Dolby Laboratories, Inc.
Form 10-K
November 15, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended September 28, 2012
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)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A common stock, $0.001 par value	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
Class B common stock, $0.001 par value
(Title of class)
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this

Form 10-K. ¨

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant as of March 30, 2012 was $1.7 billion. This calculation excludes the shares of Class A and Class B common stock held by executive officers, directors and stockholders whose ownership exceeds 5% of the combined shares of Class A and Class B common stock outstanding at March 30, 2012. This calculation does not reflect a determination that such persons are affiliates for any other purposes.

On November 2, 2012 the registrant had 45,837,295 shares of Class A common stock and 56,598,329 shares of Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s Definitive Proxy Statement to be filed with the Commission pursuant to Regulation 14A in connection with the registrant’s 2013 Annual Meeting of Stockholders, to be filed subsequent to the date hereof, are incorporated by reference into Part III of this Report. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the conclusion of the registrant’s fiscal year ended September 28, 2012. Except with respect to information specifically incorporated by reference in this Form 10-K, the Definitive Proxy Statement is not deemed to be filed as part of this Form 10-K.

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Forward Looking Statements

This Annual Report on Form 10-K contains forward-looking statements including, but not limited to statements regarding: operating results and underlying measures; demand and acceptance for our technologies and products; market growth opportunities and trends; our plans, strategies and expected opportunities; and future competition. Use of words such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “continu expressions indicates a forward-looking statement. Such forward-looking statements are based on management’s reasonable current assumptions and expectations. Actual results may differ materially from those discussed in these forward-looking statements due to a number of factors, including the risks set forth in Item 1A, “Risk Factors.” 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 disclaim any duty to update any of the forward-looking statements to conform our prior statements to actual results.

PART I

ITEM 1. BUSINESS

Overview

Dolby Laboratories has been a leading solutions provider to the entertainment industry for more than 45 years. We provide products, services, and technologies to capture, distribute, and play back entertainment content that gives consumers a premium entertainment experience, regardless of how or where they choose to enjoy it. Our core strengths range from our expertise in digital signal processing and compression technology to our long history of providing products, tools, and technologies to participants in the entertainment industry at each stage in the content creation, distribution, and playback process. We provide products and services that enable content creators and distributors to produce, encode, and transmit content with our premium audio technologies, and we license decoding technologies to the manufacturers of entertainment devices to ensure that content is ultimately experienced as the creator and distributor intended.

Throughout our history, we have introduced numerous innovations that have significantly improved the quality of audio entertainment, such as noise reduction for the recording and cinema industries and surround sound for cinema and home entertainment. Today, we continue to derive the vast majority of our revenue from our audio technologies. Looking forward, we see a number of industry trends that create opportunities for the continued growth of our audio business, including the ongoing global transition from analog to digital television and consumers' increasing use of mobile devices, such as tablets and smartphones, to play back digital content. Our portfolio of technologies and solutions optimize the audio experience for mobile devices to provide consumers with a rich, clear, and immersive sound, despite the bandwidth limitations of online and cellular networks and the physical limitations of devices with small speakers.

We also see opportunities to apply our core strengths in areas beyond audio. For example, we believe that significant improvements can be made in the technology currently used to deliver and play back premium video, and we have identified solutions that may substantially improve the video experience. Similarly, we believe we can apply our existing audio technologies to improve the clarity and quality of voice communications in areas such as multi-party teleconferencing.

Business Model

We generate the majority of our revenue by licensing technologies to original equipment manufacturers (“OEM”) of consumer entertainment (“CE”) products and to software vendors. We also generate revenue by selling products and related services to creators and distributors and exhibitors of entertainment content.

We participate in the global entertainment industry in three important ways:

- We offer products, services, and technologies to creators and distributors of entertainment content, such as motion picture, television, and music recording studios, television broadcasters, satellite and cable operators, cinema theatre chains, and increasingly, Internet content streaming and download service providers. These content creators and distributors use our products, services, and technologies to encode and transmit content, creating rich, clear, and

immersive audio experiences for consumers upon playback.

- We license technologies, such as Dolby Digital, Dolby Digital Plus, and Dolby TrueHD to OEMs and software vendors for incorporation into their CE and other products, so that consumers can play back audio content with our technologies in the rich, clear, and immersive manner the creators intended.
- We work directly with standards-setting organizations in the entertainment and technology industries, as well as

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governments and other regulatory bodies, to promote adoption of our technologies in their standards. As a result, our technologies are included in the majority of worldwide TV shipments to support digital TV standards around the world that mandate our formats. Our technologies are also included in virtually all DVD players, Blu-ray Disc players, audio/video receivers, and personal computer (“PC”) DVD software players.

We license our technologies to OEMs and software vendors in 44 countries, and our licensees distribute products incorporating our technologies throughout the world. We sell our products and services in over 80 countries. In fiscal 2012, 2011, and 2010, revenue from outside of the U.S. was 68%, 68%, and 66% of our total revenue, respectively. Our licensing business is our most significant revenue stream, representing 86%, 83%, and 77% of our total revenue in fiscal 2012, 2011, and 2010, respectively. Geographic data for our licensing revenue is based on the location of our licensees' headquarters. Product revenue is based on the destination to which we ship our products, while services revenue is based on the location where services are performed.

Essential Technologies for the Entertainment Creation, Distribution, and Playback Process

Our long-term involvement in the entertainment industry has enabled us to provide high quality products and services at each step of the entertainment creation, distribution, and playback process.

Content Creation

Our products and services help artists and content producers create and produce an enhanced and immersive entertainment experience by incorporating our technologies in their content. Our encoding technologies help maintain the quality of the sound, while enabling content to fit within the storage capacity and/or bandwidth limitations of a particular content delivery platform. Content creators use our decoding and monitoring products to accurately evaluate how their soundtracks will sound when played back in typical consumer environments.

Many movie, television, music, and video game studios produce content encoded with Dolby technologies that enable digital multichannel sound. Consumers also are able to encode multichannel sound by recording home movies in Dolby Digital using high-definition (“HD”) camcorders. As a result of these available means of content creation, the library of content encoded with Dolby technologies continues to grow.

Content Distribution

Distributors use our professional equipment to support the delivery of content that has been produced using our technologies. For example, broadcasters use our products to encode high quality surround sound content for terrestrial, cable, and satellite transmissions. Our broadcast products also facilitate the editing and routing of surround sound in transmission facilities originally designed for stereo audio. Our sound engineers supplement the efforts of content creators and broadcasters by providing training, system design expertise, and on-site technical assistance to broadcasters throughout the world.

DVD and Blu-ray Disc producers use our professional equipment to encode audio in Dolby Digital, Dolby Digital Plus and Dolby TrueHD so the soundtrack will play as originally recorded on the master copy.

Providers of online content work closely with our team to format their content using our technologies, in order to deliver an optimized audio experience. We work with a growing number of online content aggregators, including Netflix, Amazon, VUDU, Apple, and the Rovi platform, to encode video and audio content with our technologies. We also work with leading music services such as Rhapsody and Omnifone to adopt our audio encoding tools to deliver a rich music experience.

Our high-efficiency advanced audio coding ("HE AAC") and Dolby Digital Plus technologies provide efficient audio delivery solutions that help mitigate constraints associated with transmission or online streaming bandwidth, as well as limited disc storage capacity. These allow mobile content distributors to produce a file compatible with many mobile devices, while lowering storage requirements, reducing download times, and boosting playback quality.

As the means of distribution mature, our technologies have the potential to become the standard or recommended solution in the distribution process. For example, as global broadcast standards for digital television and HD television have developed, many countries have adopted Dolby audio technologies as part of their standards. In North America, Dolby Digital is the standard audio technology for digital terrestrial and cable television. In Europe, Dolby Digital Plus is the European Broadcast Union’s recommended audio technology for HD broadcast. A number of European countries, including France, Italy, the UK, and Poland, have adopted Dolby Digital Plus and HE AAC in their HD

terrestrial broadcast standards and other countries, such as Brazil, have adopted HE AAC. In addition, Dolby Digital Plus is now offered by commercial satellite providers throughout Europe as part of their HD services. In the Asia Pacific region, China has selected Dolby Digital and Dolby Digital Plus as optional technologies for the country’s Digital Terrestrial Television specification. South Korea has adopted the Advanced Television Systems Committee ("ATSC") standard for digital television, which includes Dolby Digital, while Japan has adopted advanced audio coding (“AAC”) as its audio technology standard for digital television. We are one of

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the original four developers of AAC, and we receive a portion of AAC licensing revenue through a joint patent licensing program. We receive AAC licensing revenue both as a patent holder and an administrator of the patent licensing program, through our wholly owned subsidiary, Via Licensing Corporation.

These products, services, and technologies are used throughout the content creation and distribution process, enabling the final step in the cycle: the content playback process.

Content Playback

Our decoding technologies allow content created and distributed using our technologies to be played back as the creator and distributor intended. Manufacturers of DVD players and Blu-ray Disc players throughout the world incorporate our decoding technologies to enhance the audio experience, and the majority of PC OEMs incorporate our technologies for the support of optical discs. Dolby technologies are also widely incorporated in many other devices, such as digital televisions, video game consoles, home-theaters-in-a-box, and audio/video receivers. We have an opportunity to further our position in mobile device, set-top box, and camcorder markets.

In some cases, our licensees sell products incorporating our technologies to other OEMs, which then incorporate these products in automobiles, PCs, or other products sold to consumers. Our trademarks are often displayed on content and CE products that incorporate our technologies to indicate to consumers that a product meets our technical and quality standards.

For many types of CE products, our technologies are included in explicit industry standards, as standards-setting bodies mandate their inclusion in a particular type of product. For example, Dolby Digital is the standard audio technology for digital televisions in North America and is mandated in all DVD and Blu-ray Disc players worldwide. Alternatively, Dolby technologies are de facto industry standards in many CE products, and while not specifically mandated by a standards board, are widely adopted for a particular type of product. For example, prior to the adoption of HD terrestrial broadcast standards mandating Dolby technologies, many European HD broadcasters began broadcasting in Dolby Digital or Dolby Digital Plus, leading CE OEMs to include these technologies in their televisions and set-top boxes for the European market.

Growth Strategy

The entertainment industry is in transition. Today content is captured, delivered, and played back in more ways than ever before. Consumers can experience entertainment through multiple channels, including cinema, optical disc, digital broadcast, online, and cellular networks. As consumers are presented with more options for receiving content, competition across delivery channels has intensified, and we see this reflected in the composition of our licensing revenue. Non-optical disc based revenue comprised an estimated 57%, 52%, and 45% of our licensing business in fiscal 2012, 2011, and 2010, respectively. This includes licensing revenue derived from products such as TVs, set-top boxes, and mobile phones, as well as our post-processing technologies on a range of devices. Non-optical disc based licensing revenue grew 10% in fiscal 2012 and 27% in fiscal 2011. Conversely, optical disc based licensing revenue was 43%, 48%, and 55% in fiscal 2012, 2011, and 2010, respectively. Optical disc based licensing revenue is derived primarily from the Windows 7 operating system, independent PC DVD software players, DVD, and Blu-ray Disc. However, most of those products receive content over mobile or online networks, in addition to optical disc, and we have increased our technology penetration into these distribution channels.

Looking forward, we expect continued growth in the percentage of licensing revenue we derive from non-optical disc sources. This will be driven partly by the maturity of optical disc, but also by the significant opportunities presented by digital broadcast and online distribution, where we remain focused on delivering the products, tools, and technologies needed to ensure a high quality audio experience from any device. We also see significant opportunities to offer encode/decode solutions in video and voice that leverage our expertise in signal processing, compression, and the capture and playback of content.

Our Core Business

In our broadcast market we derive revenue from licensing our technologies to OEMs of televisions and set-top boxes. While we have experienced success in driving the adoption of our technologies in digital broadcast, we believe there are still significant opportunities for growth in the adoption of our multichannel technologies, as countries transition from analog to digital broadcast and offer increasing amounts of HD content. The efficiency and quality of our

multichannel technologies are well suited to digital broadcast bandwidth requirements and to delivering a premium HD content experience. As a result, our multichannel technologies have been adopted in terrestrial digital television standards throughout the world. In fiscal 2012, we estimate that approximately 65% of global TV shipments and approximately 50% of global set-top box shipments contained our technologies, leaving a substantial additional market opportunity.

The growth of the Internet, accompanied by a shift toward online content consumption, has resulted in a global consumer trend toward an array of online streaming and download services. Content creators are increasingly focused on delivering content across a multitude of media and devices with varying bandwidth and performance requirements, including PCs, connected TVs, set-top boxes, gaming consoles, connected Blu-ray Disc players, and mobile devices. Many of these devices

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are increasingly designed to capture and send content through improved camera and WiFi technologies, as well as play back rich media experiences. This increasingly complex array of devices, aimed at both creating and consuming content, presents a challenge for content creators and device manufacturers seeking consistent audio quality. We believe this challenge provides an opportunity similar to that of digital broadcast, whereby we can deliver the industry solutions to optimize the audio experience across the online and portable device ecosystem.

While the rapid advancement of online content delivery is enabling the development of new portable playback devices such as tablets and smartphones, it also provides PC OEMs with an alternative to the optical disc platform. Currently, a portion of our revenue comes from the inclusion of our technologies in the optical disc platform, and we expect online delivery to ultimately replace optical disc as the delivery platform for the PC and other devices. Therefore, we are focused on extending the use of our technologies in the PC market to online and mobile content.

In our PC market we have derived revenue from the inclusion of our technologies in most PC shipments, due largely to the inclusion of our technologies in various versions of Microsoft operating systems. In May 2012, we entered into an agreement with Microsoft under which Dolby Digital Plus 5.1 channel decoding and Dolby Digital two-channel encoding will be included in all PCs and tablets licensed to run the Windows 8 operating system. Under the arrangement, OEMs generally will be required to directly license and pay us a base royalty rate for the right to use the Dolby technologies included in Windows 8 installed on the PCs and tablets they produce for online and file-based content. OEMs will be required to pay a higher per-unit royalty for Windows 8 PCs that also include optical disc playback functionality, which will be implemented by ISV applications. This higher rate is consistent with rates paid historically for the inclusion of Dolby disc playback software in the PC market. In the near term, we expect the majority of PCs to continue to ship with optical disc drives and to include optical disc playback functionality. For additional information on our PC market and associated risks, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Item 1A, “Risk Factors.”

Developing New Audio Entertainment Technologies

Through our long history of innovation in audio technology, and the established presence of our multichannel technologies in many of the world’s most popular content playback devices, we believe that we are well positioned to develop and deliver new audio innovations. Specifically, our expertise in signal processing and compression technologies, coupled with our ability to deliver an integrated solution across complex market ecosystems, enable us to offer new technologies that elevate the entertainment experience. We also believe the presence of our technologies in many existing professional and consumer devices, along with our recognized brand, are key strengths as we strive to bring additional technology innovations to market. In April 2012, we announced Dolby Atmos, a new audio platform for cinema that delivers a more natural and realistic sound-field. Since the introduction of Dolby Atmos, nine major Hollywood titles have been announced or released from five studios, including The Hobbit, to be released in December 2012.

Developing Video Technologies

Our success in audio has resulted in part from our ability to develop and deliver the products, services, tools, and technologies needed to capture, deliver, and play back a consistent, high quality audio experience across multiple channels. We believe these core competencies can be applied to video to significantly improve the technology currently used to deliver premium video to displays. In the cinema market, we offer exhibitors our digital cinema servers and other 3D digital cinema products, which deliver a vivid movie experience with sharp images and natural colors.

We also offer a Professional Reference Monitor, a flat-panel video reference display for video professionals. These professionals use our monitor for color critical tasks, such as calibrating color accuracy to professional reference standards. Our Professional Reference Monitor uses our dynamic range imaging technologies, which enable enhanced contrast, extended brightness, and dynamic range, along with reduced power consumption in LED backlit LCD televisions.

Developing Voice Technologies

With the growth of voice transmission over Internet protocol networks and the proliferation of devices that connect to these networks, the quality of the voice experience has progressively deteriorated. We believe that our expertise in

sound signal processing and compression technologies can address some of these problems, and in particular that our entertainment technologies can be adapted and applied to voice communications to significantly improve voice quality and clarity in a variety of uses. In September 2012, BT Conferencing announced a trial using Dolby Voice technology in their conferencing services to enable audio conference calls that sound and feel more like in-person meetings.

Building on the Strength of the Dolby Brand

We are building on the strength of the Dolby brand to enhance our reputation as a trusted provider of entertainment technologies for professional and consumer applications and to assist us in bringing new audio and video technologies to

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market.

We actively encourage our customers to place our trademarks on their products in conjunction with the inclusion of our technologies. In particular, we provide marketing materials such as posters, trailers, and plaques to cinema operators to help them promote the quality of experience that is associated with our brand.

The inclusion of the Dolby trademark on a product informs audiences and consumers that the product incorporates our technologies and meets our quality standards, and we believe this helps CE OEMs sell their products. We will continue to encourage the use of our trademarks throughout the entertainment industry as an indicator to both professionals and consumers of consistent quality at each stage of the entertainment process.

Addressing Ongoing Content Creator Needs

We believe that technology innovations for entertainment will continue to be adopted first for professional use, as filmmakers, music producers, broadcasters, and video game designers look for ways to excite their audiences. We are collaborating with industry professionals to develop new technologies that facilitate and improve content recording, distribution, and playback. Our professional technology solutions often have applicability to the consumer arena, and when they apply, we intend to continue to adapt these technologies for use in consumer applications. Our noise reduction, surround sound, and digital audio technologies were all initially developed for professional use and later adapted for use in CE products. We believe that our success in developing technologies for professional use contributes greatly to the appeal of our technologies and brand for consumer use.

Promoting the Adoption of Dolby Technologies in Industry Standards

As the entertainment industry evolves toward global technical standards for content creation, delivery, and playback, we actively seek to have our technologies included in industry standards. We develop, maintain, and strengthen relationships across the broad spectrum of entertainment industry participants, professional organizations, and global standards-setting bodies.

Revenue Generation

We generate revenue in three primary ways: licensing our technologies to a broad range of customers, selling video and audio products for the cinema and broadcast industries, and providing a variety of services to support production activities.

We generate a significant portion 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, while services revenue is based on the location where services are performed. Financial information by geographic area is set forth in Note 11 "Geographic Data" to our consolidated financial statements. For risks attendant to our foreign operations, see Item 1A, "Risk Factors."

Licensing

We license our technologies to software vendors and to OEMs of CE products such as digital televisions, set-top boxes, DVD players and recorders, Blu-ray Disc players, video game consoles, audio/video receivers, mobile devices, in-car entertainment systems, home-theater-in-a-box systems, PCs, camcorders, and portable media devices. Our licensing arrangements typically entitle us to receive a specified royalty for every product shipped by our licensees that incorporates our technologies. We also collect fees for administering joint patent licensing programs (informally known as "patent pools") on behalf of third parties. In fiscal 2012, 2011, and 2010, our licensing revenue represented 86%, 83%, and 77% of our total revenue, respectively. We have three primary licensing models: a two-tier model, an integrated licensing model, and a patent pool model.

Two-Tier Licensing Model. Most of our CE licensing business consists of a two-tier licensing model whereby our decoding technologies, included in reference software and firmware code, are first provided under license to a semiconductor manufacturer. The manufacturer then incorporates our technologies in integrated circuits ("IC"). Our licensed semiconductor manufacturers, which we refer to as "implementation licensees," sell their ICs to OEMs of CE products, which we refer to as "system licensees." Our system licensees separately obtain licenses from us that allow them to make and sell end-user CE products that incorporate our technologies in ICs purchased from our implementation licensees.

Our implementation licensees may use our reference software and other licensed know-how directly to build and sell core technologies such as ICs. The implementation licensees pay us a one-time, up-front administrative fee per license. In exchange, the licensee receives a licensing package, which includes information useful in implementing our technologies into its chipsets. Once the chipset has been built, the licensee sends us a sample for quality control evaluation. If we approve the implementation design, the licensee is permitted to sell the chipset only to our system licensees.

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Our system licensees pay us an initial fee for the technologies they choose to license from us. We deliver a licensing package to each system licensee, which includes information on using our technologies in the licensee's products. System licensees are required to provide us with prototypes of products that incorporate our technologies for quality control evaluation, or under certain circumstances, with self-test results for our review. If the design is approved, the licensee is permitted to buy ICs from any Dolby implementation licensee and to sell approved products to retailers, distributors, and consumers. Sales by system licensees of CE products incorporating our technologies are royalty-bearing, generally based upon the number of product units shipped. We have active licensing arrangements with approximately 515 electronics product OEMs and software developer licensees, with corporate headquarters located in 44 countries.

The amount of royalties we collect from a system licensee on a particular product depends on a number of factors, such as the number of Dolby technologies used in that product and the total production volume for all products incorporating our technologies that are shipped by the system licensee.

Integrated Licensing Model. In addition to licensing under our two-tier licensing model, we also license our technologies, as included in reference software code, to operating system vendors and independent software vendors ("ISVs"), and to certain other CE OEMs that act as combined implementation and system licensees. These licensees incorporate our technologies (in their software such as PC software DVD players) used in desktop or notebook computers, in their mobile applications, or in ICs they manufacture and incorporate into CE products. As with the two-tier licensing model, the combined implementation and system licensee pays us an initial administrative fee. In exchange, the licensee receives a licensing package, which includes information on how to incorporate our technologies into the licensee's software program or integrated circuits. Once the product has been built, the licensee sends us a sample, or under certain circumstances self-test results, for quality control evaluation. If the sample is approved, the licensee is permitted to sell the product to retailers, distributors, and consumers, subject to the payment of royalties.

Licensing of Patent Pools. Through our wholly owned subsidiary, Via Licensing Corporation, we administer joint patent licensing programs, or patent pools, on behalf of third party patent owners. Some of the patent pools also include Dolby patents. These patent pools allow product OEMs streamlined access to certain essential patents to standardized technologies in the fields of audio coding, interactive television, digital radio, and wireless technologies.

Products

We design and manufacture video and audio products for the film production, cinema, and television broadcast industries. Distributed in over 70 countries, these products are used in content creation, distribution, and playback to enhance image and sound quality, provide surround sound, and increase the efficiency of sound storage and distribution. Our product sales are derived from sales of our digital cinema servers, which load, store, decrypt, and decode encrypted digital film files for presentation on digital projectors in theaters, as well as from sales of digital 3D products and our Professional Reference Monitor.

We also derive revenue from sales of our traditional cinema processors, which movie theaters use to process film soundtracks, and to a lesser extent, from sales of broadcast products used to encode and distribute content to viewers. We offer related digital cinema processors and media adapters to decode digital cinema soundtracks, as well as digital cinema accessories that allow exhibitors to easily integrate our digital cinema servers with their existing automation systems. Digital cinema is based on open standards which, unlike standards for the traditional cinema market, do not include our proprietary audio technologies. In fiscal 2012, 2011, and 2010 our product revenue represented 11%, 14%, and 20% of our total revenue, respectively.

Services

We offer a variety of services to support film production, television broadcast, and music production. Our engineers work alongside filmmakers, television broadcasters, and music producers, helping them use our products and technologies to create and reproduce content as they envision. We typically enter into service agreements with motion picture studios or filmmakers to provide production services related to the preparation of a Dolby soundtrack, such as equipment calibration, mixing room alignment, and equalization. Under these agreements, we provide our encoders to the studios for use during sound mixing, enabling them to create films with Dolby soundtracks using our proprietary

technologies.

We provide other services such as print quality control, professional film mastering services to prepare movies for digital release, and theater system calibration for important screenings, such as premieres, film festivals, and press screenings. Our engineers also provide training, system design consultation, and on-site technical expertise to cinema operators throughout the world to help them configure their screening rooms and equipment, in order to ensure that movies are replayed with consistently high quality. In fiscal 2012, 2011, and 2010 our services revenue represented 3%, 3%, and 3% of our total revenue, respectively.

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Our Technologies and Products

Our core technologies are signal processing systems that deliver rich, clear, and immersive sound in movie soundtracks, DVDs, Blu-ray Discs, personal computers, digital televisions, mobile devices, video games, satellite and cable broadcasts, and online streaming. Many of our technologies are incorporated into professional products that we manufacture, including cinema sound processors and digital audio encoders and decoders. We have also expanded our focus on developing and delivering new audio and video technologies that enhance the entertainment experience, including audio technologies for mobile devices and video technologies for 3D, digital cinema, post-production, and LED backlit LCD televisions.

Our Technologies

- Dolby Atmos – Dolby Atmos is a new audio platform that uses a hybrid approach that combines multi-channel audio with discrete audio objects. This approach provides more flexibility and control for sound designers and mixers to deliver a more natural and realistic sound environment.
- Dolby Digital – Dolby Digital is a digital audio coding technology used to provide surround sound in theaters and in the home from DVDs, digital terrestrial broadcast, cable, and satellite systems. Dolby Digital enables the storage and transmission of up to five full range audio channels plus a low frequency effects channel.
- Dolby Digital Plus – Dolby Digital Plus is a digital audio coding technology built as an extension to Dolby Digital technologies. With the addition of new coding techniques and an expanded bitstream structure, Dolby Digital Plus offers greater efficiency for lower bit rates, as well as the option for more channels and higher bit rates. Dolby Digital Plus can support a wide range of current and emerging applications such as digital television, mobile, and Internet based content services. Dolby Digital is compatible with all existing Dolby Digital Plus equipped consumer electronics.
- Dolby Digital Surround EX – Dolby Digital Surround EX adds a third surround channel to the Dolby Digital format in cinemas. The third channel is reproduced by rear wall surround speakers, while the left and right surround channels are reproduced by speakers on the side walls.
- Dolby Digital EX – Dolby Digital EX adds a third surround channel to Dolby Digital in CE products for the home.
- Dolby TrueHD – Dolby TrueHD is an audio delivery technology that delivers bit-for-bit performance upon playback identical to the original studio master. When applied with HD video content, the coding efficiencies of Dolby TrueHD enable content providers to include a 100% lossless audio track on Blu-ray Disc without using excessive storage capacity.
- Advanced Audio Coding (AAC) – AAC is a high quality audio coding technology appropriate for many broadcast and electronic music distribution applications. We are one of the original four developers of this technology.
- HE AAC – HE AAC is a highly efficient, high quality audio compression technology designed for broadcast, download and streaming content. HE AAC adds spectral band replication to AAC. We are one of the primary developers of this technology.
- Dolby E – Dolby E is a professional digital audio coding system developed to assist with the conversion of two channel broadcast facilities to multichannel audio.
- Dolby Digital Live – Dolby Digital Live is a real time encoding technology that converts any audio signal into a Dolby Digital bitstream for transport and playback to a home theater system. Dolby Digital Live enables connection of a PC or game console to a Dolby Digital equipped audio/video receiver or digital speaker system via a single digital connection.
- Dolby Pro Logic II – Dolby Pro Logic II is a matrix surround decoding technology that detects the naturally occurring directional cues in two channel audio content and transforms the content into five playback channels of full bandwidth surround sound.
- Dolby Pro Logic II(x) – Dolby Pro Logic II(x) extends the Pro Logic II technology to seven playback channels.
- Dolby Pro Logic IIz – Dolby Pro Logic IIz is Dolby's newest matrix decoding technology, which adds the dimension of height to surround sound playback.
- PC Entertainment Experience or PCEE – PCEE is a suite of technologies for entertainment-oriented PCs, which enhance the audio quality of media.

- Dolby Headphone – Dolby Headphone technology provides the sound of a five speaker surround playback system through any pair of headphones by modeling the surround sound listening experience of a properly calibrated 5.1 channel speaker system.

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- Dolby Mobile – Dolby Mobile is a suite of post processing technologies optimized for mobile devices and designed to enhance the audio quality of media delivered on the device.
- Dolby Digital Stereo Creator – Dolby Digital Stereo Creator allows users to author DVDs with Dolby Digital stereo soundtracks.
- Dolby Digital 5.1 Creator – Dolby Digital 5.1 Creator enables users to record home movies with Dolby Digital surround sound.
- Dolby Volume – Dolby Volume is an audio leveling technology for CE devices and provides consistent volume and quality across various programs.
- Dolby Virtual Speaker – Dolby Virtual Speaker is an audio virtualization technology that simulates the effect of natural, realistic surround sound from just two stereo speakers. Dolby Virtual Speaker transforms TV, movies, and recorded music into a surround sound experience for anyone with a two speaker system.
- Dolby HDR – Dolby's HDR technologies increase the contrast ratio of LED backlit LCD televisions through the use of local dimming.
- Analog Signal Processing Technologies – Our analog signal processing technologies, including our noise reduction technologies, improve the sound quality of cassette tapes and film by reducing background noise and extending the overall dynamic range of analog media.

Our Products

- Digital Cinema Products – Digital Cinema Products are used for digital cinema encoding, distribution, and playback. Our digital cinema server is used to load, store, decrypt, decode, and re-encrypt digital film files for presentation on a digital cinema projector. We also provide products that encrypt, encode, and package digital films, and digital cinema processors to decode digital cinema soundtracks.
- Digital 3D Products – Digital 3D Products deliver a 3D image with an existing digital cinema server and white (or silver) screen, providing exhibitors a flexible 3D solution. Our Dolby 3D glasses feature high quality multicoated lenses that deliver sharp 3D images.
- Digital Media Adapters – Digital Media Adapters are used to convert existing analog cinema audio systems to the latest digital audio technologies.
- Traditional Cinema Processors – Traditional Cinema Processors are used to read, decode, and play back a film soundtrack and calibrate the sound system in a movie theater.
- Broadcast Products – Broadcast Products are used to encode, transmit, and decode multiple channels of high quality audio for DTV and HDTV program production and broadcast distribution and to measure the subjective loudness of audio content within broadcast programming.
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