets and contract liabilities for a single contract. We recognized $12.2 million in the first quarter of fiscal 2024 from prior period deferred revenue.

The following table presents a summary of the balances to which contract assets and liabilities related to revenue are recorded for all periods presented (in thousands, except percentage amounts):

	December 29, 2023	September 29, 2023	Change ($)	Change (%)
Accounts receivable, net	$ 293,228	$ 262,245	$ 30,983	12 %
Contract assets, net	217,559	182,130	35,429	19 %
Contract liabilities - current	33,404	31,505	1,899	6 %
Contract liabilities - non-current	36,994	39,997	(3,003)	(8)%

4. Composition of Certain Financial Statement Captions

The following tables present detailed information from our unaudited interim condensed consolidated balance sheets as of December 29, 2023 and September 29, 2023 (in thousands).

Accounts Receivable and Contract Assets

	December 29, 2023	September 29, 2023
Trade accounts receivable	$ 111,027	$ 137,820
Accounts receivable from patent administration program licensees	189,629	134,108
Contract assets	217,667	182,268
Accounts receivable and contract assets, gross	518,323	454,196
Less: allowance for credit losses on accounts receivable and contract assets	(7,536)	(9,821)
Total accounts receivable and contract assets, net	**$ 510,787**	**$ 444,375**

Accounts receivable as of December 29, 2023 and September 29, 2023, respectively, includes unbilled accounts receivable balances of $132.9 million and $150.4 million, 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 LA's unconditional right to consideration related to its patent administration programs.

Allowance for Credit Losses	Beginning Balance	Charges/(Credits) to S&M and G&A	Additions/(Deductions)	Ending Balance
For fiscal year-to-date period ended:				
September 29, 2023	$ 14,405	$ (793)	$ (2,643)	$ 10,969
December 29, 2023	10,969	(2,101)	(233)	8,635

Allowance for credit losses includes the provision for estimated credit losses on our sales-type leases, which was not material as of December 29, 2023 and September 29, 2023.

Inventories

	December 29, 2023	September 29, 2023
Raw materials	$ 4,375	$ 6,203
Work in process	5,321	3,972
Finished goods	27,872	25,448
Total inventories	**$ 37,568**	**$ 35,623**

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 unaudited interim condensed consolidated balance sheets. We have included $13.8 million and $8.1 million of inventory within non-current assets as of December 29, 2023 and September 29, 2023, 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 29, 2023	September 29, 2023
Prepaid expenses	$ 27,699	$ 24,435
Other current assets	25,820	26,257
Total prepaid expenses and other current assets	**$ 53,519**	**$ 50,692**

Accrued Liabilities

	December 29, 2023	September 29, 2023
Amounts payable to patent administration program partners	$ 171,639	$ 150,509
Accrued compensation and benefits	79,384	118,728
Accrued professional fees	17,131	18,632
Unpaid property, plant, and equipment additions	18,116	18,002
Accrued customer refunds	3,479	3,878
Accrued market development funds	4,436	5,010
Other accrued liabilities	33,001	36,640
Total accrued liabilities	**$ 327,186**	**$ 351,399**

Other Non-Current Liabilities

	December 29, 2023	September 29, 2023
Supplemental retirement plan obligations	$ 4,385	$ 4,302
Non-current tax liabilities [(1)]	77,165	74,482
Other liabilities	26,260	29,555
Total other non-current liabilities	**$ 107,810**	**$ 108,339**

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

5. Investments and Fair Value Measurements

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

Our investments in debt securities consist of corporate bonds, government bonds, municipal debt securities, commercial paper, and U.S. agency securities. In addition, our cash and cash equivalents also consist of highly-liquid money market funds and government bonds. 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 29, 2023						
		Unrealized			Estimated Fair Value		
	Cost	Gains	Losses	Total	Level 1	Level 2	Level 3
Cash and cash equivalents:							
Cash	$ 643,276	$ —	$ —	$ 643,276	$ 643,276	$ —	$ —
Cash equivalents:							
Money market funds	3,557	—	—	3,557	3,557	—	—
Government Bonds	9,979	4	—	9,983	9,983	—	—
Cash and cash equivalents	656,812	4	—	656,816	656,816	—	—
Short-term investments:							
U.S. agency securities	3,892	1	—	3,893	—	3,893	—
Government bonds	43,998	19	(503)	43,514	40,904	2,610	—
Commercial paper	9,513	5	—	9,518	—	9,518	—
Corporate bonds	68,503	30	(276)	68,257	—	68,257	—
Municipal debt securities	15,749	2	(110)	15,641	—	15,641	—
Short-term investments	141,655	57	(889)	140,823	40,904	99,919	—
Long-term investments:							
Government bonds	31,168	82	(194)	31,056	31,056	—	—
Corporate bonds	38,068	212	(196)	38,084	—	38,084	—
Municipal debt securities	11,792	62	(40)	11,814	—	11,814	—
Other investments [1]	11,922	—	—	11,922	—	—	—
Long-term investments	92,950	356	(430)	92,876	31,056	49,898	—
Total cash, cash equivalents, and investments	**$ 891,417**	**$ 417**	**$ (1,319)**	**$ 890,515**	**$ 728,776**	**$ 149,817**	**$ —**
Investments held in supplemental retirement plan:							
Assets	$ 4,483	$ —	$ —	$ 4,483	$ 4,483	$ —	$ —
Included in prepaid expenses and other current assets and other non-current assets							
Liabilities	$ 4,483	$ —	$ —	$ 4,483	$ 4,483	$ —	$ —
Included in accrued liabilities and other non-current liabilities							
Currency derivatives as hedge instruments:							
Assets: Included in other current assets	$ —	$ 2,829	$ —	$ 2,829	$ —	$ 2,829	$ —

(1) Other investments as of December 29, 2023 is primarily comprised of an equity method investment of $6.5 million and an equity security without a readily determinable fair value, valued at $5.0 million. The equity method investment is measured at cost minus impairment, if any, adjusted for our proportionate share of the investee's net income or loss. Our share of the equity method investee's net income or loss is included in other income/(expense), net on the unaudited interim condensed consolidated statements of operations. Our share of the equity method investee's net income was $3.3 million in the first quarter of fiscal 2024 and was not material in the first quarter of fiscal 2023.

	September 29, 2023						
		Unrealized			Estimated Fair Value		
	Cost	Gains	Losses	Total	Level 1	Level 2	Level 3
Cash and cash equivalents:							
Cash	$ 602,288	$ —	$ —	$ 602,288	$ 602,288	$ —	$ —
Cash equivalents:							
Commercial paper	1,514	—	—	1,514	—	1,514	—
Money market funds	139,831	—	—	139,831	139,831	—	—
Government Bonds	1,731	—	—	1,731	1,731	—	—
Cash and cash equivalents	745,364	—	—	745,364	743,850	1,514	—
Short-term investments:							
Certificate of deposit	530	—	—	530	—	530	—
U.S. agency securities	5,956	1	(7)	5,950	—	5,950	—
Government bonds	50,220	3	(384)	49,839	46,246	3,593	—
Commercial paper	5,843	—	(3)	5,840	—	5,840	—
Corporate bonds	61,803	—	(431)	61,372	—	61,372	—
Municipal debt securities	15,801	—	(184)	15,617	—	15,617	—
Short-term investments	140,153	4	(1,009)	139,148	46,246	92,902	—
Long-term investments:							
Government bonds	33,227	—	(1,046)	32,181	32,181	—	—
Corporate bonds	39,057	6	(589)	38,474	—	38,474	—
Municipal debt securities	16,137	—	(224)	15,913	—	15,913	—
Other investments [1]	11,244	—	—	11,244	—	—	—
Long-term investments	99,665	6	(1,859)	97,812	32,181	54,387	—
Total cash, cash equivalents, and investments	**$ 985,182**	**$ 10**	**$ (2,868)**	**$ 982,324**	**$ 822,277**	**$ 148,803**	**$ —**
Investments held in supplemental retirement plan:							
Assets	$ 4,400	$ —	$ —	$ 4,400	$ 4,400	$ —	$ —
Included in prepaid expenses and other current assets and other non-current assets							
Liabilities	$ 4,400	$ —	$ —	$ 4,400	$ 4,400	$ —	$ —
Included in accrued liabilities and other non-current liabilities							
Currency derivatives as hedge instruments:							
Assets: Included in other current assets	$ —	$ 144	$ —	$ 144	$ —	$ 144	$ —
Assets: included in other non-current assets	—	2	—	2	—	2	—
Liabilities: Included in other accrued liabilities	—	—	(618)	(618)	—	(618)	—
Liabilities: Included in other non-current liabilities	—	—	(24)	(24)	—	(24)	—

(1) Other investments as of September 29, 2023 is comprised of an equity method investment of $5.9 million and an equity security without a readily determinable fair value, valued at $5.0 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 financial instruments from a professional pricing service, which may use quoted market prices for identical or comparable instruments, or model driven valuations using observable market data or inputs corroborated by observable market data. To validate the fair value determination provided by our primary pricing service, we perform quality controls over values received which include comparing our pricing service provider's assessment of the fair values of our investment securities against the fair values of our investment securities obtained from another independent source, reviewing the pricing movement in the context of overall market trends, and reviewing trading information from our investment managers. In addition, we

assess the inputs and methods used in determining the fair value in order to determine the classification of securities in the fair value hierarchy. 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 impairment by comparing the fair value with the cost basis for each of our investment securities. 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 greater than twelve months as of December 29, 2023 and September 29, 2023 (in thousands):

	December 29, 2023				September 29, 2023			
	Less Than 12 Months		Greater Than 12 Months		Less Than 12 Months		Greater Than 12 Months	
Investment Type	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. agency securities	$ —	$ —	$ —	$ —	$ 853	$ (7)	$ —	$ —
Government bonds	12,250	(67)	30,457	(629)	26,756	(247)	40,235	(1,183)
Commercial paper	—	—	—	—	5,840	(3)	—	—
Corporate bonds	36,002	(137)	19,546	(335)	79,846	(461)	14,634	(558)
Municipal debt securities	8,222	(52)	6,246	(98)	23,365	(203)	8,166	(206)
Total	**$ 56,474**	**$ (256)**	**$ 56,249**	**$ (1,062)**	**$ 136,660**	**$ (921)**	**$ 63,035**	**$ (1,947)**

Although we had certain securities that were in an unrealized loss position as of December 29, 2023 and September 29, 2023, we expect to recover the full carrying value of these securities.

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 29, 2023 and September 29, 2023, which are recorded within cash equivalents and both short and long-term investments in our unaudited interim condensed consolidated balance sheets (in thousands):

	December 29, 2023		September 29, 2023	
Range of maturity	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within 1 year	$ 171,054	$ 170,477	$ 283,229	$ 282,225
Due in 1 to 2 years	45,231	44,735	67,679	66,075
Due in 2 to 5 years	19,933	20,105	20,743	20,493
Total	**$ 236,218**	**$ 235,317**	**$ 371,651**	**$ 368,793**

6. Property, Plant, and Equipment

PP&E 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 unaudited interim condensed consolidated statements of operations.

As of December 29, 2023 and September 29, 2023, PP&E consisted of the following (in thousands):

Property, Plant, and Equipment	December 29, 2023	September 29, 2023
Land	$ 41,959	$ 41,902
Buildings and building improvements	288,199	287,799
Leasehold improvements	81,985	79,988
Machinery and equipment	153,976	152,675
Computer equipment and software	235,778	233,224
Furniture and fixtures	33,046	32,629
Equipment provided under operating leases	216,592	211,910
Construction-in-progress	19,804	18,327
Property, plant, and equipment, gross	1,071,339	1,058,454
Less: accumulated depreciation	(592,018)	(576,873)
Property, plant, and equipment, net	**$ 479,321**	**$ 481,581**

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 noncontrolling interests in our consolidated subsidiaries. The following table presents the maturity analysis of lease liabilities (in thousands):

	December 29, 2023
	Operating Leases
Remainder of Fiscal 2024	$ 13,226
Fiscal 2025	12,861
Fiscal 2026	8,253
Fiscal 2027	6,229
Fiscal 2028	5,991
Thereafter	11,358
Total undiscounted lease payments	57,918
Less: imputed interest	(10,677)
Total lease liabilities	**$ 47,241**

As Lessor

As a lessor, we lease our Dolby Cinema product solution to exhibitors. The terms of these leases are typically 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. 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, net on the unaudited interim condensed consolidated balance sheets, and depreciated over the useful life of the asset using the straight-line method. Fixed operating lease payments are recognized on a straight-line basis over the lease term to revenue. Variable lease payments received under our Dolby Cinema operating leases are computed as shares of lessees' box office revenue 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. The components of lease income were as follows (in thousands):

	Fiscal Quarter Ended	
	December 29, 2023	December 30, 2022
Operating Lease Income		
Variable operating lease income	$ 6,315	$ 6,328
Fixed operating lease income	812	747

If a lease is classified as a sales-type lease, the carrying amount of the asset is derecognized from property, plant, and equipment, net, 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 is 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. The unguaranteed residual value of sales-type leases was $1.0 million and $1.0 million as of December 29, 2023 and September 29, 2023, respectively. 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 variable lease payments, which are not included in the net investment in the lease. The variable lease payments are not material.

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

	December 29, 2023	
	Operating Leases	Sales-Type Leases
Remainder of Fiscal 2024	$ 990	$ 620
Fiscal 2025	1,110	620
Fiscal 2026	931	220
Fiscal 2027	—	220
Fiscal 2028	—	220
Total undiscounted cash flows	$ 3,031	1,900
Less: Carrying value of lease receivables		(621)
Difference		**$ 1,279**

8. Goodwill and Intangible Assets

Goodwill

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

	Goodwill
Balance at September 29, 2023	**$ 408,409**
Translation adjustments	2,026
Balance at December 29, 2023	**$ 410,435**

Intangible Assets

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

	December 29, 2023			September 29, 2023		
Intangible Assets, Net	**Cost**	**Accumulated Amortization**	**Net**	**Cost**	**Accumulated Amortization**	**Net**
Acquired patents and technology	$ 351,096	$ (276,316)	$ 74,780	$ 350,406	$ (270,750)	$ 79,656
Customer relationships	148,817	(63,723)	85,094	148,794	(61,049)	87,745
Other intangible assets	22,811	(22,791)	20	22,781	(22,755)	26
Total	**$ 522,724**	**$ (362,830)**	**$ 159,894**	**$ 521,981**	**$ (354,554)**	**$ 167,427**

There were no purchases of intangible assets during the first quarter of fiscal 2024 and during the first quarter of fiscal 2023.

Amortization expense for our intangible assets is included in cost of licensing, cost of products and services, R&D, S&M, and G&A expenses in our unaudited interim condensed consolidated statements of operations. Amortization expense was $7.5 million and $6.3 million in the first quarter of fiscal 2024 and 2023, respectively. As of December 29, 2023, expected amortization expense of our intangible assets in future fiscal periods was as follows (in thousands):

Fiscal Year	**Amortization Expense**
Remainder of 2024	$ 22,569
2025	15,812
2026	15,293
2027	14,773
2028	14,614
Thereafter	76,833
Total	**$ 159,894**

9. Stockholders' Equity and Stock-Based Compensation

We provide stock-based awards as a form of compensation for employees, officers, and directors. We issue stock-based awards in the form of stock options and 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. As of December 29, 2023, we had authorized 500,000,000 Class A shares and 500,000,000 Class B shares. As of December 29, 2023, we had 59,765,465 shares of Class A common stock and 36,085,779 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

Our 2020 Stock Plan originally was adopted by our Board of Directors and shareholders in 2005 (when the 2020 Stock Plan was called the 2005 Stock Plan). Our stockholders last approved amendments to the 2020 Stock Plan at our 2023 annual meeting of stockholders. Our 2020 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 64.0 million shares of our Class A common stock have been authorized for issuance under the 2020 Stock Plan in total since inception of the plan. Any shares subject to an award with a per share price less than the fair market value of our Class A common stock on the date of grant and any shares subject to an outstanding RSU award will be counted against the authorized share reserve as 1.6 shares for every one share subject to the award, and if returned to the 2020 Stock Plan, such shares will be counted as 1.6 shares for every one share returned.

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

Performance-Based Stock Options. From fiscal 2016 through fiscal 2019, we granted PSOs to certain officers with shares of our Class A common stock underlying such options. The contractual term for the PSOs was 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. Anywhere from 0% to 125% of the shares subject to a PSO vested based on achievement of the performance conditions at the end of the three-year performance period.

In valuing the PSOs, which are 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 2020 Stock Plan. Compensation cost is being amortized on a straight-line basis over the requisite service period.

As of December 29, 2023, an aggregate of 249,228 shares of PSOs were exercisable and outstanding.

The following table summarizes information about stock options, including PSOs, issued under our 2020 Stock Plan:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value [1]
	(in thousands)		*(in years)*	*(in thousands)*
Options outstanding as of September 29, 2023	3,720	$ 66.13		
Grants	271	87.49		
Exercises	(203)	52.25		
Forfeitures and cancellations	(1)	53.72		
Options outstanding as of December 29, 2023	3,787	68.45	5.29	$ 70,079
Options vested and expected to vest as of December 29, 2023	3,625	68.11	5.20	69,672
Options exercisable as of December 29, 2023	**2,913**	**$ 64.43**	**4.44**	**65,763**

(1) Aggregate intrinsic value is based on the closing stock price of our Class A common stock on December 29, 2023 of $86.18 and excludes the impact of options that were not in-the-money.

Restricted Stock Units. In fiscal 2008, we began granting RSUs to certain directors, officers and employees. RSU awards granted to employees and officers generally vest over four years, with cliff-vesting. Awards granted to ongoing non-employee directors generally vest over approximately one year. Awards granted to new non-employee 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. 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 adjusted fair market value of our Class A common stock on the date of grant, discounted to account for dividend payments forgone during the vesting period, and is recognized on a straight-line basis over the requisite service period. Certain grants may have other vesting conditions or other award terms as approved by the Compensation Committee of our Board of Directors. Our 2020 Stock Plan also allows us to grant RSUs that vest based on the satisfaction of specific performance criteria.

Performance-Based Restricted Stock Units. In fiscal 2020, we began granting PSUs to certain 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 PSUs to certain 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. The value of the PSUs, which is recognized as compensation cost, is calculated using a Monte Carlo valuation model. Compensation cost is being amortized on a straight-line basis over the requisite service period. Certain grants may have other vesting conditions or other award terms as approved by the Compensation Committee of our Board of Directors.

The following table summarizes information on PSUs granted to our officers that have not vested as of December 29, 2023:

	Aggregate Shares Granted	Potential Shares at Vest Date (at 200% of Target)
December 15, 2021	60,301	120,602
December 15, 2022	90,613	181,226
December 15, 2023	77,283	154,566

On December 16, 2019, we granted PSUs to our executive officers for an aggregate of 62,000 shares, which vested in December 2022 at 81% of the target award amount. On December 15, 2020, we granted PSUs to our executive officers for an aggregate of 66,138 shares, which vested in December 2023 at 80% of the target award amount. As of December 29, 2023, PSUs which would vest for an aggregate of 228,197 shares at the target award amount (456,394 shares at 200% of the target award amount) were outstanding.

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

	Shares	Weighted-Average Grant Date Fair Value
	(in thousands)	
Non-vested as of September 29, 2023	3,747	$ 78.62
Granted	1,590	84.24
Vested	(1,120)	78.58
Forfeitures	(190)	81.37
Non-vested as of December 29, 2023	**4,027**	**$ 80.72**

Employee Stock Purchase Plan. Our ESPP originally was adopted by our Board of Directors and shareholders in 2005. Our stockholders last approved amendments to the ESPP at our 2023 annual meeting of stockholders. The ESPP 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 NYSE on the first day of the offering period and the last day of the purchase period. 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. A total of 5.5 million shares of our Class A common stock have been authorized for issuance under the ESPP since inception of the plan.

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 U.S. 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. The expected volatility has historically been determined using a blended combination of historical and implied volatility, but is currently being determined using historical volatility only. 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 29, 2023	December 30, 2022
Expected term (in years)	4.86	4.82
Risk-free interest rate	3.9 %	3.6 %
Expected stock price volatility	29.4 %	29.4 %
Dividend yield	1.4 %	1.6 %

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 unaudited interim condensed 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 unaudited interim condensed consolidated statements of operations (in thousands):

Expense - By Award Type

	Fiscal Quarter Ended	
	December 29, 2023	December 30, 2022
Compensation expense		
Stock options	$ 2,125	$ 2,405
Restricted stock units [1] [2]	29,016	27,552
Employee stock purchase plan	753	1,283
Total stock-based compensation	31,894	31,240
Estimated benefit from income taxes	(4,999)	(4,702)
Total stock-based compensation, net of tax	**$ 26,895**	**$ 26,538**

(1) Stock-based compensation expense incurred by restricted stock units includes expense from PSUs.
(2) Excludes $0.1 million and $0.3 million of capitalized stock-based compensation related to internal-use software in the first quarter of fiscal 2024 and in the first quarter of fiscal 2023, respectively.

Expense - By Income Statement Line Item Classification

	Fiscal Quarter Ended	
	December 29, 2023	December 30, 2022
Compensation expense		
Cost of products and services	$ 410	$ 503
Research and development	10,106	10,676
Sales and marketing	10,481	10,727
General and administrative	10,897	9,334
Total stock-based compensation	31,894	31,240
Estimated benefit from income taxes	(4,999)	(4,702)
Total stock-based compensation, net of tax	**$ 26,895**	**$ 26,538**

The tax benefit that we recognize from shares issued under our ESPP is excluded from the tables above. The tax benefit recognized was not material in the first quarters of fiscal 2024 and fiscal 2023.

Unrecognized Compensation Expense. As of December 29, 2023, total unrecognized compensation expense associated with employee stock options expected to vest was approximately $15.1 million, which is expected to be recognized over a weighted-average period of 2.9 years. As of December 29, 2023, total unrecognized

compensation expense associated with RSUs expected to vest was approximately $263.7 million, which is expected to be recognized over a weighted-average period of 2.9 years.

Common Stock Repurchase Program

In November 2009, we announced a stock repurchase program, providing for the repurchase 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 29, 2023 (in thousands):

Date of Authorization	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
Fiscal 2021: July 2021	350,000
Fiscal 2022: February 2022	250,000
Fiscal 2022: August 2022	350,000
Total	**$ 2,950,000**

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 29, 2023, the remaining authorization to purchase additional shares was $131.6 million.

The following table provides information regarding share repurchase activity under the program during fiscal 2024:

Quarterly Repurchase Activity	Shares Repurchased	Cost [1]	Average Price Paid Per Share [2]
		(in thousands)	
Q1 - Quarter ended December 29, 2023	967,789	$ 80,002	$ 82.66
Total	**967,789**	**$ 80,002**	

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

Dividend Program

The following table summarizes dividends declared under the program during fiscal 2024:

Fiscal Period	Announcement Date	Record Date	Payment Date	Cash Dividend Per Common Share	Dividend Payment	
Q1 - Quarter ended December 29, 2023	February 1, 2024	February 13, 2024	February 22, 2024	$ 0.30	$28.8 million	[1]

(1) The dividend payment amount for the dividend declared in the first quarter of fiscal 2024 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 Loss

Other comprehensive income/loss 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 loss, a subsection within stockholders' equity in our unaudited interim condensed 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, which is also when the gains and losses are realized.

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 unaudited interim condensed consolidated statements of operations (in thousands):

	Fiscal Quarter Ended December 29, 2023			
	Investment Securities	Cash Flow Hedges	Currency Translation Adjustments	Total
Beginning Balance	**$ (2,858)**	**$ (197)**	**$ (33,929)**	**$ (36,984)**
Other comprehensive income before reclassifications:				
Unrealized gains	2,011	2,587	—	4,598
Foreign currency translation gains [1]	—	—	11,509	11,509
Income tax effect - expense	—	(648)	—	(648)
Net of tax	2,011	1,939	11,509	15,459
Amounts reclassified from AOCI into earnings:				
Realized gains/(losses) [2]	(67)	188	—	121
Income tax effect - benefit/(expense) [3]	12	(36)	—	(24)
Net of tax	(55)	152	—	97
Net current-period other comprehensive income	**1,956**	**2,091**	**11,509**	**15,556**
Ending Balance	**$ (902)**	**$ 1,894**	**$ (22,420)**	**$ (21,428)**

	Fiscal Quarter Ended December 30, 2022			
	Investment Securities	Cash Flow Hedges	Currency Translation Adjustments	Total
Beginning Balance	**$ (5,986)**	**$ (4,483)**	**$ (41,172)**	**$ (51,641)**
Other comprehensive income before reclassifications:				
Unrealized gains	1,532	5,180	—	6,712
Foreign currency translation gains [1]	—	—	14,078	14,078
Net of tax	1,532	5,180	14,078	20,790
Amounts reclassified from AOCI into earnings:				
Realized losses [2]	(213)	(1,004)	—	(1,217)
Income tax effect - benefit [3]	37	156	—	193
Net of tax	(176)	(848)	—	(1,024)
Net current-period other comprehensive income	**1,356**	**4,332**	**14,078**	**19,766**
Ending Balance	**$ (4,630)**	**$ (151)**	**$ (27,094)**	**$ (31,875)**

(1) The foreign currency translation gains during the first quarter of fiscal 2024 and during the first quarter of fiscal 2023 were primarily due to the strengthening of other foreign currencies as compared to the U.S. dollar.

(2) 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 unaudited interim condensed consolidated statements of operations. Realized gains or losses on foreign currency contracts designated as cash flow hedges are included in operating expenses in the unaudited interim condensed consolidated statements of operations.

(3) The income tax benefit or expense is included within provision for income taxes in our unaudited interim condensed 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 unvested) and vesting of outstanding RSUs. The calculation of dilutive shares outstanding excludes securities that would have an antidilutive effect on EPS.

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 29, 2023	December 30, 2022
Numerator:		
Net income attributable to Dolby Laboratories, Inc.	$ 66,981	$ 79,375
Denominator:		
Weighted-average shares outstanding—basic	95,376	95,905
Potential common shares from options to purchase common stock	755	533
Potential common shares from restricted stock units	1,289	566
Potential common shares from employee stock purchase plan	19	43
Weighted-average shares outstanding—diluted	**97,439**	**97,047**
Net income per share attributable to Dolby Laboratories, Inc.:		
Basic	$ 0.70	$ 0.83
Diluted	$ 0.69	$ 0.82
Antidilutive awards excluded from calculation:		
Stock options	1,042	1,509
Restricted stock units	36	350
Employee stock purchase plan	95	10

12. Income Taxes

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

Unrecognized Tax Benefits

As of December 29, 2023, the total amount of gross unrecognized tax benefits was $78.3 million, of which $49.0 million, if recognized, would reduce our effective tax rate. As of September 29, 2023, the total amount of gross unrecognized tax benefits was $76.3 million, of which $47.2 million, if recognized, would reduce our effective tax rate. The first quarter of fiscal 2024 increase was primarily due to current year reserves for transfer pricing and interest accruals. Our liability for unrecognized tax benefits is classified within other non-current liabilities in our unaudited interim condensed consolidated balance sheets.

Effective Tax Rate

Each period, the combination of multiple 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 that may occur in, but are not necessarily consistent between periods.

Our effective tax rate in the first quarter of fiscal 2024 was 16.4% or a tax expense of $13.3 million and our effective tax rate in the first quarter of fiscal 2023 was 20.5% or a tax expense of $20.5 million. The decrease in our effective tax rate was primarily due to tax benefits related to settlement of stock-based awards and the mix of earnings favoring jurisdictions with lower tax rates.

On December 11, 2023, the IRS announced in a notice that taxpayers can temporarily apply the regulations in effect prior to 2022 related to U.S. federal foreign tax credits. This relief applies to foreign taxes paid or accrued in our fiscal 2024.

Compared to the Federal statutory rate of 21%, our effective tax rate for the first quarter of fiscal 2024 was lower primarily due to the mix of earnings favoring jurisdictions with lower tax rates and tax benefits related to settlement of stock-based awards.

13. Restructuring

Restructuring charges recorded in our unaudited interim condensed consolidated 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 2023 Restructuring Events. In September 2023, we initiated a restructuring plan with the purpose of focusing our resources on our highest strategic priorities. In continuation with this plan, we recorded expense of $7.4 million in the first quarter of fiscal 2024 in severance and other related benefits offered to approximately 70 impacted employees. Cash payment of the severance and other termination benefits is expected to be completed by the second half of fiscal 2024.

The table presented below summarizes the changes in our restructuring accruals (in thousands):

	Severance	Leased facility exit costs and other costs and adjustments	Total
Balance at September 30, 2022	**$ 5,781**	**$ —**	**$ 5,781**
Restructuring charges	23,943	23,118	47,061
Cash payments and adjustments	(9,372)	(16,225)	(25,597)
Non-cash adjustment for leased facility exit costs	—	(6,893)	(6,893)
Balance at September 29, 2023	**$ 20,352**	**$ —**	**$ 20,352**
Restructuring charges	7,376	(1,285)	6,091
Cash payments and adjustments	(9,625)	1,285	(8,340)
Balance at December 29, 2023	**$ 18,103**	**$ —**	**$ 18,103**

The fiscal 2023 activities primarily related to our fiscal 2023 restructuring plans with the purpose of focusing our resources on our highest strategic priorities and to reduce our cost structure through improved utilization of our global infrastructure.

Accruals for restructuring charges/(credits) incurred for the restructuring plan described above are included within accrued liabilities in our unaudited interim condensed consolidated balance sheets, while restructuring charges are included within restructuring charges in our unaudited interim 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. On a quarterly basis, we evaluate based on the known facts and circumstances whether a potential loss or range of losses is considered probable and reasonably estimable in accordance with U.S. GAAP. We record a provision for a liability relating to these legal proceedings when a loss is both probable and the amount of the loss can be reasonably estimated. Legal costs associated with these legal proceedings are expensed as incurred.

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 and the rules and regulations applicable to the preparation of our unaudited interim condensed consolidated financial statements, any such amounts are either immaterial, or it is not probable that a potential loss has been incurred or the amount of loss cannot be reasonably estimated.

15. Commitments and 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 29, 2023 (in thousands):

	Payments Due By Fiscal Period						
	Remainder of Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027	Fiscal 2028	Thereafter	Total
Naming rights	$ 8,684	$ 13,126	$ 13,472	$ 8,534	$ 8,642	$ 35,674	$ 88,132
Purchase obligations	22,890	4,916	1,196	—	—	—	29,002
Donation commitments	1,009	116	116	86	86	404	1,817
Total	**$ 32,583**	**$ 18,158**	**$ 14,784**	**$ 8,620**	**$ 8,728**	**$ 36,078**	**$ 118,951**

Naming Rights. We are party to agreements for naming rights of certain facilities, most significantly for naming rights and related benefits with respect to the Dolby Theatre in Hollywood, California, the location of the Academy Awards®. The term of this agreement is 20 years, over which we will make payments on a semi-annual basis until fiscal 2032. Our ongoing annual payment obligations are conditioned in part on the Academy Awards being held and broadcast from the Dolby Theatre. Our payment obligations may be suspended or reduced in certain circumstances, including the protracted closure of the Dolby Theatre. We also hold the naming rights to Dolby Live at the Park MGM in Las Vegas, Nevada. Dolby Live is a fully integrated performance venue offering live concerts in Dolby Atmos.

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 information technology and telecommunications, marketing and professional services, and manufacturing and other R&D activities. Also included in purchase obligations are non-cancelable commitments to contract manufacturers, including potentially variable obligations related to inventory based on demand forecasts we provide to the contract manufacturers.

Donation Commitments. Our donation commitments relate to non-cancelable obligations that consist of maintenance services and installation of imaging and audio products in exchange for various marketing, branding, and publicity benefits. These donation agreements either transfer title of our audio and imaging products to the donee or offer use of the products free of charge for a specified period of time via a leasing arrangement. The recipients of these donations participate in or promote the cinema and entertainment industry, and our commitments vary in length, lasting up to 15 years.

Indemnification Clauses. On a limited basis, our contractual agreements contain a clause under which we agree to provide indemnification to the counterparty, most commonly to licensees in connection with licensing arrangements that include our IP. We have also entered into indemnification agreements with our officers, directors, and certain employees, and our certificate of incorporation and bylaws contain similar indemnification obligations. Additionally, and although not a contractual requirement, we have at times elected to defend our licensees from third

party IP infringement claims. Since the terms and conditions of our contractual indemnification clauses do not explicitly specify our obligations, we are unable to reasonably estimate the maximum potential exposure for which we could be liable.

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 that are subject to risks and uncertainties, including, but not limited to statements regarding: operating results and underlying measures; demand and acceptance for our technologies and products; the effect of macroeconomic and geopolitical conditions on our business; market growth opportunities and trends; the development and launch of new products, features, and platforms; our ability to maintain key partnership relationships; 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," "intend," "could," "can," "would," "target," "goal," "outlook," "project," "contemplate," "future," or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions indicates a forward-looking statement. Such forward-looking statements are based on management's reasonable and current assumptions and expectations, but such statements inherently involve substantial risks and uncertainties. Actual results may differ materially from those discussed in these forward-looking statements due to a number of factors, including but not limited to the risks set forth in Part II, Item 1A, "Risk Factors" and key challenges set forth in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations." 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 may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements.

In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this Quarterly Report on Form 10-Q, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements. Except as required by law, we disclaim any duty to update any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform our prior statements to actual results.

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 for content playback in movies, TV, music, gaming and user-generated content. 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, DTV transmissions and devices, mobile devices, OTT video and music services, home entertainment devices, and automobiles.

Today, we derive the majority of our revenue from licensing our audio technologies. We also derive revenue from licensing our consumer imaging technologies, as well as audio and imaging technologies for premium cinema offerings in collaboration with exhibitors. In addition to our licensing business, we provide products and services for a variety of applications in the cinema and broadcast markets, and offer solutions to companies building real-time digital experiences that increase audience engagement.

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 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 so that users may enjoy richer, clearer, and more immersive sound and sight experiences.

Expanding the Reach of our Technologies. We look for new and innovative ways to expand the reach of our technologies to new content, media, devices and audiences. For example, we are expanding our addressable market to enhance a broader range of content, by offering solutions to companies building real-time digital experiences that increase audience engagement. Our solution provides the capability to stream high quality audiovisual content in ultra-low latency which reduces the delay between the action and the viewer. Everyone experiencing the action at the same time enables ways to interact with the content.

REVENUE GENERATION

We generate revenue from approximately 400 product OEMs and software developers. As of December 29, 2023, we had approximately 19,900 issued patents relating to technologies, which are licensed to third parties and comprise a significant portion of our licensing revenue. We have approximately 1,700 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 for content playback in movies, TV, music, gaming, and other applications. Our key technologies are summarized in the table below. As it relates to AAC, HE-AAC, Extended HE-AAC, AVC, and HEVC, we own patents that comprise a portion of these standardized technologies and we participate in patent licensing programs which combine our patents with those of other patent owners and offer them as a single solution.

Technology	Description
AAC, HE-AAC and Extended HE-AAC	Advanced digital audio codec solutions with high 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 provides an immersive experience that can be provided via multiple Dolby audio coding technologies.
DD	A digital audio coding technology that provides multichannel sound to a variety of media applications.
DD+	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 ultra vivid colors, sharper contrasts, and richer details for cinema and a wide range of media devices.
HEVC	A 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 revenue from our licensing business for all periods presented:

	Fiscal Quarter Ended		
Market	**December 29, 2023**	**December 30, 2022**	**Main Components of Each Category**
Broadcast	38%	38%	Televisions and STBs
Mobile	12%	21%	Smartphones and Tablets
CE	18%	18%	DMAs, Blu-ray Disc devices, AVRs, Soundbars, and DVDs
PC	10%	8%	Windows and macOS operating systems and devices
Other	22%	15%	Dolby Cinema, Gaming consoles, Automotive, and Patent pool administrative services
Total	**100%**	**100%**	

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

Two-Tier Licensing Model. We license our technologies through 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. Revenue from these initial fees is 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 implementation, 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 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 who use our IP in their products. By aggregating and offering pooled patents, these arrangements deliver efficiencies that reduce transactional costs for both IP owners and licensees. Patent pools enable product manufacturers to efficiently and transparently secure patent licenses for collaboratively developed technologies. We offer our patents related to AAC, HE-AAC, Extended HE-AAC, AVC, HEVC, VVC and other standardized technologies through a combination of patent pools and licensing directly to OEMs. We also license our patents directly to manufacturers that use our IP in their products. Finally, Via LA generates patent licensing administrative fees for administering patent pools on behalf of third party patent owners.

Recoveries. Licensing revenue recognized in any given period may include revenue from licensees and/or settlements with third parties where the use of our technology occurred in previous periods. Within the Results of Operations section of Part I, Item 2 "*Management's Discussion and Analysis of Financial Condition and Results of Operations,*" revenue attributable to previous periods' usage including 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 revenue at Dolby Cinema sites through a share of box office receipts, which is recognized as licensing revenue.

Products

We design and manufacture audio and imaging hardware and software products for the cinema, television, broadcast, and entertainment industries. Distributed in approximately 90 countries, these products are used in content creation, distribution, and playback to enhance image and sound quality, and improve transmission and playback. Additionally, some of our Dolby Cinema arrangements are classified as sales-type leases, and as a result are included in products sales.

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

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 play back digital cinema soundtracks, including those using Dolby Atmos
Other	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

Services

We offer cloud-based software solutions to companies building real-time digital experiences that increase audience engagement. Over time, we expect to expand the amount and types of content that can be enhanced through our technologies and capabilities.

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

MACROECONOMIC CONDITIONS

The current macroeconomic environment has negatively impacted many of our licensees and that directly impacts our financial results. Our revenue has been impacted by macroeconomic conditions, including but not limited to, inflation, heightened interest rates, restrictions and economic impacts related to COVID-19, supply chain constraints, increased shipping costs, international conflicts, reduced discretionary consumer spending, and reduced new product investment by our customers caused by elevated interest rates and lower demand. The macroeconomic conditions also impart substantial uncertainty into our operating environment, which presents additional challenges for our business. These factors and the related uncertainty may cause delays or a decrease in the adoption or implementation of our technologies into new products by partners and licensees. These conditions may impact consumer demand for devices and services and our partners' ability to manufacture devices. Further, we may be negatively impacted by delays in transaction cycles and our recoveries efforts due to the noted macroeconomic conditions and related uncertainty. The future implications of these macroeconomic conditions on our business, results of operations and overall financial position remain uncertain. We continue to monitor the evolving macroeconomic environment and the impact on our business. Further discussion of the potential impacts of these macroeconomic effects on our business can be found in Part II, Item 1A "*Risk Factors*."

EXPANDING OUR LEADERSHIP IN AUDIO AND IMAGING EXPERIENCES

We are focused on expanding our leadership in audio and imaging solutions for premium entertainment content by increasing the number of Dolby experiences that people can enjoy, which will drive revenue growth across the markets we serve. We can increase our value proposition and create opportunities by broadening Dolby technologies into new types of content, such as music, gaming, live sports, and user-generated content. We are increasingly making our audio and imaging technologies available for content beyond premium entertainment through Dolby.io, creating new revenue generating opportunities. We also seek to expand the reach of our technology by incorporating it into industry standards and offering licenses to our patents covering that technology, along with our partners, through patent pools. The following is a discussion of the key markets that we address and the various Dolby technologies and solutions that serve these markets.

LICENSING

The majority of our licensing revenue is derived from the licensing of audio and imaging technologies for entertainment playback. Our branded technologies are primarily comprised of DD+, Dolby Atmos, and AC-4 for audio, and Dolby Vision for imaging. Our audio technologies offered jointly through patent pools are incorporated into the AAC, HE-AAC, xHE-AAC, MPEG H and Opus standards for audio, and the AVC, HEVC, VVC and AV1 standards for imaging. Licensing revenue is primarily driven by the adoption of our technologies on devices, the number of devices shipped by licensees, and by the expansion of the number of licensees adopting our technologies. DD+, AC-4, and our AAC and HE-AAC audio patents (collectively, our "foundational audio technologies") have broad penetration across a diverse set of devices and end markets. Our revenue from these technologies is primarily driven by device shipments from licensees, and as such, is impacted by consumer spending. In the future, we expect revenue from our foundational audio technologies to generally reflect market trends in device shipments. The remaining portion of our licensing revenue is derived from offerings such as Dolby Vision, Dolby Atmos, our imaging patents, and Dolby Cinema. Dolby Vision and Dolby Atmos have not been in the market as long as our foundational audio technologies, thus revenue growth is primarily driven by increased adoption and the addition of new licensees. Revenue from technologies licensed through our patent licensing model is driven primarily by our royalty share within patent pools, licensee penetration, device shipments, and the introduction of new standardized technologies and patent programs. Factors such as global supply constraints or device lifecycles may also impact licensing revenue generally. Further, in certain countries, 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.

The availability of content in Dolby formats is an important part of creating the ecosystems that drive adoption of our technologies within a wide range of devices. Our audio and imaging technologies have a strong presence within movie and episodic content through adoption across content creators and streaming services. The availability of content on these platforms has driven strong adoption in devices such as TVs, STBs, and speaker devices. Our audio and imaging technologies are also widely available through many forms of distribution, including broadcast TV, streaming, and optical disc playback.

Major streaming partners and services such as Netflix, Disney+, Apple TV+, Amazon, Max, Paramount+, and other streaming partners and services internationally, continue to enhance content in Dolby Vision and Dolby Atmos. For example, in India, ZEE5, an Indian OTT service, announced that its platform will support Dolby Vision, in addition

to currently supporting Dolby Atmos. These streaming services launch local content in Dolby formats internationally. As we see an increase in new local content, we increase our value proposition for adoption of Dolby Vision and Dolby Atmos across devices in all market segments.

We work with industry leaders to enhance these forms of content through the use of our technologies, creating additional value for the adoption of Dolby within devices such as mobile phones and tablets, PCs, gaming consoles, and automobiles. We have enhanced a broad range of content, such as music, gaming, live sports, and user-generated content.

The following are highlights from our first quarter of fiscal 2024 and key challenges related to audio and imaging licensing, by market. Further discussion of the potential impacts of these key challenges on our business can be found in Part II, Item 1A "*Risk Factors*."

Broadcast

Highlights: We have an established global presence with respect to our DD+ and HE-AAC audio technologies in broadcast services and devices. We have expanded our offerings in the broadcast market through technologies such as Dolby Atmos and AC-4, Dolby Vision, as well as AVC and HEVC imaging technologies which we license through patent pools. We work with many TV OEMs and strategic partners to enable and promote Dolby Vision and Dolby Atmos experiences within their TV lineups. Many such partners continue to expand their support of the combined Dolby Vision and Dolby Atmos experience. At CES in January 2024, Hisense announced that its latest TV models will support Dolby Atmos FlexConnect. MediaTek also recently announced that its Pentonic smart TV platform will support Dolby Atmos FlexConnect. Dolby Atmos FlexConnect pairs accessory wireless speakers with a TV's sound system, optimizing the Dolby Atmos experience for any room layout and speaker setup.

Key Challenges: Our pursuit of new licensees and further adoption of our technologies by existing licensees may be impacted by a number of factors. 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 or our technology is not included in future broadcast industry standards, our revenue could be negatively impacted. Changing trends in the way that video content is distributed and consumed may impact our business and future growth in the broadcast market, such as the trend away from subscription-based cable and satellite television providers toward streaming services. Additionally, 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, including Apple and Android. HE-AAC and HEVC are widely adopted audio and video technologies across mobile devices, and we offer these technologies through our patent licensing programs. We also continue to focus on expanding adoption 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.

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. The mobile market is heavily concentrated, so we rely on a small number of partnerships with key participants in this 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 or our technology is not included in future mobile industry standards, our revenue could be impacted. We must also continue to support the development and distribution of Dolby-enabled content via various ecosystems. Additionally, we face geopolitical challenges including changes in diplomatic and trade relationships, trade protection measures, and import or export licensing requirements.

Consumer Electronics

Highlights: We have an established presence in the home entertainment market across devices such as soundbars, DMAs, wireless and smart speakers, AVRs, and Blu-Ray players, through the inclusion of our DD+ technology, and increasingly through the inclusion of Dolby Atmos and Dolby Vision. AAC and HE-AAC technologies

also have broad adoption through our patent licensing programs. We continue to focus on expanding the availability of Dolby technologies to new devices.

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. Additionally, we face geopolitical challenges including changes in diplomatic and trade relationships, trade protection measures, and import or export licensing requirements.

Personal Computers

Highlights: DD+ continues to enhance audio 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 various types of content, including streaming video entertainment. A number of PCs from partners such as Apple, Lenovo, Dell, Samsung, and ASUS also support Dolby Vision and/or Dolby Atmos, with continued expansion of applications through music, streaming, and gaming. At CES in January 2024, Alienware and ASUS announced their first gaming PC monitors to support Dolby Vision, and Dell announced that its latest XPS laptops will offer the combined Dolby Vision and Dolby Atmos experience.

Key Challenges: Demand for PCs has recently been declining and it remains uncertain when, if, and to what extent PC demand will return to historic levels. We must continuously collaborate and maintain our key partnerships with PC manufacturers to incorporate our technologies, and we must continue to support the development and distribution of Dolby content via various ecosystems. Additionally, we face geopolitical challenges including changes in diplomatic and trade relationships, trade protection measures, and import or export licensing requirements.

Other Markets

Highlights: DD+ is incorporated in the PlayStation and Xbox gaming consoles that support gaming content and streaming for movie and television content. The PlayStation 5 supports compatible Dolby Atmos-enabled living room devices with the latest PS5 system. The Xbox Series X and Series S gaming consoles support Dolby Vision and Dolby Atmos for streaming and gaming content. Additionally, our technologies continue to be incorporated into the latest headphones by various OEMs.

We also generate revenue from the automotive industry through the adoption of Dolby Atmos Music and through disc playback devices as well as other elements of the entertainment system. Recently, Apple announced support for Dolby Atmos for CarPlay. Also, in the first quarter of fiscal 2024, Zeeker, a premium electric vehicle brand in China, launched the Zeekr 007 that supports Dolby Atmos. At CES in January 2024, it was announced that Mercedes-Benz, Audible, and Amazon Music have collaborated to make Audible and Amazon Music's catalog of content in Dolby Atmos available in Mercedes-Benz vehicles. Also at CES, Lotus announced that its new Eletre hyper-SUV will support Dolby Atmos.

Key Challenges: Consumer demand for devices in the gaming industry is impacted by anticipation of console refresh cycles, which could result in fluctuations in our revenue. In addition, the gaming console market has competition from mobile devices and gaming PCs, which have faster refresh cycles and appeal to a broader consumer base. Automotive revenue has been negatively impacted by a decline in the portion of cars that have optical disc playback. Shortages of certain semiconductor components could result in lower implementation of our technologies in vehicles by automotive manufacturers. Our revenue growth will be impacted if OEMs do not incorporate our technologies in their latest products, which can be more prominent in industries with longer development cycles such as the automotive industry. Additionally, we face geopolitical challenges including changes in diplomatic and trade relationships, trade protection measures, and import or export licensing requirements.

Included within Other Markets is also licensing revenue from audio and imaging technologies used to create Dolby experiences through Dolby Cinema.

Dolby Cinema

Highlights: We continue to expand our global presence for Dolby Cinema, with sites located in the U.S. and internationally. The breadth of motion pictures for Dolby Cinema continues to grow with over 550 theatrical titles in both Dolby Vision and Dolby Atmos having been announced or released from all of the major studios as of the end of first quarter of fiscal 2024.

Key Challenges: Although the premium large format market for the cinema industry has been growing, Dolby Cinema competes with other existing offerings. Our success depends on our partners and their success, and our ability to differentiate our offering, deploy new sites, and attract and retain a global viewing audience. In addition, the success of our Dolby Cinema offering is tied to global box office performance generally. COVID-19 has had a significant effect on theatrical exhibition, which could impact the financial viability of our key partners. The response to COVID-19 has had a negative impact on our cinema-related revenue and consumer demand, although consumer demand for the cinema has been improving. It is uncertain whether consumer demand for the cinema will return to previous levels. Additionally, the recently concluded strikes by the Writers Guild of America and Screen Actors Guild - American Federation of Television and Radio Artists ("SAG-AFTRA") effectively halted the production, release and promotion of certain films for an extended period. The resulting impacts of those stoppages have resulted in, and may continue to lead to, near-term decreases in box office receipts and our cinema-related revenue.

PRODUCTS AND SERVICES

A majority of our products and services revenue is derived from the sale of audio and imaging products for the cinema, television, broadcast, communication, and entertainment industries. Revenue from Dolby.io is also included in products and services.

Cinema Products and Services

Highlights: To help enable the playback of content in Dolby formats, we offer a range of servers, which include the IMS3000 (an integrated imaging and audio server with Dolby Atmos), and audio processors, such as the CP950, to cinema exhibitors globally. Dolby Atmos has been adopted broadly across studios, content creators, post-production facilities, and exhibitors. As of the end of the first quarter of fiscal 2024, there are over 7,500 Dolby Atmos screens installed or committed and over 2,900 Dolby Atmos theatrical titles have been announced or released.

We also offer a variety of other cinema products, such as 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 other commercially available options.

Key Challenges: Demand for our cinema products is dependent upon our partners and their success in the market, industry and economic cycles, box office performance, and 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, which are subject to geopolitical risks. Additionally, weakness in general economic conditions due to inflation, recession, pandemic or other worsening economic conditions could have a negative impact on our cinema-related revenue due to reduced consumer discretionary spending. We may also be faced with pricing pressures or competing technologies, which would affect our revenue. We have also experienced supply chain shortages and increased shipping costs that have created challenges to maintain the sufficient supply of cinema products to meet the demand in the market. In addition, supply chain constraints may impact our ability to provide cinema products and services to our customers. COVID-19 has also negatively impacted the financial health of our cinema customers and partners. In addition, the recently concluded strikes by the Writers Guild of America and SAG-AFTRA effectively halted the production, release and promotion of certain films for an extended period. The resulting impacts of those stoppages have resulted in, and may continue to lead to, decreased box office receipts in the near term, which could potentially impact exhibitors' willingness and ability to invest in our cinema products.

Dolby.io

Highlights: We are focused on bringing Dolby’s decades of sight and sound technology to a broader range of media content and digital experiences. We are expanding our addressable market to enhance a broader range of content, by offering solutions to companies building real-time digital experiences that increase audience engagement. Our solution provides the capability to stream high quality audiovisual content in ultra-low latency which reduces the delay between the action and the viewer.

Content being delivered with almost no delay enables our customers to create real-time interaction in their apps and services. This lifelike interaction is essential to the experiences companies, particularly in sports and entertainment, are creating.

Over time, we believe this way of delivering and engaging with content will be used more broadly.

Key Challenges: Dolby.io is an early-stage business, and it is uncertain when or if it will be a material revenue driver. Our success in this market will depend on adoption from companies building real-time digital experiences that increase audience engagement, the volume of usage of the services and our ability to monetize our services. In addition, the development and maintenance needed to provide a reliable and scalable platform may require us to develop new skills internally for our current employees or hire external specialized talent. Although the market for real-time experiences has been growing, Dolby.io competes with other offerings.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no material changes to the critical accounting policies from those included in our fiscal 2023 Annual Report on Form 10-K filed with the SEC, as per Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates included therein.

RESULTS OF OPERATIONS

For each line item included on our unaudited 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). This discussion and analysis highlights comparisons of material changes in the unaudited interim condensed consolidated financial statements for the quarters ended December 29, 2023 and December 30, 2022. Note that adjustments related to sales-based royalties that were misreported by licensees 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 and imaging capabilities. The technologies that we license are either internally developed, acquired, or licensed from third parties. We also generate administrative fees for managing patent pools on behalf of third party patent owners through our subsidiary, Via LA. A significant portion of our licensing revenue pertains to customer-shipment royalties that we recognize based on estimates of our licensees' shipments. To the extent that shipment data reported by licensees differs from estimates we made and recorded, we recognize an adjustment to revenue for such difference in the period we receive the reported shipment data.

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 patent pool fees.

	Fiscal Quarter Ended		Change	
Licensing	**December 29, 2023**	**December 30, 2022**	**$**	**%**
Revenue	$293,767	$308,011	$(14,244)	(5)%
Percentage of total revenue	*93%*	*92%*		
Cost of licensing	15,736	13,359	2,377	18%
Gross margin	278,031	294,652	(16,621)	(6)%
Gross margin percentage	*95%*	*96%*		

	Fiscal Quarter Ended			
Licensing Revenue By Market	**December 29, 2023**		**December 30, 2022**	
Broadcast	$ 112,416	38 %	$ 117,334	38 %
Mobile	35,287	12 %	64,286	21 %
CE	53,220	18 %	55,083	18 %
PC	29,679	10 %	24,286	8 %
Other	63,165	22 %	47,022	15 %
Total licensing revenue	**$ 293,767**	**100 %**	**$ 308,011**	**100 %**

Q1 2024 vs. Q1 2023

Factor	Licensing Revenue		Gross Margin	
Mobile	↓	*Lower revenue from timing of minimum volume commitments and lower recoveries impacting foundational audio technologies, partially offset by higher revenue from our imaging patent programs*	↔	*No significant fluctuations*
Other	↑	*Higher revenue from imaging patent pool administrative fees and higher automotive revenue driven by higher adoption of Dolby Atmos*		
PC	↑	*Higher revenue from our imaging patent programs*		
Broadcast	↓	*Lower revenue due to a true-up in the prior year and lower recoveries primarily impacting foundational audio technologies, partially offset by higher from our imaging patent programs driven by minimum volume commitments*		
CE	↓	*Lower revenue driven by lower unit shipments for DMAs, primarily impacting foundational audio technologies, partially offset by higher recoveries and higher revenue from imaging patent programs*		

Products and Services

Products revenue is generated from the sale of audio and imaging hardware and software products for the cinema, television, broadcast and entertainment industries. Also included in products revenue are amounts relating to certain Dolby Cinema arrangements that are considered sales-type leases that involve fixed or minimum fees. Cost of products includes materials, labor, manufacturing overhead, amortization of certain intangible assets, and certain third party royalty obligations.

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

	Fiscal Quarter Ended		Change	
Products and Services	**December 29, 2023**	**December 30, 2022**	**$**	**%**
Revenue	$21,807	$26,910	$(5,103)	(19)%
Percentage of total revenue	*7%*	*8%*		
Cost of products and services	16,324	21,091	(4,767)	(23)%
Gross margin	5,483	5,819	(336)	(6)%
Gross margin percentage	*25%*	*22%*		

Q1 2024 vs. Q1 2023

Factor	Products and Services Revenue		Gross Margin	
Products	↓	*Lower cinema products revenue as compared to the prior year*	↑	*Higher gross margin due to lower warranty expenses, lower royalty expenses and lower freight costs in the current quarter*
Services	↔	*No significant fluctuations*	↔	*No significant fluctuations*

Operating Expenses

Research and Development

R&D expenses consist primarily of employee compensation and benefits expenses, stock-based compensation, external contractor costs, depreciation and amortization, facilities costs, costs for outside materials, and information

technology expenses.

	Fiscal Quarter Ended		Change	
	December 29, 2023	December 30, 2022	$	%
Research and development	$67,033	$64,450	$2,583	4%
Percentage of total revenue	*21%*	*19%*		

Q1 2024 vs. Q1 2023

Category	Key Drivers	
Research and Development	←→	*No significant fluctuations*

Sales and 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, contractor fees, facilities costs, depreciation and amortization, information technology expenses, and legal costs associated with the protection of our IP.

	Fiscal Quarter Ended		Change	
	December 29, 2023	December 30, 2022	$	%
Sales and marketing	$79,003	$82,205	$(3,202)	(4)%
Percentage of total revenue	*25%*	*25%*		

Q1 2024 vs. Q1 2023

Category	Key Drivers	
Marketing Programs	↑	*Higher costs of $3.2 million primarily due to timing of marketing efforts for growth initiatives and branding activities in the current period*
Legal, Professional, and Contractors	↓	*Lower costs of $1.2 million primarily due to reduced discretionary spending on contractors*

General and Administrative

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

	Fiscal Quarter Ended		Change	
	December 29, 2023	December 30, 2022	$	%
General and administrative	$65,166	$59,972	$5,194	9%
Percentage of total revenue	*21%*	*18%*		

Q1 2024 vs. Q1 2023

Category	Key Drivers	
Stock-based Compensation	↑	*Higher costs of $1.6 million primarily due to increased fair value of RSUs, and higher payroll salaries expense due to our acquisition of MPEG LA, L.L.C. ("MPEG LA") in fiscal 2023.*

Restructuring Charges

Restructuring charges recorded as operating expenses in our unaudited interim condensed consolidated statements of operations represent costs associated with separate individual restructuring plans implemented in various fiscal periods. The extent of our costs arising as a result of these actions, including fluctuations in related

balances between fiscal periods, is based on the nature of activities under the various plans.

	Fiscal Quarter Ended		Change	
	December 29, 2023	December 30, 2022	$	%
Restructuring charges	$6,091	$(244)	$6,335	(2,596)%
Percentage of total revenue	*2%*	*—%*		

In September 2023, we initiated a restructuring plan with the purpose of focusing our resources on our highest strategic priorities. We recorded expense of $7.4 million in the first quarter of fiscal 2024 in severance and other related benefits offered to approximately 70 impacted employees. For additional information on our Restructuring programs, see Note 13 "*Restructuring*" to our unaudited interim condensed consolidated financial statements.

Other Income/Expense

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

	Fiscal Quarter Ended		Change	
	December 29, 2023	December 30, 2022	$	%
Other income	$14,612	$5,894	$8,718	148%
Percentage of total revenue	*5%*	*2%*		

Q1 2024 vs. Q1 2023

Category		Key Drivers
Interest Income	↑	*Higher yields on our current year investment balances due to increased interest rates*
Other Income	↑	*Higher income from our equity method investment in the current year*

Income Taxes

Our effective tax rate is based on our annual fiscal year results and is affected each period-end by several factors. These factors include changes in our projected fiscal year results, recurring items such as tax rates and relative income earned in our foreign jurisdictions, as well as discrete items such as changes to our unrecognized tax benefits 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 29, 2023	December 30, 2022
Provision for income taxes	$(13,252)	$(20,534)
Effective tax rate	*16.4%*	*20.5%*

Q1 2024 vs. Q1 2023

Factor		Impact On Effective Tax Rate
Foreign Operations	↓	*Higher benefit from earned income in lower tax jurisdictions*
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 29, 2023, we had cash and cash equivalents of $656.8 million, which consisted of cash and highly-liquid money market funds and government bonds. In addition, we had short and long-term investments of $233.7 million, which primarily consisted of corporate bonds, government bonds, municipal debt securities, commercial paper, and U.S. agency securities.

The following table presents selected financial information as of December 29, 2023 and September 29, 2023 (in thousands):

	December 29, 2023	September 29, 2023
Cash and cash equivalents	$ 656,816	$ 745,364
Short-term investments	140,823	139,148
Long-term investments	92,876	97,812
Accounts receivable, net	293,228	262,245
Accounts payable and accrued liabilities	341,581	372,324
Working capital	1,057,259	1,065,578

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. Additionally, 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 both 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 and Stock-Based Compensation*" to our unaudited interim condensed consolidated financial statements for a summary of dividend payments made under the program during fiscal 2024 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 $2.8 billion of stock repurchases under the program.

The Inflation Reduction Act and CHIPS and Science Act were signed into law in August 2022. The Inflation Reduction Act introduced a one percent non-deductible excise tax on certain public company stock buybacks made after December 31, 2022. We do not currently expect the excise tax to have a material impact on our results of operations or financial position, and its ongoing impact will be dependent on the extent of our future net stock repurchase activities.

Quarterly Dividend Program. During fiscal 2015, we initiated a recurring quarterly cash dividend program for our stockholders. In the first quarter of fiscal 2024, a quarterly dividend of $0.30 per share was 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 unaudited interim condensed consolidated 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 (in thousands).

Operating Activities

	Fiscal Quarter Ended	
	December 29, 2023	December 30, 2022
Net cash provided by operating activities	$ 8,409	$ 56,395

Net cash provided by operating activities decreased $48.0 million in the fiscal quarter ended December 29, 2023 as compared to the fiscal quarter ended December 30, 2022, primarily due to the following:

Factor	Impact On Cash Flows	
Operating assets and liabilities	↓	*Lower inflows due to higher contract assets, lower accounts payable and accrued liabilities, and higher accounts receivable*

Investing Activities

	Fiscal Quarter Ended	
	December 29, 2023	December 30, 2022
Net cash provided by investing activities	$ 633	$ 28,300

Net cash provided by investing activities was $27.7 million lower in the fiscal quarter ended December 29, 2023 as compared to the fiscal quarter ended December 30, 2022, primarily due to the following:

Factor	Impact On Cash Flows	
Proceeds from Investments	↓	*Lower inflows from the sale and maturity of marketable investment securities*
Purchase of Investments	↑	*Lower outflows for the purchase of marketable investment securities, and other investments*

Financing Activities

	Fiscal Quarter Ended	
	December 29, 2023	December 30, 2022
Net cash used in financing activities	$ (125,140)	$ (90,093)

Net cash used in financing activities was $35.0 million higher in the fiscal quarter ended December 29, 2023 as compared to the fiscal quarter ended December 30, 2022, primarily due to the following:

Factor	Impact On Cash Flows	
Share Repurchases	↓	*Higher outflows due to higher common stock repurchases in the current year*
Shares Repurchased for Tax Withholdings	↓	*Higher outflows due to higher RSU fair value*
Common Stock Issuance	↑	*Higher inflows from employee stock option exercises*

Contractual Obligations and Commitments

Since the end of our fiscal year ended September 29, 2023, 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 7 *"Leases"* and Note 15 *"Commitments and Contingencies"* to our unaudited interim condensed consolidated financial statements.

In the first quarter of fiscal 2024, we did not enter into any off-balance sheet arrangements that are expected to have a material effect on Dolby's liquidity or the availability of capital resources.

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. 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 and Contingencies*” to our unaudited interim condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity

As of December 29, 2023, we had cash and cash equivalents of $656.8 million, which consisted of cash and highly-liquid money market funds and government bonds. In addition, we had both short and long-term investments of $233.7 million, which consisted of corporate bonds, government bonds, municipal debt securities, commercial paper, 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. As of December 29, 2023, the weighted-average credit quality of our investment portfolio was AA-, with a weighted-average maturity of approximately ten 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 29, 2023, hypothetical changes in interest rates of 1% and 0.5% would have an impact on the carrying value of our portfolio of approximately $1.7 million and $0.8 million, respectively.

Foreign Currency Exchange Risk

We maintain business operations in foreign countries, most significantly in Australia, China, Germany, Ireland, Poland, and the United Kingdom ("U.K."). Additionally, a 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 unaudited interim condensed consolidated statements of operations. Our foreign operations are subject to the same risks present when conducting business internationally, including, but not limited to, changes in economic conditions and geopolitical climate, differing tax structures, foreign exchange rate volatility and other regulations and restrictions.

We also enter into forward currency contracts exclusively designated as cash flow hedges, which have a maturity of thirteen months or less, to reduce the impact of currency volatility on U.S. dollar operating expenses. The gains and losses from the effective portions of cash flow hedges are recorded at fair value as a component of AOCI, until the hedged item is subsequently reclassified into earnings in the same period in which the hedged transaction affects earnings, with the corresponding hedged item. Amounts reclassified are recorded to the same line item in the unaudited interim condensed consolidated statements of operations as the impact of the hedge transaction, concurrently with the hedged costs.

The pre-tax gains attributed to the effective portion of cash flow hedges recognized in AOCI was $2.6 million in the first quarter of fiscal 2024 and was $5.2 million in the first quarter of fiscal 2023.

The pre-tax effective portion of the gains or losses reclassified to the unaudited interim condensed consolidated statements of operations was not material in the first quarter of fiscal 2024 and was a $1.0 million loss in the first quarter of fiscal 2023.

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/(expense), net, in our unaudited interim condensed 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 unaudited interim condensed consolidated statements of operations.

As of December 29, 2023 and September 29, 2023, the outstanding derivative instruments had maturities of equal to or less than 12 months, and the total notional amounts of outstanding contracts were $137.4 million and $134.8 million, respectively.

A sensitivity analysis was performed on all of our foreign currency forward contracts as of December 29, 2023. This sensitivity analysis was based on a modeling technique that measures the hypothetical market value resulting from a 10% shift in the value of exchange rates relative to the U.S. dollar. For these forward contracts, duration modeling was used where hypothetical changes were made to the spot rates of the currency. 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 $4.8 million. Conversely, a 10% decrease in the value of the U.S. dollar would result in an increase in the fair value of these financial instruments by $4.8 million.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("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

There were no changes in our internal control over financial reporting during the fiscal quarter ending December 29, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Additionally, as disclosed in our fiscal 2023 Annual Report on Form 10-K filed with the SEC, the Company acquired MPEG LA during fiscal 2023. We are in the process of integrating MPEG LA into the Company's overall internal control over financial reporting framework.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in various legal proceedings that occasionally arise in 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 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; 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 unaudited interim condensed consolidated financial statements, any such amounts are either immaterial, or it is not probable that a potential loss has been incurred or the amount of loss cannot be reasonably estimated.

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 stock price, business, operating results and financial condition could be materially adversely affected.

REVENUE GENERATION

Markets We Target

Changing trends in content distribution and consumption may negatively impact our business. Changing trends in the way that content is distributed and consumed may impact our existing business and future opportunities for growth. One such trend is the shift by consumers in certain markets 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. Other changes to the way content is distributed and consumed may impact our licensing and other businesses in a similar fashion, and we may not be able to anticipate and respond effectively to such future changes.

The mobile device market is concentrated and susceptible to competition and rapid change, which may negatively affect our penetration and pricing in that market. 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 usually 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 addition, because the mobile industry is concentrated, 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.

In order to increase the value of our technologies in the mobile market and increase OEM and software vendor demand for our decoding technologies, we have worked with online and mobile media content service providers to encode their content with our technologies. However, the online and mobile media content services markets are also characterized by intense competition, evolving industry standards and business and distribution models, disruptive software and hardware technology developments, frequent product and service introductions and short life cycles, and price sensitivity on the part of consumers, all of which may result in downward pressure on pricing or the removal of our technologies by these providers and may result in decreased revenue from our mobile market. Further, macroeconomic conditions such as inflation, geopolitical instability, global health risks, and other factors may adversely impact the ability of our partners to manufacture and distribute mobile devices and consumer demand for mobile devices.

Our revenue from the PC market is reliant on key partnerships and is vulnerable to macroeconomic risks. Our revenue from the PC market depends on several factors, including underlying PC unit shipments, the extent to which our technologies are included on computers, including through operating systems and various subsystems, 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. Further, demand for PCs has recently been declining and it remains uncertain when, if, and to what extent PC demand will return to historic levels. Macroeconomic conditions may also adversely impact PC manufacturing, supply chain and distribution, the timing of the adoption of our technologies into products by partners and licensees, and the timing of launches for new products.

The success of Dolby Cinema and cinema product sales are subject to a number of factors beyond our control, such as the production of films in Dolby formats and broader cinema industry conditions. Revenue from Dolby Cinema and cinema product sales is subject to our ability to develop and implement new technologies, the pace of construction or upgrade of screens, the financial stability of exhibitors, the advent of new or competing technologies, and the willingness of movie studios to produce films in our Dolby Atmos and Dolby Vision formats. Although we have invested a substantial amount of time and resources developing Dolby Cinema, and expect to continue to invest and build partnerships in connection with the launch of Dolby Cinema locations, we may not continue to recognize a meaningful amount of revenue from these efforts in the near future. Additionally, we collaborate 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 is 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 and cinema products depends in large part on our ability to differentiate our offering, deploy new sites and installations in accordance with plans, provide a compelling experience, and attract and retain a viewing audience. A decrease in our ability to develop and introduce new cinema products and services successfully could affect licensing of our consumer technologies, because the strength of our brand and our ability to leverage professional product developments to introduce new consumer technologies could be negatively impacted. To the extent that we do not make progress in these areas or are faced with pricing pressures or competing technologies, our revenue may be adversely impacted.

Our revenue and associated demand for Dolby Cinema and cinema products are affected by cinema industry and macroeconomic conditions, which are subject to risks including consumer trends and box office performance generally, delays in cinematic releases, the seasonality of film releases and associated moviegoing attendance, and other events or conditions in the cinema industry. Cinema attendance and revenues have been reduced in the wake of COVID-19 and it remains uncertain when, if, and to what extent cinema attendance will return to pre-pandemic levels. Additionally, the recently concluded strikes by the Writers Guild of America and the Screen Actors Guild - American Federation of Television and Radio Artists (“SAG-AFTRA”) effectively halted the production, release and promotion of certain films for an extended period. The resulting impacts of those stoppages have resulted in, and may continue to lead to, decreased box office receipts in the near term, which directly impacts the revenue generated by Dolby Cinema theaters and could potentially impact exhibitors’ willingness and ability to invest in Dolby cinema products. Also, a portion of our opportunity lies in the China market, which is subject to unique economic and geopolitical risks. Furthermore, future growth of our cinema products offerings 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 such cinema industry and macroeconomic challenges constrain the growth of our Dolby Cinema and cinema products offerings, our revenue may be adversely impacted.

Customers and Distributors

Our licensing business depends on the incorporation of our technologies into products and the sales of such products, which are, in large part, not within our control. 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 mandate 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.

The loss of a key licensee or customer may materially impact our revenue. A small number of our licensees or other customers may represent a significant percentage of our licensing, products, or services revenue. Customer demand for our technologies and products can shift quickly as many of our markets are rapidly evolving. In consumer electronic device markets, our technologies are not mandated and are subject to significant competition, so there is a risk that a large consumer electronic device licensee may reduce or eliminate its use of our technologies.

Our licensing business depends, in part, on semiconductor manufacturers and the availability of semiconductor components. Our licensing revenue from OEM 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. Further, demand levels may result in shortages of semiconductor components and other key materials that may adversely impact the ability of our implementation and system licensees and other customers to meet product demand in a timely fashion.

Consumer spending weakness may impact our licensees and licensing revenues generally. Weakness in general economic conditions due to inflation, elevated interest rates, lower consumer confidence, a potential recession, pandemic or other adverse economic conditions, may suppress consumer demand in our markets and consumers going to the movies. 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, which makes revenue generated by such technologies vulnerable to weakness in consumer spending. Weakness in consumer spending may also lead to licensees and other customers becoming delinquent on their obligations to us or being unable to pay, resulting in a higher level of write-offs. Weakness in consumer spending may also increase underreporting and non-reporting of royalty-bearing revenue by our licensees as well as increase the unauthorized use of our technologies.

Our reliance on distributors may impact sales of certain products and present compliance risks. We rely significantly on a global network of independent, regional distributors to market and distribute our cinema products. Our distributor arrangements are non-exclusive and our distributors are not obligated to buy our products and can represent competing products. Thus, 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

If we fail to promote and maintain the Dolby brand, our business will suffer. 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 Cinema, Dolby Vision and other imaging offerings for the consumer market, Dolby.io, 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 electronics, 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. In addition, our practices and public disclosures related to environmental, social and governance (ESG) matters could impact our brand and reputation. If our ESG practices do not meet evolving investor or other stakeholder expectations and societal and regulatory standards, or if we are

unable to make progress on or achieve our goals and objectives in this area, then our reputation, our ability to attract or retain employees, and our attractiveness as an investment or business partner could be negatively impacted, which could adversely affect our operating results.

Industry Standards

Certain parts of our business are dependent on the inclusion of our technologies in industry standards, the adoption and development of which are not fully within our control. Standards-setting organizations establish technology standards for use in a wide range of products and solutions. The entertainment industry in particular has historically depended upon industry standards to ensure compatibility and interoperability 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. We are also active in standards development where many contributing members work together to come up with next-generation technology standards in media, entertainment, and communications technologies. Nonetheless, it can be difficult to have our technologies and products adopted as industry standards. To do so, 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. Multiple companies, including ones that typically compete against one another, are involved in the development of new technology standards for use in consumer 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.

The market for broadcast technologies in particular has traditionally been heavily based on industry standards, in some cases mandated by governments choosing from among alternative standards, and we expect this to continue to be the case in the future. The continued advancement of OTT media delivery and consumption is altering the landscape for broadcast standards and impacting the importance of the inclusion of our technology in certain broadcast standards, and we cannot predict if and to what extent this may impact our revenue.

Participants may choose alternative technologies within standards. Even when a standards-setting organization incorporates our technologies in an industry standard for a particular market or geographic region, our technologies may not be the sole technologies adopted for that market. Furthermore, different standards may be adopted within a single market or region, and across different markets and regions. 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 DTV 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. Additionally, where our technologies are incorporated into a standard, our licensing practices may become subject to additional regulatory requirements. For example, the European Union (EU) legislature is considering regulation that would impose a number of requirements on standard essential patent (SEP) licensing practices in the EU. Such regulation could, if it comes into effect, impose additional costs and disclosure requirements on our SEP licensing business and potentially reduce associated revenue.

Royalty Reporting

Reporting practices and uncertainty may result in fluctuations in our royalty revenue from period to period. 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.

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. Additionally, our results of operations could be impacted to the extent 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 our reporting practices do not change the cash flows or total revenue we ultimately receive from our contracts with customers, they 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.

Royalty reporting by our licensees may be inaccurate or understated. 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, it is inherently difficult to independently determine 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, typically by using an independent third party auditor. Such 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.

The amount of royalties we owe others may be disputed. In some cases, the products we sell and the technologies we license 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 to 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. 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.

TECHNOLOGY TRENDS AND DEVELOPMENTS

Developing new and enhanced technologies is inherently difficult and our revenue growth may be impacted if we are unsuccessful in our efforts. 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 influenced 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 market needs in a timely manner, including the development of technologies and products that incorporate rapidly developing machine learning and other artificial intelligence technologies ("AI/ML"). 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. If we are unable to develop technologies and related intellectual property that are accepted into technology standards, or are unable to do so at the same rate as other technology developers, our royalty share within patent pools that we participate in may decline.

Our efforts to expand into new markets may not be successful. Our future growth will depend, in part, upon our continued expansion into areas beyond our audio licensing business. As we enter into new markets, we will 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 in new markets could limit our ability to successfully execute on our growth strategy.

The success of our existing products and newer initiatives is dependent on the use of Dolby formats in, and commercial success of, products and content. 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 on our ability to partner with movie theater exhibitors to launch new Dolby Cinema sites and to deploy new sites in accordance with plans, and on 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 on protecting our intellectual property rights. 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.

Our revenue could decline if we are unable to maintain patent coverage for our technologies. 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 there are no patents or, in some cases, no patent applications covering that technology in countries where applicable products are made and sold. As of December 29, 2023, we had approximately 19,900 issued patents in addition to approximately 4,600 pending patent applications in more than 100 jurisdictions throughout the world. Our currently issued patents expire at various times through December 2046. If we are unable to refresh our technology with new patented inventions or expand our patent portfolio, our revenue could decline. In addition to patents covering technology we license directly, if patents we license through patent pool arrangements expire or we are otherwise unable to maintain our share of pool royalties, then our revenue could be impacted. Additionally, if patents licensed through patent pool arrangements are deemed not to be valuable by the licensees of such patent pools, they may not renew their licenses, which could impact our revenue.

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 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 intellectual property in a manner designed to promote the continued use and licensing of our technology. The continued success of these risk mitigation strategies is not guaranteed, including the risk that such technologies will not achieve widespread adoption or be licensed at a rate sufficient to replace licensing revenue from technologies covered by expiring patents.

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 IP 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 revenue attributed to DD technologies has declined and is 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 has occurred and will likely continue to occur. 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.

Our business may be negatively impacted by 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.

Our business may be negatively impacted by disputes involving the licensing of our IP. At times, we are engaged in disputes regarding the licensing of our IP rights, including matters related to our royalty rates, whether

products are royalty-bearing, 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.

Maintaining and enforcing our IP rights in the U.S. and abroad presents challenges to our business. 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 and intellectual property laws and regulations in the U.S. and abroad, including the regulation regarding SEP licensing in the EU referenced above, 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 that 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. Also, 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 presents certain risks to our business, many of which are beyond our control. Our reliance on suppliers for some of the key materials and components we use in manufacturing our products involves risks, including limited control over the price, timely delivery, and quality of such components, as well as delays caused by military conflicts, including those between Russia and Ukraine and between Israel and Hamas, and other potential interruptions to the supply chain. Due to the relatively small volume of components we purchase for use in manufacturing, we purchase such components primarily through distributors. As such, we have relatively limited influence over the suppliers of such components to, for example, ensure continuity of supply. 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.

Ensuring the quality of our products and the products in which our technology is incorporated is inherently difficult, and product quality failures can be costly. Our products, and products that incorporate our technologies, are complex and sometimes contain software or hardware errors that are not detected during testing, 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 for our products are subject to interruption, delay, and other risks. 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. We rely on contract manufacturers to manufacture our products and such reliance 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 manufacturing capacity to rapidly changing market conditions, such as fluctuations in customer demand. Supply chain disruptions and extended lead times for semiconductor and electrical components may limit the availability of products and result in difficulty meeting demand.

We face threats to the confidentiality, integrity, and availability of our information systems, which could result in the misappropriation of sensitive information, disruption of our business, reputational damage, legal exposure, and financial losses. 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. Protecting 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 systems, applications and infrastructure may be vulnerable to attacks by malicious actors including, but not limited to, nation-states and cyber criminals, malware, software defects or other technical malfunctions, ransomware attacks, or other disruptions. This sensitive, confidential or proprietary information may be misappropriated by third-party service providers or others who may inappropriately access or exfiltrate that information from a third-party service provider's system.

The number and sophistication of cyber attacks and disruptions that companies have experienced has increased over the past few years, including computer viruses, malware, ransomware, cyber extortion, social engineering, denial of service, supply chain attacks, and other similar attacks and disruptions. These risks could be elevated in connection with geopolitical conflicts. Measures we have undertaken to protect our information systems may be unsuccessful in deterring or repelling malicious actors. Since techniques used by malicious actors (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 detection and response, or impede the effectiveness of our response, our operations and ability to limit our exposure to third-party claims and other potential liability. Attacks on our systems have occurred in the past and may occur, and be successful, in the future. Such risks are also faced by our third-party service providers and others, which forms another vector for malicious attacks on our systems.

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, including 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, create system disruptions or slowdowns and exploit security vulnerabilities of our products. Any such breach or other incident can result in the information stored on our networks and systems, or our vendors' networks and systems, being improperly accessed or acquired, publicly disclosed, lost, stolen, modified, made unavailable, or otherwise processed without authorization, and any such breach or other incident, or the perception any has occurred, could subject us to demands, litigation, and liability to our customers, suppliers, business partners and others, as well as regulatory investigations and other proceedings, fines, penalties, and other liabilities, and brand and reputational damage. We make efforts 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 sufficient or successful. 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.

We must comply with a variety of data privacy regulations. Compliance with such regulations can be costly and failure to comply may affect our operations, financial performance, and business. 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, including with respect to the development and use of AI/ML technologies, and may result in ever-increasing obligations and regulatory and public scrutiny and escalating levels of enforcement and sanctions. For example, the California Privacy Rights Act (CPRA), as well as obligations under other recently-enacted and forthcoming privacy laws, including those in other states, may require us to further modify certain of our information practices and could subject us to additional compliance costs and expenses. Our actual or perceived failure to adequately comply with applicable laws and regulations relating to

privacy and data protection (including regimes such as the California Consumer Privacy Act, as amended and supplemented by the CPRA, and continuing developments in the European Union, U.K., and U.S. data privacy frameworks that are rapidly evolving) could result in regulatory fines, investigations and other proceedings, 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. Our commercial and cybersecurity insurance policies may be insufficient to insure us against these risks, and future escalations in premiums and deductibles under these policies may render them uneconomical.

COMPETITION

The markets for our technologies are highly competitive. 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. These competitors may also be able to develop and market new technologies that render our existing or future products less competitive. For example, disruptive technologies such as AI/ML may significantly alter the market for our products in unpredictable ways and reduce customer demand.

Many of the markets for our products and for products in which our technologies are incorporated are price sensitive. 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 increase the adoption of our technologies in online content and portable devices, such as tablets and smartphones. Such pricing pressures may be exacerbated by elevated rates of inflation, which may cause device manufacturers to take additional steps to limit costs. Retail prices for consumer entertainment products that include our audio technologies, such as 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. Further, Dolby.io faces pricing pressure from other platforms offering similar solutions that may be able to offer competing services at lower prices.

We face competitive risks in situations where our customers are also current or potential competitors. We face competitive risks in situations where our customers are also current or potential competitors. For example, Samsung is a significant customer, but some of its technologies are competitive with some of our consumer 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.

We face competition from other audio formats, imaging solutions, and integrated system offerings. We believe that the success we have had licensing our audio and imaging technologies is due, in part, to the high quality of the solutions that our technologies provide and to the strength of our brand. However, both free and proprietary sound and imaging technologies are becoming increasingly prevalent, and we expect competitors to continue to enter these fields 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 and video 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 and imaging, 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.

STRATEGIC ACTIVITIES

The success of our business depends on strong 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, streaming providers, and OTT video service providers and video game publishers;
- Companies building real-time digital experiences that increase audience engagement; 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. Industry relationships also play an important role in other markets we serve; for instance, our relationships with companies building real-time digital experiences support the adoption of Dolby.io solutions. If we fail to maintain and strengthen our industry relationships, industry participants may be less likely to purchase and use our technologies, products, and services, or create content incorporating our technologies.

Our M&A activity is subject to certain risks, including risks associated with integrating acquired businesses. 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 audio 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, particularly during times of market volatility, elevated interest rates, and general economic instability. 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

Conducting business internationally presents a number of risks to our business, including trade restrictions and changing, unpredictable, and/or inconsistent laws in the jurisdictions in which we operate. We are dependent on international sales for a substantial amount of our total revenue. Approximately 63% and 70% of our revenue was derived outside of the U.S. in the fiscal quarters ended December 29, 2023 and December 30, 2022, respectively. We are subject to a number of risks related to conducting business internationally, including:

- U.S. and foreign government trade restrictions or sanctions, including those which may impose restrictions on the importation or exportation of products, equipment, materials, software, technologies, services, on technology transfers, or on the receipt or collection of payments and distribution of royalties, and any political or economic responses or counter-responses to such restrictions or sanctions, including any such restrictions, sanctions, responses, or counter-responses related to global military conflicts or changes in US export controls related to China and other countries;
- Changes in trade relationships, including new tariffs, trade protection measures, import or export licensing requirements, trade embargoes and other trade barriers imposed by the U.S. or by other countries;
- Compliance with applicable international laws and regulations, including antitrust and other competition laws and laws and regulations that relate to environmental, social, and governance matters, 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, social, and/or economic stability of or conflicts within the regions in which we operate (including Europe, Russia, Asia, the Middle East, North Africa, Latin America and other emerging markets) or in diplomatic relations between governments, including policy changes, turmoil or disruptions resulting from elections or other leadership changes;
- 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 and enforcement of IP rights;
- Difficulties in enforcing contractual rights;
- Multi-jurisdictional data protection and privacy laws, including, for example, the European Union's General Data Protection Regulation and restrictions on transferring personal data outside of a jurisdiction and potential legislation such as the Artificial Intelligence Act under consideration in the EU potentially impacting our development of products incorporating AI/ML or the use of AI/ML tools in our business; and
- The global macroeconomic environment and potential slowing of key markets we serve.

Any or all of these factors may impact our ability to operate in foreign countries and our ability to develop, the demand for, and profitability of, our technologies and products, as well as our customers' products that incorporate our technologies.

Certain foreign governments, particularly 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, the Korean Fair Trade Commission requested information relating to our business practices in South Korea on various occasions, and initially made findings regarding the audit of a single customer. In July 2023, that determination was overturned by the Korean Civil court and thus the matter was fully resolved in Dolby’s favor. 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.

Environmental laws and regulations may pose additional costs on and otherwise impact our products and

operations. Our products and operations may be 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, the achievement of certain energy performance criteria, 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. In some products, the use or avoidance of particular components that contain regulated hazardous substances may be 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.

We are subject to regulations relating to "conflict minerals" and compliance with, or failure to comply with, such regulations may be costly. 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. Certain of those minerals are used in the manufacturing process of electrical components that our products utilize. The potential inclusion of conflict minerals in the materials used in our products could affect the sourcing, availability and pricing of such materials 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. As there may be only a limited number of suppliers that can certify that they are offering "conflict free" conflict minerals, we cannot be sure that our component suppliers 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. If conflict minerals used in our products are determined to finance armed conflict, even if we are not aware of such status, disclosure of such status could affect public and investor perception of Dolby and our products.

We may not be able to sufficiently verify the origins for the minerals used in our components. Our reputation may suffer if we determine that our components 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 components. 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.

We are subject to complex and changing tax laws which may impact our financial results. 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 earn a significant amount of our income outside the U.S. and receive tax benefits from a portion of these foreign sales. 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;
- 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; or
- Our ability to effectively implement changes to our corporate structure in response to changes in applicable tax laws and regulations in the countries in which we operate.

Changes in U.S. tax law, including the Tax Cuts and Jobs Act ("Tax Act") and the Inflation Reduction Act, may affect our business. These provisions, their interpretations, and other proposed changes to law could further impact our corporate trading structure and adversely affect our tax rate and cash flow in future years.

In addition, the Organization of Economic Cooperation and Development ("OECD"), an international association of many countries including the U.S., has made changes to many long-standing transfer pricing and cross-border

taxation rules that affect our operations. The OECD has introduced a framework to implement a 15% global minimum corporate tax, referred to as Pillar 2 or the minimum tax directive. The minimum tax directive has been adopted by the EU for implementation by its Member States into national legislation and may be adopted by other jurisdictions, including the U.S. Further, the OECD, European Commission, EU Member States and other 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 these law changes and 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 and to consider potential responsive actions, but an adverse decision by tax authorities exceeding our reserves could significantly impact our financial results.

STOCK-RELATED ISSUES

The Dolby family has control over stockholder decisions as a result of the control of a majority of the voting power of our outstanding common stock by them and their affiliates. At December 29, 2023, the Dolby family and their affiliates owned 311,672 shares of our Class A common stock and 36,012,733 shares of our Class B common stock. As of December 29, 2023, the Dolby family and their affiliates had voting power of 99.8% of our outstanding Class B common stock, which combined with their shares of our Class A common stock, represented 85.7% 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.

Sales of substantial amounts of our Class A common stock in the public markets could reduce the price of our Class A 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.

There are risks associated with our 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 EPS. 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, the tax consequences of any repurchases (including the potential impact of the 1% excise tax on certain stock repurchases), and the availability of funds necessary to continue purchasing stock. If we curtail our repurchase program, our stock price may be negatively affected.

There are risks associated with our 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. 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.

GENERAL RISK FACTORS

Macroeconomic conditions, including inflation, elevated interest rates, supply chain constraints, and the lasting effects of COVID-19 have impacted and may continue to impact the markets we serve and our business and results of operations. Our revenue and operations and the markets we serve have been, and may continue to be, impacted by macroeconomic conditions, including but not limited to, inflation, elevated interest rates, COVID-19-related economic impacts, supply chain constraints, increased shipping costs, international conflicts, reduced discretionary consumer spending, and reduced new product investment by our customers caused by elevated interest rates and lower demand. The current macroeconomic environment has negatively impacted, and may continue to negatively impact, many of our licensees and that directly impacts, and may continue to impact, our financial results. The impacts of the current macroeconomic environment on our partners have resulted in, and may continue to cause, the disruption of consumer products' supply chains, shortages of certain semiconductor components, and delays in shipments, product development, and product launches. The macroeconomic conditions also impart substantial uncertainty into our operating environment, which presents additional challenges for our business. These factors and the related uncertainty may cause delays or a decrease in the adoption or implementation of our technologies into new products by partners and licensees. These conditions may impact consumer demand for devices and services and our partners' ability to manufacture devices. Further, we may be negatively impacted by delays in transaction cycles and our recoveries efforts due to the noted macroeconomic conditions and related uncertainty. The future implications of these macroeconomic conditions on our business, the markets we serve, results of operations and overall financial position remain uncertain.

COVID-19, including the spread of variants of SARS-CoV-2, continues to impact several of our partners and it is unclear how demand for consumer products that include our technologies may change in response to, and following, the pandemic. The degree to which COVID-19 impacts our results will depend on future developments, which cannot be predicted with any certainty, including, but not limited to, the duration and extent of the pandemic, additional actions taken by governments, businesses and consumers in response to the pandemic, additional subsequent outbreaks and variant strains, and to what extent economic and operating conditions can return to pre-pandemic conditions. Even after COVID-19 has subsided, if ever, we may continue to experience an adverse impact to our business as a result of its global economic impact, including any persistent economic impacts and any recession that may occur.

Our results may be impacted by fluctuations in foreign currency exchange rates. We earn revenue, 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 unaudited interim condensed 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 could adversely impact our business. 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 geopolitical unrest and uncertainties. Further, outbreaks of pandemic diseases, or the fear of such events, could provoke (and in the case of COVID-19 has provoked) responses, including government-imposed travel restrictions and limits on access to entertainment venues. These responses could negatively affect consumer demand and our business, particularly in international markets. War, including the military

conflicts between Russia and Ukraine and between Israel and Hamas, as well as any related political or economic responses and counter-responses or otherwise by various global actors or the general effect on the global economy and supply chain, could also affect our business. For example, we have R&D facilities and a large number of employees in Eastern Europe, and any business interruptions or other spillover effects from the Russia-Ukraine conflict could adversely impact our business.

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.

We face intense 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 competitive compensation packages, including cash and equity compensation. Our equity awards include stock options, RSUs and performance-based RSUs. 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.

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, $350.0 million, $350.0 million, $250.0 million, and $350.0 million as announced on July 29, 2010, August 4, 2011, February 8, 2012, October 23, 2014, January 25, 2017, July 25, 2018, August 1, 2019, July 29, 2021, February 3, 2022, and August 9, 2022, respectively. Stock repurchases under this program may be made through open market transactions, negotiated purchases, or otherwise, at times and in amounts that we consider appropriate.

The following table provides information regarding our share repurchases made under the program during the first quarter of fiscal 2024:

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 30, 2023 - October 27, 2023	506,979	$80.46	506,979	$170.8 million
October 28, 2023 - November 24, 2023	326,879	$84.28	326,879	$143.2 million
November 25, 2023 - December 29, 2023	133,931	$87.02	133,931	$131.6 million
Total	**967,789**		**967,789**	

(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 as of the end of the applicable period and excludes commission costs.

ITEM 5. OTHER INFORMATION

Securities Trading Plans of Directors and Executive Officers

During the fiscal quarter ending December 29, 2023, no director or officer, as defined in Rule 16a-1(f), adopted or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement,” each as defined in Regulation S-K Item 408.

ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporated By Reference Herein			Provided Herewith
		Form	File Number	Date	
10.1*	2024 Dolby Executive Bonus Plan	Form 8-K	001-32431	November 14, 2023	
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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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

* Denotes a management contract or compensatory plan or arrangement.

\+ Furnished herewith.

SIGNATURE

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: February 1, 2024

DOLBY LABORATORIES, INC.

By: /S/ ROBERT PARK

Robert Park
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 31.1

CERTIFICATION

I, Kevin J. Yeaman, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 1, 2024

/s/ KEVIN J. YEAMAN

Kevin J. Yeaman

President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Robert Park, 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: February 1, 2024

/s/ ROBERT PARK

Robert Park

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

Exhibit 32.1

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

In connection with the Quarterly Report of Dolby Laboratories, Inc. (the "Company"), on Form 10-Q for the fiscal quarter ended December 29, 2023, as filed with the Securities and Exchange Commission (the "Report"), Kevin J. Yeaman, President and Chief Executive Officer of the Company and Robert Park, Senior 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: February 1, 2024

/s/ KEVIN J. YEAMAN

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

/s/ ROBERT PARK

Robert Park
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)