

Dolby Laboratories, Inc.
Form 10-Q
April 30, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 27, 2009

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)

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Delaware
*(State or other jurisdiction of
incorporation or organization)*

100 Potrero Avenue

San Francisco, CA
(Address of principal executive offices)

90-0199783
*(I.R.S. Employer
Identification No.)*

(415) 558-0200
(Registrant's telephone number, including area code)

94103-4813
(Zip Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes 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 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

On April 16, 2009 the registrant had 52,568,169 shares of Class A common stock, par value \$0.001 per share, and 60,490,207 shares of Class B common stock, par value \$0.001 per share, outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****DOLBY LABORATORIES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS***(in thousands)*

	September 26, 2008	March 27, 2009
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 394,761	\$ 372,528
Short-term investments	119,667	193,543
Accounts receivable, net	27,650	45,245
Inventories	18,133	14,113
Deferred taxes	91,824	70,714
Prepaid expenses and other current assets	39,834	29,344
Total current assets	691,869	725,487
Property, plant and equipment, net	87,915	86,895
Intangible assets, net	83,060	79,218
Goodwill	250,356	225,548
Long-term investments	180,996	244,535
Deferred taxes	24,900	38,033
Other assets	17,050	24,184
Total assets	\$ 1,336,146	\$ 1,423,900
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 10,137	\$ 10,060
Accrued liabilities	146,788	109,576
Income taxes payable	4,811	1,384
Current portion of long-term debt	1,593	1,540
Deferred revenue	37,344	25,372
Total current liabilities	200,673	147,932
Long-term debt	7,782	6,453
Deferred revenue	6,171	7,363
Deferred taxes	16,755	14,341
Other liabilities	33,414	32,542
Total liabilities	264,795	208,631
Controlling interest	22,098	20,174
Stockholders' equity:		
Class A common stock	52	53
Class B common stock	60	60
Additional paid-in capital	434,907	449,914

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Retained earnings	609,495	757,030
Accumulated other comprehensive income (loss)	4,739	(11,962)
Total stockholders' equity	1,049,253	1,195,095
Total liabilities and stockholders' equity	\$ 1,336,146	\$ 1,423,900

See accompanying notes to unaudited condensed consolidated financial statements

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	Fiscal Quarter Ended		Fiscal Year-to-Date Ended	
	March 28, 2008	March 27, 2009	March 28, 2008	March 27, 2009
	(unaudited)			
Revenue:				
Licensing	\$ 149,619	\$ 159,879	\$ 272,049	\$ 313,935
Product sales	15,628	36,008	35,638	53,954
Services	7,310	8,237	15,097	16,493
Total revenue	172,557	204,124	322,784	384,382
Cost of revenue:				
Cost of licensing	5,555	4,613	8,818	7,861
Cost of product sales (1)	8,540	24,275	20,188	33,634
Cost of services (1)	3,151	3,094	6,206	6,300
Gain from amended patent licensing agreement				(20,041)
Total cost of revenue	17,246	31,982	35,212	27,754
Gross margin	155,311	172,142	287,572	356,628
Operating expenses:				
Selling, general and administrative (1)	55,310	53,420	106,296	107,400
Research and development (1)	15,725	16,244	29,632	31,409
Restructuring charges, net		1,866		2,734
Gain on settlements	(249)	(4,900)	(249)	(4,900)
Total operating expenses	70,786	66,630	135,679	136,643
Operating income	84,525	105,512	151,893	219,985
Interest income	4,475	2,620	10,296	6,752
Interest expense	(632)	(149)	(995)	(412)
Other (expenses)/income, net	(1,439)	236	(1,693)	(1,146)
Income before provision for income taxes and controlling interest	86,929	108,219	159,501	225,179
Provision for income taxes	(29,792)	(38,430)	(54,399)	(77,053)
Income before controlling interest	57,137	69,789	105,102	148,126
Controlling interest in net income	(359)	(338)	(651)	(580)
Net income	\$ 56,778	\$ 69,451	\$ 104,451	\$ 147,546
Earnings per share (basic)	\$ 0.51	\$ 0.62	\$ 0.94	\$ 1.31
Earnings per share (diluted)	\$ 0.49	\$ 0.60	\$ 0.91	\$ 1.28
Weighted-average shares outstanding (basic)	111,192	112,852	110,892	112,730

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Weighted-average shares outstanding (diluted)	114,736	115,059	114,579	114,981
Expense for rent to related party included in selling, general and administrative expenses	\$ 340	\$ 340	\$ 680	\$ 680
(1) Stock-based compensation included above was classified as follows:				
Cost of product sales	\$ 262	\$ 222	\$ 503	\$ 378
Cost of services	38	29	78	56
Selling, general and administrative	4,600	3,605	8,895	7,068
Research and development	1,229	984	2,119	1,918

See accompanying notes to unaudited condensed consolidated financial statements

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	Fiscal Year-to-Date Ended	
	March 28, 2008	March 27, 2009 (unaudited)
Operating activities:		
Net income	\$ 104,451	\$ 147,546
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,238	14,585
Stock-based compensation expense	11,527	9,180
Accretion of discounts/amortization of premium on investments	212	2,265
Excess tax benefit from exercise of stock options	(11,552)	(1,483)
Provision for doubtful accounts	485	1,382
Deferred taxes	(15,735)	16,957
Gain on Put Rights		(9,220)
Unrealized losses on auction rate certificates		10,622
Gain from amended patent licensing agreement		(20,041)
Other non-cash items affecting net income	1,500	(609)
Changes in operating assets and liabilities:		
Accounts receivable	(13,521)	(21,217)
Inventories	(6,117)	(3,710)
Prepaid expenses and other assets	(5,313)	7,693
Accounts payable and accrued liabilities	7,341	(15,575)
Income taxes, net	12,454	1,268