Dolby Laboratories, Inc.
Form 10-Q
July 31, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 28, 2013
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.)
100 Potrero Avenue San Francisco, CA	94103-4813
(Address of principal executive offices)	(Zip Code)

(415) 558-0200
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
On July 19, 2013 the registrant had 46,772,289 shares of Class A common stock, par value $0.001 per share, and 54,997,311 shares of Class B common stock, par value $0.001 per share, outstanding.

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PART I – FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DOLBY LABORATORIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(unaudited)

	June 28, 2013	September 28, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$408,561	$492,600
Short-term investments	109,342	302,693
Accounts receivable, net of allowance of $758 at June 28, 2013 and $956 at September 28, 2012	74,528	43,495
Inventories	12,795	16,700
Deferred taxes	79,114	80,966
Prepaid expenses and other current assets	30,200	33,832
Total current assets	714,540	970,286
Long-term investments	335,371	361,614
Property, plant and equipment, net	245,667	254,676
Intangible assets, net	44,736	56,526
Goodwill	278,718	281,375
Deferred taxes	36,591	22,634
Other non-current assets	11,827	13,687
Total assets	$1,667,450	$1,960,798
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$8,845	$14,831
Accrued liabilities	119,154	116,092
Income taxes payable	1,012	2,424
Deferred revenue	23,233	23,493
Total current liabilities	152,244	156,840
Long-term deferred revenue	19,073	18,192
Deferred taxes	—	2,696
Other non-current liabilities	46,271	39,837
Total liabilities	217,588	217,565
Stockholders’ equity:		
Class A common stock, $0.001 par value, one vote per share, 500,000,000 shares authorized: 46,735,504 shares issued and outstanding at June 28, 2013 and 46,496,635 at September 28, 2012	47	46
Class B common stock, $0.001 par value, ten votes per share, 500,000,000 shares authorized: 54,997,311 shares issued and outstanding at June 28, 2013 and 56,598,829 at September 28, 2012	55	57
Additional paid-in capital	17,111	—
Retained earnings	1,408,587	1,709,479
Accumulated other comprehensive income	5,812	10,687
Total stockholders’ equity – Dolby Laboratories, Inc.	1,431,612	1,720,269
Controlling interest	18,250	22,964
Total stockholders’ equity	1,449,862	1,743,233

Total liabilities and stockholders' equity	$1,667,450	$1,960,798

See accompanying notes to unaudited condensed consolidated financial statements

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

	Fiscal Quarter Ended		Fiscal Year-to-Date Ended	
	June 28, 2013	June 29, 2012	June 28, 2013	June 29, 2012
Revenue:				
Licensing	$184,707	$180,886	$616,038	$609,159
Products	17,381	22,132	60,605	75,760
Services	4,986	7,304	16,379	22,340
Total revenue	207,074	210,322	693,022	707,259
Cost of revenue:				
Cost of licensing	4,053	2,892	13,542	9,523
Cost of products	16,269	14,529	47,964	46,052
Cost of services	4,018	3,610	11,722	9,458
Total cost of revenue	24,340	21,031	73,228	65,033
Gross margin	182,734	189,291	619,794	642,226
Operating expenses:				
Research and development	42,915	35,123	127,299	102,185
Sales and marketing	58,528	49,269	175,079	138,779
General and administrative	38,413	36,859	123,324	109,605
Restructuring charges/(credits)	5,930	(85)	5,930	1,193
Total operating expenses	145,786	121,166	431,632	351,762
Operating income	36,948	68,125	188,162	290,464
Interest income	820	1,513	3,063	4,664
Interest expense	(77)	(26)	(504)	(57)
Other income, net	156	709	1,057	969
Income before income taxes	37,847	70,321	191,778	296,040
Provision for income taxes	(7,345)	(18,915)	(47,560)	(82,951)
Net income including controlling interest	30,502	51,406	144,218	213,089
Less: net (income)/loss attributable to controlling interest	(286)	123	(742)	(281)
Net income attributable to Dolby Laboratories, Inc.	$30,216	$51,529	$143,476	$212,808
Net income per share:				
Basic	$0.30	$0.48	$1.41	$1.97
Diluted	$0.29	$0.48	$1.39	$1.96
Weighted-average shares outstanding:				
Basic	101,751	106,328	101,917	107,876
Diluted	103,031	107,202	102,999	108,493
Related party rent expense included in operating expenses	$1,494	$343	$2,180	$1,029
Related party rent expense included in net income attributable to controlling interest	$831	$732	$2,467	$2,118

See accompanying notes to unaudited condensed consolidated financial statements

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

	Fiscal Quarter Ended		Fiscal Year-to-Date Ended	
	June 28, 2013	June 29, 2012	June 28, 2013	June 29, 2012
Net income including controlling interest	$30,502	$51,406	$144,218	$213,089
Other comprehensive income/(loss):				
Foreign currency translation adjustments, net of tax	(2,008)	(3,117)	(3,878)	(1,560)
Unrealized gains/(losses) on available-for-sale securities, net of tax	(852)	(279)	(1,414)	(87)
Comprehensive income	27,642	48,010	138,926	211,442
Less: comprehensive (income)/loss attributable to controlling interest	(388)	286	(326)	(270)
Comprehensive income attributable to Dolby Laboratories, Inc.	$27,254	$48,296	$138,600	$211,172

See accompanying notes to unaudited condensed consolidated financial statements

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

	Dolby Laboratories, Inc.						
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total Dolby Laboratories, Inc.	Controlling interest	Total
Balance at September 28, 2012	$103	$—	$1,709,479	$10,687	$1,720,269	$22,964	$1,743,233
Net income	—	—	143,476	—	143,476	742	144,218
Translation adjustments, net of taxes of $1,037	—	—	—	(3,461)	(3,461)	(417)	(3,878)
Unrealized losses on available-for-sale securities, net of taxes of $793	—	—	—	(1,414)	(1,414)	—	(1,414)
Distributions to controlling interest	—	—	—	—	—	(5,039)	(5,039)
Stock-based compensation expense	—	49,932	—	—	49,932	—	49,932
Repurchase of common stock	(1)	(37,979)	(36,162)	—	(74,142)	—	(74,142)
Cash dividends declared and paid on common stock	—	—	(408,206)	—	(408,206)	—	(408,206)
Tax benefit/(deficiency) from stock incentive plans	—	(2,749)	—	—	(2,749)	—	(2,749)
Class A common stock issued under employee stock plans	—	13,313	—	—	13,313	—	13,313
Shares repurchased for tax withholdings on vesting of restricted stock units	—	(5,709)	—	—	(5,709)	—	(5,709)
Exercise of Class B stock options	—	303	—	—	303	—	303
Balance at June 28, 2013	$102	$17,111	$1,408,587	$5,812	$1,431,612	$18,250	$1,449,862

	Dolby Laboratories, Inc.						
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total Dolby Laboratories, Inc.	Controlling interest	Total
Balance at September 30, 2011	$110	$210,681	$1,445,189	$7,533	$1,663,513	$21,837	$1,685,350
Net income	—	—	212,808	—	212,808	281	213,089
Translation adjustments, net of taxes of $(631)	—	—	—	(1,549)	(1,549)	(11)	(1,560)
Unrealized losses on available-for-sale securities, net of taxes of $48	—	—	—	(87)	(87)	—	(87)
Distributions to controlling interest	—	—	—	—	—	(13)	(13)

Stock-based compensation expense	—	33,721	—	—	33,721	—	33,721
Capitalized stock-based compensation expense	—	338	—	—	338	—	338
Repurchase of common stock	(5)	(189,954)	—	—	(189,959)	—	(189,959)
Tax benefit/(deficiency) from stock incentive plans	—	(2,633)	—	—	(2,633)	—	(2,633)
Class A common stock issued under employee stock plans	—	16,117	—	—	16,117	—	16,117
Shares repurchased for tax withholdings on vesting of restricted stock units	—	(3,380)	—	—	(3,380)	—	(3,380)
Exercise of Class B stock options	—	79	—	—	79	—	79
Balance at June 29, 2012	$105	$64,969	$1,657,997	$5,897	$1,728,968	$22,094	$1,751,062

See accompanying notes to unaudited condensed consolidated financial statements

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

	Fiscal Year-to-Date Ended	
	June 28, 2013	June 29, 2012
Operating activities:		
Net income including controlling interest	$144,218	$213,089
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39,615	31,189
Stock-based compensation	49,932	34,243
Amortization of premium on investments	8,101	13,280
Excess tax benefit from exercise of stock options	(621)	(941)
Provision for doubtful accounts	(89)	449
Deferred income taxes	(12,973)	(7,075)
Other non-cash items affecting net income	(800)	38
Changes in operating assets and liabilities:		
Accounts receivable	(30,829)	15,359
Inventories	5,636	5,275
Prepaid expenses and other assets	6,924	582
Accounts payable and other liabilities	(840)	(1,567)
Income taxes, net	(3,164)	6,857
Deferred revenue	655	(221)
Other non-current liabilities	1,723	2,441
Net cash provided by operating activities	207,488	312,998
Investing activities:		
Purchases of available-for-sale securities	(413,688)	(431,894)
Proceeds from sales of available-for-sale securities	534,109	261,520
Proceeds from maturities of available-for-sale securities	92,850	202,915
Purchases of property, plant and equipment	(17,801)	(50,225)
Acquisitions, net of cash acquired	—	(575)
Other investments	(3,000)	—
Purchases of intangible assets	(4,050)	(350)
Proceeds from sales of property, plant and equipment and assets held for sale	376	988
Net cash provided by/(used in) investing activities	188,796	(17,621)
Financing activities:		
Proceeds from issuance of common stock	13,616	16,196
Repurchase of common stock	(74,142)	(189,959)
Payment of cash dividend	(408,206)	—
Distribution to controlling interest	(5,039)	—
Excess tax benefit from the exercise of stock options	621	941
Shares repurchased for tax withholdings on vesting of restricted stock	(5,709)	(3,380)
Net cash used in financing activities	(478,859)	(176,202)
Effect of foreign exchange rate changes on cash and cash equivalents	(1,464)	(279)
Net increase/(decrease) in cash and cash equivalents	(84,039)	118,896

Cash and cash equivalents at beginning of period	492,600	551,512
Cash and cash equivalents at end of period	$408,561	$670,408
Supplemental disclosure:		
Cash paid for income taxes, net of refunds received	$64,155	$83,185
Cash paid for interest	$66	$8

See accompanying notes to unaudited condensed consolidated financial statements

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

1. Basis of Presentation

Unaudited Interim Financial Statements

We have prepared the accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the U.S. (“GAAP”), and with Securities and Exchange Commission (“SEC”) rules and regulations, which allow for certain information and footnote disclosures that are normally included in annual financial statements prepared in accordance with GAAP to be condensed or omitted. In our opinion, these condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements for the fiscal year ended September 28, 2012 and include all adjustments necessary for fair presentation. The accompanying condensed consolidated financial statements should be read in conjunction with our condensed consolidated financial statements for the fiscal year ended September 28, 2012, which are included in our Annual Report on Form 10-K filed with the SEC.

The results for the fiscal quarter and fiscal year-to-date period ended June 28, 2013 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, 2013.

Principles of Consolidation

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

Use of Estimates

The preparation of the consolidated financial statements in accordance with GAAP requires management to make certain estimates and assumptions that affect the amounts reported and disclosed in our consolidated financial statements and accompanying notes. Significant items subject to such estimates and assumptions include estimated selling prices for elements sold in multiple-element revenue arrangements, valuation allowances for accounts receivable, carrying values of inventories and certain property, plant, and equipment, products provided under operating leases, goodwill, intangible assets, stock-based compensation, fair values of investments, accrued expenses, including liabilities for unrecognized tax benefits, and deferred income tax assets. Actual results could differ from our estimates.

Fiscal Year

Our fiscal year is a 52 or 53 week period ending on the last Friday in September. The fiscal periods presented herein include the 13 and 39 week periods ended June 28, 2013 and June 29, 2012. Our fiscal year ending September 27, 2013 (fiscal 2013) consists of 52 weeks and our fiscal year ended September 28, 2012 (fiscal 2012) consisted of 52 weeks.

Reclassifications

Beginning in the first quarter of fiscal 2013, we have recorded settlements from implementation licensees as licensing revenue rather than as an offset to sales and marketing expense. In order to conform to the current period's presentation, we have reclassified these settlements for the prior periods presented within our condensed consolidated statements of operations. For the third quarter and fiscal year-to-date period ended June 29, 2012, licensing revenue now includes amounts recognized under settlement agreements of $2.5 million and $5.8 million, respectively. The reclassification did not impact our previously reported operating income, operating cash flows, net income, or earnings per share.

In addition to the reclassification mentioned above, we have reclassified certain prior period amounts within our condensed consolidated financial and accompanying notes to conform to our current period presentation. These reclassifications did not affect total revenue, operating income, operating cash flows, or net income.

2. Summary of Significant Accounting Policies

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

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Recently Adopted Accounting Standards
Pursuant to our adoption of Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220)-Presentation of Comprehensive Income and Accounting Standards Update No. 2011-12, Comprehensive Income (Topic 220)-Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, we elected to present separate condensed consolidated statements of comprehensive income.

The adoption of new accounting pronouncements has not had a significant impact on our condensed consolidated financial statements or notes thereto, and has not resulted in a change to our significant accounting policies. Furthermore, there have not been any changes to our significant accounting policies from those described in our Annual Report on Form 10-K for the fiscal year ended September 28, 2012.

Recently Issued Accounting Standards Not Yet Adopted
In December 2011, the FASB issued guidance to amend the disclosure requirements regarding the offsetting of assets and liabilities related to financial and derivative instruments. This new guidance requires an entity to disclose quantitative information in a tabular format about offsetting and related arrangements for recognized financial and derivative instruments to enable the users of its financial statements to evaluate the effect of those netting arrangements on its financial position. This new guidance, which is to be applied on a retrospective basis, is effective for entities with annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. Thus, the effective date of this amended guidance will commence in the first quarter of fiscal 2014. As this new standard only requires enhanced disclosure, the adoption of this guidance will result only in changes in our financial statement presentation and will not impact our financial position or results of operations.

In February 2013, the FASB issued ASU 2013-02,1 which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income ("AOCI"). The ASU is intended to help entities improve the transparency of changes in other comprehensive income ("OCI") and items reclassified out of AOCI in their financial statements. It does not amend any existing requirements for reporting net income or OCI in the financial statements. This new guidance, which is to be applied on a retrospective basis, is effective for entities with annual reporting periods beginning on or after December 15, 2013, and interim periods within those annual periods. Thus, the effective date of this amended guidance will commence in the first quarter of fiscal 2014. As this new standard only requires enhanced disclosure, the adoption of this guidance will result only in changes in our financial statement presentation and will not impact our financial position or results of operations.

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3. Composition of Certain Financial Statement Captions

Cash, Cash Equivalents, and Investments

Cash, cash equivalents, and investments consist of the following:

	June 28, 2013	September 28, 2012
	(in thousands)	
Cash and cash equivalents:		
Cash	$371,097	$468,622
Cash equivalents:		
Money market funds	28,887	17,090
U.S. agency securities	7,070	—
Commercial paper	—	4,885
Corporate bonds	503	—
Municipal debt securities	1,004	2,003
Total cash and cash equivalents	408,561	492,600
Short-term investments:		
U.S. agency securities	2,000	3,999
Commercial paper	2,987	19,414
Corporate bonds	49,664	107,243
Municipal debt securities	54,691	172,037
Total short-term investments	109,342	302,693
Long-term investments (1):		
U.S. agency securities	44,861	21,013
Corporate bonds	103,345	112,993
Municipal debt securities	184,165	227,608
Other long-term investments (2)	3,000	—
Total long-term investments	335,371	361,614
Total cash, cash equivalents and investments	$853,274	$1,156,907

(1) Our long-term investments have maturities that range from one to three years.

(2) Other long-term investments include a $3.0 million investment made in the first quarter of fiscal 2013, which we have accounted for under the cost method of accounting.

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

	June 28, 2013			
	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(in thousands)			
Money market funds	$28,887	$—	$—	$28,887
U.S. agency securities	54,061	17	(147)	53,931
Commercial paper	2,987	—	—	2,987
Corporate bonds	153,664	247	(399)	153,512
Municipal debt securities	240,108	248	(496)	239,860
Cash equivalents and investments (1)	$479,707	$512	$(1,042)	$479,177

(1) Our investment portfolio of cash equivalents and investments exclude our $3.0 million cost method investment made in the first quarter of fiscal 2013.

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	September 28, 2012			
	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(in thousands)			
Money market funds	$17,090	$—	$—	$17,090
U.S. agency securities	24,997	18	(3)	25,012
Commercial paper	24,299	—	—	24,299
Corporate bonds	219,265	990	(19)	220,236
Municipal debt securities	400,958	728	(38)	401,648
Cash equivalents and investments	$686,609	$1,736	$(60)	$688,285

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

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

	June 28, 2013					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in thousands)					
U.S. agency securities	$27,837	$(147)	$—	$—	$27,837	$(147)
Corporate bonds	86,140	(399)	—	—	86,140	(399)
Municipal debt securities	137,094	(496)	—	—	137,094	(496)
Total	$251,071	$(1,042)	$—	$—	$251,071	$(1,042)

	September 28, 2012					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in thousands)					
U.S. agency securities	$6,999	$(3)	$—	$—	$6,999	$(3)
Corporate bonds	25,277	(19)	—	—	25,277	(19)
Municipal debt securities	87,705	(37)	5,565	(1)	93,270	(38)
Total	$119,981	$(59)	$5,565	$(1)	$125,546	$(60)

The unrealized losses on our available-for-sale securities were primarily a result of unfavorable changes in interest rates subsequent to the initial purchase of these securities. As of June 28, 2013, we had certain securities that were in an unrealized loss position, however we do not intend to, nor currently anticipate a need to sell these securities prior to recovering the associated unrealized losses. We expect to recover the full carrying value of these securities. As a result, we do not consider any portion of the unrealized losses at June 28, 2013 or September 28, 2012 to be an other-than-temporary impairment, nor do we consider any of the unrealized losses to be credit losses.

The following table summarizes the amortized cost and estimated fair value of the available-for-sale securities within our investment portfolio based on stated maturities as of June 28, 2013 and September 28, 2012, which are recorded within cash equivalents, short-term investments, and long-term investments:

	June 28, 2013		September 28, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due within 1 year	$117,809	$117,919	$302,154	$302,693
Due in 1 to 2 years	176,210	176,258	209,302	209,871
Due in 2 to 3 years	156,801	156,113	151,174	151,743
Total	$450,820	$450,290	$662,630	$664,307

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Accounts Receivable

Accounts receivable consists of the following:

	June 28, 2013	September 28, 2012
	(in thousands)	
Trade accounts receivable	$70,854	$43,565
Accounts receivable related to patent administration program	4,432	886
Accounts receivable, gross	75,286	44,451
Less: allowance for doubtful accounts	(758)	(956)
Accounts receivable, net	$74,528	$43,495

Inventories

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

	June 28, 2013	September 28, 2012
	(in thousands)	
Raw materials	$919	$4,403
Work in process	23	—
Finished goods	11,853	12,297
Inventories	$12,795	$16,700

We have included $4.8 million and $6.5 million of raw materials inventory within other non-current assets in our condensed consolidated balance sheets as of June 28, 2013 and September 28, 2012, respectively. The majority of the inventory included in non-current assets was purchased in bulk in fiscal 2012 to obtain a significant volume discount, and is expected to be consumed over a period that exceeds 12 months. 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

Prepaid expenses and other current assets consist of the following:

	June 28, 2013	September 28, 2012
	(in thousands)	
Prepaid assets	$9,196	$14,955
Other current assets	11,336	13,165
Income tax receivable	9,668	5,712
Prepaid expenses and other current assets	$30,200	$33,832

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Property, Plant and Equipment

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

	June 28, 2013	September 28, 2012
	(in thousands)	
Land	$48,039	$48,227
Buildings	33,185	27,266
Leasehold improvements	64,368	68,352
Machinery and equipment	36,539	29,070
Computer systems and software	89,953	86,266
Furniture and fixtures	13,400	13,158
Construction in progress	83,500	79,965
	368,984	352,304
Less: accumulated depreciation	(123,317)	(97,628)
Property, plant and equipment, net	$245,667	$254,676

Depreciation expense for our property, plant and equipment is included in cost of products, cost of services, research and development expenses, sales and marketing expenses, and general and administrative expenses in our condensed consolidated statements of operations.

Goodwill and Intangible Assets

We completed our annual goodwill impairment assessment in the fiscal quarter ended June 28, 2013 at which time the consolidated balance of goodwill totaled $278.7 million. We determined, after performing a qualitative review, that it is more likely than not that the fair value of our reporting units is substantially in excess of their carrying amount. Accordingly there was no indication of impairment and the two-step goodwill impairment test was not required. We did not incur any goodwill impairment losses in either the fiscal year-to-date period ended June 28, 2013 or June 29, 2012.

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

	Total
	(in thousands)
Balance at September 28, 2012	$281,375
Translation adjustments	(2,657)
Balance at June 28, 2013	$278,718

Intangible assets consist of the following:

	June 28, 2013			September 28, 2012		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Intangible assets subject to amortization:	(in thousands)					
Acquired patents and technology	$79,338	$(48,351)	$30,987	$79,213	$(40,071)	$39,142
Customer relationships	30,690	(18,774)	11,916	30,679	(16,386)	14,293
Other intangibles	20,967	(19,134)	1,833	20,925	(17,834)	3,091
Total	$130,995	$(86,259)	$44,736	$130,817	$(74,291)	$56,526

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

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As of June 28, 2013, our expected amortization expense in future periods is as follows:

Fiscal Year	Amortization Expense (in thousands)
Remainder of 2013	$3,854
2014	13,619
2015	11,163
2016	8,993
2017	5,855
Thereafter	1,252
Total	$44,736

Accrued Liabilities

Accrued liabilities consist of the following:

	June 28, 2013	September 28, 2012
	(in thousands)	
Accrued royalties	$6,202	$2,391
Amounts payable to joint licensing program partners	39,774	35,492
Accrued compensation and benefits	43,855	47,331
Accrued professional fees	4,132	4,893
Other accrued liabilities	25,191	25,985
Accrued liabilities	$119,154	$116,092

Other Non-Current Liabilities

Other non-current liabilities consist of the following:

	June 28, 2013	September 28, 2012
	(in thousands)	
Supplemental retirement plan obligations	$2,147	$2,042
Non-current tax liabilities	25,827	20,862
Other liabilities	18,297	16,933
Other non-current liabilities	$46,271	$39,837

See Note 8 “Income Taxes” for additional information related to tax liabilities.

4. Fair Value Measurements

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

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

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

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

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Financial assets and liabilities carried at fair value are classified below:

	June 28, 2013			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets:				
Investments held in supplemental retirement plan (1)	$2,245	$—	$—	$2,245
Money market funds (2)	28,887	—	—	28,887
Commercial paper (3)	—	2,987	—	2,987
Corporate bonds (2), (3), (4)	—	153,511	—	153,511
Municipal debt securities (2), (3), (4)	—	239,860	—	239,860
U.S. agency securities (2), (3), (4)	53,931	—	—	53,931
Total	$85,063	$396,358	$—	$481,421

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

	June 28, 2013			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Liabilities:				
Investments held in supplemental retirement plan (1)	$2,245	$—	$—	$2,245
Total	$2,245	$—	$—	$2,245

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

	September 28, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets:				
Investments held in supplemental retirement plan (1)	$2,140	$—	$—	$2,140
Money market funds (2)	17,090	—	—	17,090
Commercial paper (3)	—	24,299	—	24,299
Corporate bonds (4)	—	220,236	—	220,236
Municipal debt securities (2), (4)	—	401,648	—	401,648
U.S. agency securities (4)	25,012	—	—	25,012
Total	$44,242	$646,183	$—	$690,425

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

	September 28, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Liabilities:				
Investments held in supplemental retirement plan (1)	$2,140	$—	$—	$2,140
Total	$2,140	$—	$—	$2,140

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

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

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

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

We did not own any Level 3 financial assets or liabilities as of June 28, 2013 or September 28, 2012.

5. Stockholders' Equity and Stock-Based Compensation

We have adopted compensation plans that provide stock-based awards as a form of compensation for employees, officers, and directors. We have issued stock-based awards in the form of stock options, restricted stock units ("RSU"), and stock appreciation rights under our equity incentive plans, as well as shares under our Employee Stock Purchase Plan ("ESPP"). We recognize stock-based compensation expense net of estimated forfeitures.

Stock-based compensation expense recorded in our condensed consolidated statements of operations was as follows:

	Fiscal Quarter Ended		Fiscal Year-to-Date Ended	
	June 28, 2013 (2)	June 29, 2012	June 28, 2013 (2)	June 29, 2012
	(in thousands)			
Stock-based compensation:				
Stock options (1)	$5,438	$5,047	$17,437	$17,101
Restricted stock units	10,967	5,235	29,826	16,379
Employee stock purchase plan	878	442	2,669	667
Stock appreciation rights	—	17	—	96
Total stock-based compensation	17,283	10,741	49,932	34,243
Benefit from income taxes	(5,143)	(3,268)	(15,053)	(10,759)
Total stock-based compensation, net of tax	$12,140	$7,473	$34,879	$23,484

(1) Expense excludes $0.4 million in the fiscal year-to-date period ended June 29, 2012 related to stock-based compensation which was capitalized to property, plant and equipment.

(2) We also recognize a tax benefit from certain exercises of incentive stock options and shares issued under our ESPP which are not included in the table above. This benefit was $0.2 million and $0.1 million in the third quarter of fiscal 2013 and fiscal 2012, and $0.4 million and $0.2 million in the fiscal year-to-date period ended June 28, 2013 and June 29, 2012, respectively.

	Fiscal Quarter Ended		Fiscal Year-to-Date Ended	
	June 28, 2013	June 29, 2012	June 28, 2013	June 29, 2012
	(in thousands)			
Stock-based compensation expense was classified as follows:				
Cost of products	$187	$158	$585	$503
Cost of services	84	57	308	174
Research and development	4,133	2,668	13,033	8,300
Sales and marketing	5,569	3,820	16,736	11,539
General and administrative	5,443	4,038	17,403	13,727
Restructuring	1,867	—	1,867	—
Total stock-based compensation expense	$17,283	$10,741	$49,932	$34,243

At June 28, 2013, total unrecorded stock-based compensation expense associated with employee stock options expected to vest was approximately $40.0 million, which is expected to be recognized over a weighted-average period of 2.8 years. At June 28, 2013, total unrecorded stock-based compensation expense associated with restricted stock units expected to vest was approximately $77.2 million, which is expected to be recognized over a weighted-average period of 2.6 years.

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

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
	(in thousands)		(in years)	(in thousands)
Options outstanding at September 28, 2012	4,622	$32.50		
Grants (1)	2,313	30.25		
Exercises	(313)	22.32		$3,326
Forfeitures and cancellations	(187)	41.02		
Options outstanding at June 28, 2013	6,435	29.69	7.6	29,873
Options vested and expected to vest at June 28, 2013	6,181	29.65	7.6	28,981
Options exercisable at June 28, 2013	2,690	28.47	5.7	17,040

(1) Includes the additional shares of our common stock issuable upon the exercise of those options subject to the equity award modification that occurred in the first quarter of fiscal 2013 in connection with the special cash dividend.

Aggregate intrinsic value is based on the closing price of our common stock on June 28, 2013 of $33.45 and excludes the impact of stock options that were not in-the-money.

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

	Fiscal Quarter Ended		Fiscal Year-to-Date Ended	
	June 28, 2013	June 29, 2012	June 28, 2013	June 29, 2012
Expected life (in years)	4.37	4.53	4.37	4.53
Risk-free interest rate	0.6%	0.6%	0.5%	0.7%
Expected stock price volatility	35.3%	41.5%	40.4%	44.0%
Dividend yield	—	—	—	—

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

	Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Non-vested at September 28, 2012	2,572	$37.98
Granted	1,194	30.96
Vested	(552)	41.03
Forfeitures	(133)	36.90
Non-vested at June 28, 2013	3,081	34.76

Common Stock Repurchase Program

In November 2009, we announced a stock repurchase program, providing for the repurchase of up to $250.0 million of our Class A common stock. Our Board of Directors approved an additional $300.0 million for our stock repurchase program in July 2010, $250.0 million in July 2011, and an additional $100.0 million in February 2012, for a total authorization of up to $900.0 million in stock repurchases. Stock repurchases under this program may be made through open market transactions, negotiated purchases, or otherwise, at times and in amounts that we consider appropriate. The timing of repurchases and the number of shares repurchased depend upon a variety of factors, including price, regulatory requirements, the rate of dilution from our equity compensation programs, and other market conditions. We may limit, suspend, or terminate the stock repurchase program at any time without prior notice. This program does not have a specified expiration date. Shares repurchased under the program will be returned to the status of authorized but unissued shares of Class A common stock. As of June 28, 2013, the remaining authorization to purchase additional shares is $124.1 million.

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Stock repurchase activity under the stock repurchase program during the fiscal year-to-date period ended June 28, 2013 is summarized as follows:

	Shares Repurchased	Cost (in thousands) (1)	Average Price Paid per Share (2)
Repurchase activity for the fiscal quarter ended December 28, 2012	1,674,648	$53,956	$32.20
Repurchase activity for the fiscal quarter ended March 29, 2013	382,481	11,477	$29.99
Repurchase activity for the fiscal quarter ended June 28, 2013	250,000	8,709	$34.82
Total	2,307,129	$74,142	

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

Equity Award Modification

On December 11, 2012, our Board of Directors declared a special dividend in the amount of $4.00 per share on our Class A and Class B Common Stock. Payment of the special dividend was made on December 27, 2012 to all stockholders of record as of the close of business on December 21, 2012 (the "Record Date"). Based on the 102,051,386 shares of Class A and Class B Common Stock outstanding as of the record date, the total special dividend payment was $408.2 million.

In connection with the declaration of this special dividend in the first quarter of fiscal 2013, we adjusted the number and exercise price of certain eligible outstanding stock options and stock appreciation rights granted under our 2005 Stock Plan and 2000 Stock Incentive Plan in a manner intended to preserve the pre-cash dividend economic value of these awards. Eligible awards include stock options and stock appreciation rights that were granted prior to December 2012 and were outstanding as of the day following the record date, with the exception of stock options held by employees in Australia which were not adjusted due to tax considerations. The modification of these existing awards at the dividend declaration date resulted in a total net incremental charge to compensation expense of approximately $7.9 million, of which approximately $4.2 million was recognized in the fiscal year-to-date period ended June 28, 2013. This incremental charge is being recognized over the vesting periods of the original awards, determined on a grant-by-grant basis, based on the extent to which the awards were vested as of the date of modification. The incremental charge related to all fully-vested awards as of the modification date was recognized in the first quarter of fiscal 2013. The vesting period for those awards not fully-vested at the time of modification range from one to four years.

Additionally, all outstanding RSUs under the 2005 Stock Plan that were unvested on the day following the record date, including RSUs that were granted on the record date, were modified to allow for the granting of a dividend equivalent (as such term is defined in the 2005 Stock Plan) with respect to each share of our Class A Common Stock underlying the unvested RSU. The dividend equivalent is payable in cash in a per share amount equal to the per share cash dividend on the same date that the related underlying restricted stock unit shares vest. The granting of the dividend equivalent for all outstanding RSUs resulted in a total net incremental charge to compensation expense of approximately $11.9 million, of which approximately $3.5 million was recognized in the fiscal year-to-date period ended June 28, 2013. This incremental charge is being recognized over the remaining vesting periods of the RSUs at the date of modification, determined on a grant-by-grant basis. These vesting periods range from one to four years beginning on the first anniversary of the grant.

6. Restructuring

In April 2013, we implemented a plan to reorganize certain activities and responsibilities within our marketing function under a strategic restructuring program, and as a result, recognized approximately $5.9 million in restructuring costs during the fiscal quarter ended June 28, 2013. This charge included $2.8 million in severance and other related benefits offered to approximately 36 employees that were affected as a result of this action and $1.9 million of stock-based compensation expense for previously awarded grants that will vest through the second quarter of fiscal 2014 pursuant to their original terms. Expenses of $1.2 million associated with the exit of a facility are also included in restructuring charges in the accompanying condensed consolidated statements of operations. We do not expect to incur additional restructuring charges in subsequent quarters related to this plan.

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

	Severance and associated costs	Facilities and contract termination costs	Total
	(in thousands)		
Restructuring charges	4,779	1,151	5,930
Cash payments	(1,670)	—	(1,670)
Non-cash restructuring charges	(1,867)	—	(1,867)
Balance at June 28, 2013	$1,242	$ 1,151	$2,393

7. Earnings Per Share

We compute basic earnings per share ("EPS") by dividing net income attributable to Dolby Laboratories, Inc. by the weighted-average number of shares of Class A and Class B common stock outstanding during the period. For diluted earnings per share, we divide net income attributable to Dolby Laboratories, Inc. by the sum of the weighted-average number of shares of Class A and Class B common stock outstanding and the potential number of dilutive shares of Class A and Class B common stock outstanding during the period. Note that since EPS is calculated using separate average share count figures both for fiscal quarters and year-to-date periods presented and as a result of the effect of rounding to the nearest cent per diluted share, the sum of four quarters' EPS may not necessarily equal the full-year EPS.

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