Dolby Laboratories, Inc.
Form 10-Q
May 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended March 31, 2017
OR

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

For the Transition Period From To
Commission File Number: 001-32431

DOLBY LABORATORIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	90-0199783	
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)	
1275 Market Street San Francisco, CA	94103-1410	(415) 558-0200
(Address of principal executive offices)	(Zip Code)	(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 a check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

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

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GLOSSARY OF TERMS

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

Abbreviation	Term
AAC	Advanced Audio Coding
AFS	Available-For-Sale (Securities)
AOCI	Accumulated Other Comprehensive Income
APIC	Additional-Paid In-Capital
ASC	Accounting Standards Codification
ASP	Average Selling Price
ASU	Accounting Standards Update
ATSC	Advanced Television Systems Committee
AVR	Audio/Video Receiver
CE	Consumer Electronics
CODM	Chief Operating Decision Maker
COGS	Cost Of Goods Sold
COSO	Committee Of Sponsoring Organizations (Of The Treadway Commission)
DD	Dolby Digital®
DD+	Dolby Digital Plus™
DMA	Digital Media Adapter
DTV	Digital Television
DVB	Digital Video Broadcasting
DVD	Digital Versatile Disc
EPS	Earnings Per Share
ESP	Estimated Selling Price
ESPP	Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
FCPA	Foreign Corrupt Practices Act
FIFO	First-in, First-out
G&A	General & Administrative
HDR	High-Dynamic Range
HDTV	High Definition Television
HE AAC	High Efficiency Advanced Audio Coding
HEVC	High Efficiency Video Coding
HFR	High Frame Rate
HTIB	Home Theater In-A-Box
IC	Integrated Circuit
IMB	Integrated Media Block
IP	Intellectual Property
IPO	Initial Public Offering
IPTV	Internet Protocol Television
IT	Information Technology
LCD	Liquid Crystal Display
LIFO	Last-in, Last-out
LP	Limited Partner/Partnership
ME	Multiple Element
NOL	Net Operating Loss
OCI	Other Comprehensive Income
ODD	Optical Disc Drive

OECD	Organization For Economic Co-Operation & Development
OEM	Original Equipment Manufacturer
OLED	Organic Light-Emitting Diode
OTT	Over-The-Top
PC	Personal Computer
PCS	Post-Contract Support
PP&E	Property, Plant And Equipment
PSO	Performance-Based Stock Option
R&D	Research & Development
RSU	Restricted Stock Unit
S&M	Sales & Marketing
SERP	Supplemental Executive Retirement Plan
SoC	System(s)-On-A-Chip
STB	Set-Top Box
TAM	Total Available Market
TPE	Third Party Evidence
TSR	Total Stockholder Return
UHD	Ultra High Definition
U.S. GAAP	Generally Accepted Accounting Principles In The United States
VSOE	Vendor Specific Objective Evidence

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PART I - FINANCIAL INFORMATION
ITEM 1. UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DOLBY LABORATORIES, INC.
INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

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

Total stockholders' equity	2,043,158	1,978,735
Total liabilities and stockholders' equity	$ 2,387,797	$ 2,310,106

See accompanying notes to unaudited interim condensed consolidated financial statements

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

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

Basic	101,787	100,456	101,635	100,600
Diluted	103,883	101,555	103,867	101,716
Related party rent expense:				
Included in operating expenses	$793	$756	$1,575	$1,537
Included in net income attributable to controlling interest	$175	$174	$350	$350
Cash dividend declared per common share	$0.14	$0.12	$0.28	$0.24
Cash dividend paid per common share	$0.14	$0.12	$0.28	$0.24

See accompanying notes to unaudited interim condensed consolidated financial statements

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

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

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Dolby Laboratories, Inc.						
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Dolby Laboratories, Inc.	Controlling Interest	Total
Balance at September 30, 2016	$101	$42,032	$1,938,320	$ (10,197)	$1,970,256	$ 8,479	$1,978,735
Net income	—	—	103,964	—	103,964	337	104,301
Currency translation adjustments, net of tax of $666	—	—	—	(3,073)	(3,073)	(206)	(3,279)
Unrealized (losses) on investments, net of tax of $2	—	—	—	(1,438)	(1,438)	—	(1,438)
Distributions to controlling interest	—	—	—	—	—	(2,094)	(2,094)
Stock-based compensation expense	—	33,198	—	—	33,198	—	33,198
Repurchase of common stock	(1)	(49,999)	—	—	(50,000)	—	(50,000)
Cash dividends declared and paid on common stock	—	—	(28,494)	—	(28,494)	—	(28,494)
Tax benefit from employee stock plans	—	3,818	—	—	3,818	—	3,818
Common stock issued under employee stock plans	2	24,208	—	—	24,210	—	24,210
Tax withholdings on vesting of restricted stock	(1)	(15,798)	—	—	(15,799)	—	(15,799)
Balance at March 31, 2017	$101	$37,459	$2,013,790	$ (14,708)	$2,036,642	$ 6,516	$2,043,158

	Dolby Laboratories, Inc.						
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Dolby Laboratories, Inc.	Controlling Interest	Total
Balance at September 25, 2015	$102	$17,571	$1,800,857	$ (11,462)	$1,807,068	$ 8,939	$1,816,007
Net income	—	—	98,299	—	98,299	257	98,556
Currency translation adjustments, net of tax of $188	—	—	—	2,417	2,417	(295)	2,122
Unrealized gains on investments, net of tax of $(17)	—	—	—	703	703	—	703
Distributions to controlling interest	—	—	—	—	—	(214)	(214)
Stock-based compensation expense	—	35,466	—	—	35,466	—	35,466
Repurchase of common stock	(2)	(55,500)	(21,354)	—	(76,856)	—	(76,856)
Cash dividends declared and paid on common stock	—	—	(24,200)	—	(24,200)	—	(24,200)
Tax (deficiency) from employee stock plans	—	(1,369)	—	—	(1,369)	—	(1,369)
	—	14,575	—	—	14,575	—	14,575

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

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

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

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

See accompanying notes to unaudited interim condensed consolidated financial statements

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DOLBY LABORATORIES, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Unaudited Interim Condensed Consolidated Financial Statements

We have prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with U.S. GAAP, and with SEC rules and regulations, which allow for certain information and footnote disclosures that are normally included in annual financial statements prepared in accordance with U.S. GAAP to be condensed or omitted. In our opinion, these unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements for the fiscal year ended September 30, 2016 and include all adjustments necessary for fair presentation. The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with our consolidated financial statements for the fiscal year ended September 30, 2016, which are included in our Annual Report on Form 10-K filed with the SEC.

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

Principles of Consolidation

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

Operating Segments

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

Use of Estimates

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

Fiscal Year

Our fiscal year is a 52 or 53 week period ending on the last Friday in September. The fiscal periods presented herein include the 13 week period ended March 31, 2017 and the 14 week period ended April 1, 2016. Our fiscal year ended September 30, 2016 (fiscal 2016) consisted of 53 weeks while our fiscal year ending September 29, 2017 (fiscal 2017) will consist of 52 weeks.

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2. Summary of Significant Accounting Policies

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

Recently Issued Accounting Standards

Adopted Standards

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

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

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

Standards Not Yet Effective

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

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

- A change from recognizing our royalty-based revenue in the quarter it is reported to us by our licensees to estimating royalty-based revenue earned from our licensees’ shipments in the reporting period with subsequent adjustments recorded as the royalties are reported.
- Capitalizing applicable sales commissions that are direct and incremental to obtaining a contract.
- A decrease in our deferred revenue balances.

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

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

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

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

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

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

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

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

3. Composition of Certain Financial Statement Captions

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

Accounts Receivable

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

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

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Inventories

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

Inventories are stated at the lower of cost and net realizable value. Inventory with a consumption period expected to exceed twelve months is recorded within other non-current assets in our consolidated balance sheets. In addition to the amounts shown in the table above, we have included $2.0 million and $1.6 million of raw materials inventory within other non-current assets in our consolidated balance sheets as of March 31, 2017 and September 30, 2016, respectively. Based on anticipated inventory consumption rates, and aside from existing write-downs due to excess and obsolete inventory, we do not believe that material risk of obsolescence exists prior to ultimate sale.

Prepaid Expenses And Other Current Assets

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

Accrued Liabilities

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

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

Other Non-Current Liabilities

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

4. Investments & Fair Value Measurements

We use cash holdings to purchase investment grade securities diversified among security types, industries and issuers. All of our investment securities are measured at fair value, and are recorded within cash equivalents and both short-term and long-term investments in our consolidated balance sheets. With the exception of our mutual fund investments held in our SERP and classified as trading securities, all of our investment securities are classified as AFS securities.

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Our investment securities primarily consist of municipal debt securities, corporate bonds, U.S. agency securities and commercial paper. In addition, our cash and cash equivalents also consist of highly-liquid money market funds. Consistent with our investment policy, none of our held municipal debt investments are supported by letters of credit or standby purchase agreements. Our cash and investment portfolio consists of the following (in thousands):

	March 31, 2017						
		Unrealized			Estimated Fair Value		
	Cost	Gains	Losses	Total	Level 1	Level 2	Level 3
Cash and cash equivalents:							
Cash	$522,850			$522,850			
Cash equivalents:							
Money market funds	9,498	—	—	9,498	9,498		
Corporate bonds	160	—	—	160		160	
Cash and cash equivalents	532,508	—	—	532,508	9,498	160	—
Short-term investments:							
Certificate of deposit (1)	28,318	19	(6)	28,331		28,331	
U.S. agency securities	2,715	—	(3)	2,712	2,712		
Commercial paper	15,353	5	(1)	15,357		15,357	
Corporate bonds	127,350	48	(109)	127,289		127,289	
Municipal debt securities	21,312	2	(6)	21,308		21,308	
Short-term investments	195,048	74	(125)	194,997	2,712	192,285	—
Long-term investments:							
Certificate of deposit (1)	6,230	—	(2)	6,228		6,228	
U.S. agency securities	24,809	—	(217)	24,592	24,592		
Government bonds	22,994	4	(197)	22,801	22,801		
Corporate bonds	228,406	322	(795)	227,933		227,933	
Municipal debt securities	41,592	52	(57)	41,587		41,587	
Other long-term investments (2)	3,282	377	—	3,659	377		
Long-term investments	327,313	755	(1,268)	326,800	47,770	275,748	—
Total cash, cash equivalents, and investments	$1,054,869	$829	$(1,393)	$1,054,305	$59,980	$468,193	$ —
Investments held in supplemental retirement plan:							
Assets	2,792			2,792	2,792		
Included in prepaid expenses and other current assets & other non-current assets							
Liabilities	2,792			2,792	2,792		
Included in accrued liabilities & other non-current liabilities							

(1) Certificates of deposit include marketable securities, while those with a maturity in excess of one year as of March 31, 2017 are classified within long-term investments.

(2) Other long-term investments as of March 31, 2017 include a marketable equity security of $0.4 million, and other investments that are not carried at fair value including an equity method investment of $0.8 million and two cost method investments of $2.0 million and $0.5 million.

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	September 30, 2016						
		Unrealized			Estimated Fair Value		
	Cost	Gains	Losses	Total	Level 1	Level 2	Level 3
Cash and cash equivalents:							
Cash	$501,863			$501,863			
Cash equivalents:							
Commercial paper	1,099	—	—	1,099		1,099	
Corporate bonds	2,240	—	—	2,240		2,240	
Money market funds	10,910	—	—	10,910	10,910		
Cash and cash equivalents	516,112	—	—	516,112	10,910	3,339	—
Short-term investments:							
Certificate of deposit (1)	13,912	6	—	13,918		13,918	
Commercial paper	19,629	1	(10)	19,620		19,620	
Corporate bonds	63,762	24	(14)	63,772		63,772	
Municipal debt securities	24,334	—	(15)	24,319		24,319	
Short-term investments	121,637	31	(39)	121,629	—	121,629	—
Long-term investments:							
Certificate of deposit (1)	4,500	10	—	4,510		4,510	
U.S. agency securities	27,536	24	(26)	27,534	27,534		
Government bonds	31,971	77	(12)	32,036	32,036		
Corporate bonds	295,921	715	(266)	296,370		296,370	
Municipal debt securities	30,090	28	(32)	30,086		30,086	
Other long-term investments (2)	3,002	366	—	3,368	366		
Long-term investments	393,020	1,220	(336)	393,904	59,936	330,966	—
Total cash, cash equivalents, and investments	$1,030,769	$1,251	$(375)	$1,031,645	$70,846	$455,934	$ —
Investments held in supplemental retirement plan:							
Assets	2,638			2,638	2,638		
Included in prepaid expenses and other current assets & other non-current assets							
Liabilities	2,638			2,638	2,638		
Included in accrued liabilities & other non-current liabilities							

(1) Certificates of deposit include marketable securities, while those with a maturity in excess of one year as of September 30, 2016 are classified within long-term investments.

(2) Other long-term investments as of September 30, 2016 include a marketable equity security of $0.4 million, and other investments that are not carried at fair value including an equity method investment of $0.5 million and two cost method investments of $2.0 million and $0.5 million.

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

Level 1: Quoted prices in active markets at the measurement date for identical assets and liabilities. We base the fair value of our Level 1 financial instruments, which are traded in active markets, using quoted market prices for identical instruments.

Level 2: Prices may be based upon quoted prices in active markets or inputs not quoted on active markets but are corroborated by market data. We obtain the fair value of our Level 2 financial instruments from a professional pricing service, which may use quoted market prices for identical or comparable instruments, or model driven valuations using observable market data or inputs corroborated by observable market data. To validate the fair value determination provided by our primary pricing service, we perform quality controls over values received which include comparing our pricing service provider’s assessment of the fair values of our investment securities against the fair values of our investment securities obtained from another independent source, reviewing the pricing movement in the context of overall market trends, and reviewing trading information from our investment managers. In addition, we assess the inputs and methods used in determining the fair value in order to determine the classification of securities in the fair value hierarchy.

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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Securities In Gross Unrealized Loss Position. We periodically evaluate our investments for other-than- temporary declines in fair value. The unrealized losses on our AFS securities were primarily the result of unfavorable changes in interest rates subsequent to the initial purchase of these securities. The following table presents the gross unrealized losses and fair value for those AFS securities that were in an unrealized loss position for less than twelve months and for twelve months or greater as of March 31, 2017 and September 30, 2016 (in thousands):

	March 31, 2017				September 30, 2016			
	Less Than 12 Months		12 Months Or Greater		Less Than 12 Months		12 Months Or Greater	
Investment Type	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Certificate of deposit	$14,412	$ (8)	$—	$ —	$—	$ —	$—	$ —
U.S. agency securities	27,304	(220)	—	—	22,988	(38)	—	—
Government bonds	19,799	(197)	—	—	—	—	—	—
Commercial paper	4,951	(1)	—	—	11,479	(10)	—	—
Corporate bonds	212,903	(904)	—	—	153,491	(280)	1,000	—
Municipal debt securities	33,902	(62)	1,250	(1)	35,625	(42)	4,615	(5)
Total	$313,271	$ (1,392)	$1,250	$ (1)	$223,583	$ (370)	$5,615	$ (5)

Although we had certain securities that were in an unrealized loss position as of March 31, 2017, we expect to recover the full carrying value of these securities as we do not intend to, nor do we currently anticipate a need to sell these securities prior to recovering the associated unrealized losses. As a result, we do not consider any portion of the unrealized losses at either March 31, 2017 or September 30, 2016 to represent an other-than-temporary impairment, nor do we consider any of the unrealized losses to be credit losses.

Investment Maturities. The following table summarizes the amortized cost and estimated fair value of the AFS securities within our investment portfolio based on stated maturities as of March 31, 2017 and September 30, 2016, which are recorded within cash equivalents and both short and long-term investments in our consolidated balance sheets (in thousands):

	March 31, 2017		September 30, 2016	
Range of maturity	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within 1 year	$204,708	$204,655	$135,886	$135,884
Due in 1 to 2 years	219,732	219,571	225,679	225,953
Due in 2 to 3 years	104,297	103,570	164,339	164,583
Total	$528,737	$527,796	$525,904	$526,420

5. Property, Plant & Equipment

Property, plant and equipment are recorded at cost, with depreciation expense included in cost of licensing, cost of products, cost of services, R&D, S&M and G&A expenses in our consolidated statements of operations. PP&E consist of the following (in thousands):

	March 31, 2017	September 30, 2016
Land	$43,270	$ 43,325
Buildings and building improvements	276,916	251,700
Leasehold improvements	61,626	60,480
Machinery and equipment	94,917	88,943
Computer equipment and software	162,883	154,291
Furniture and fixtures	27,735	26,900

Equipment provided under operating leases	73,912	35,968
Construction-in-progress	6,520	32,576
Property, plant and equipment, gross	747,779	694,183
Less: accumulated depreciation	(276,684)	(250,527)
Property, plant and equipment, net	$471,095	$ 443,656

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6. Goodwill & Intangible Assets

Goodwill

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

	Goodwill
Balance at September 30, 2016	$309,616
Translation adjustments	(865)
Balance at March 31, 2017	$308,751

During the fiscal quarter ended December 30, 2016, we reorganized certain aspects of our internal business infrastructure primarily to integrate and align sales support more directly with our business units. In accordance with ASC Topic 350, we reviewed and reassigned our goodwill amongst our reporting units using a relative fair value allocation approach. Before doing so, we performed a “Step Zero” qualitative assessment during the quarter ended September 30, 2016 and determined that there was minimal risk of goodwill impairment in our pre-reorganization reporting units. Immediately after the reorganization, and related to our consolidated balance of goodwill of $307.1 million as of December 30, 2016, we initiated the "Step One" goodwill impairment assessment using a market approach and an income approach to value our reporting units. We completed this assessment as of March 31, 2017 and determined that there was no goodwill impairment. We did not incur any goodwill impairment losses in either the fiscal year-to-date period ended March 31, 2017 or April 1, 2016.

Intangible Assets

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

	March 31, 2017			September 30, 2016		
Intangible Assets, Net	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Acquired patents and technology	$298,556	$(115,122)	$183,434	$293,824	$(101,711)	$192,113
Customer relationships	56,803	(37,006)	19,797	56,821	(34,113)	22,708
Other intangibles	22,694	(22,202)	492	22,716	(22,195)	521
Total	$378,053	$(174,330)	$203,723	$373,361	$(158,019)	$215,342

We purchase various patents and developed technologies that enable us to further develop our audio, imaging and potential product offerings.

Patent Portfolio Acquisition. In the first quarter of fiscal 2016, we completed an asset purchase of a patent portfolio that fits within our existing patent licensing programs for consideration of $105.0 million. These assets are categorized within the "Acquired patents and technology" intangible asset class, and will be amortized over their weighted-average useful life of 9.0 years.

With regard to our purchase of intangible assets during the periods presented, the following table summarizes the consideration paid, the weighted-average useful lives over which the acquired assets will be amortized using the greater of either the straight-line basis or a ratio-to-revenue method, and the classification of their amortized expense in our consolidated statements of operations:

Fiscal Period	Total Purchase Consideration (1)	Weighted-Average Useful Life
	(in millions)	(in years)
Fiscal 2016		
Q1 - Quarter ended January 1, 2016	$105.3	9.0
Q2 - Quarter ended April 1, 2016	None	
	$105.3	9.0
Fiscal 2017		
Q1 - Quarter ended December 30, 2016	None	

Q2 - Quarter ended March 31, 2017	$5.3	18.0
	$5.3	18.0

(1) Amortization expense on the intangible assets from patent portfolio acquisitions is included within cost of revenue in our consolidated statements of operations.

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Amortization expense for our intangible assets is included in cost of licensing, cost of products, R&D and S&M expenses in our consolidated statements of operations. Amortization expense was $8.4 million and $8.2 million in the second quarter of fiscal 2017 and 2016, respectively, and $16.8 million and $16.7 million in the fiscal year-to-date period ended March 31, 2017 and April 1, 2016, respectively. As of March 31, 2017, estimated amortization expense in future fiscal periods was as follows (in thousands):

Fiscal Year	Amortization Expense
Remainder of 2017	$ 14,076
2018	25,592
2019	25,008
2020	24,545
2021	24,518
Thereafter	89,984
Total	$ 203,723

7. Stockholders' Equity & Stock-Based Compensation

We 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 and RSUs under our equity incentive plans, as well as shares under our ESPP.

Common Stock - Class A and Class B

Our Board of Directors has authorized two classes of common stock, Class A and Class B. At March 31, 2017, we had authorized 500,000,000 Class A shares and 500,000,000 Class B shares. At March 31, 2017, we had 57,702,863 shares of Class A common stock and 44,073,597 shares of Class B common stock issued and outstanding. Holders of our Class A and Class B common stock have identical rights, except that holders of our Class A common stock are entitled to one vote per share and holders of our Class B common stock are entitled to ten votes per share. Shares of Class B common stock can be converted to shares of Class A common stock at any time at the option of the stockholder and automatically convert upon sale or transfer, except for certain transfers specified in our amended and restated certificate of incorporation.

Stock Incentive Plans

2005 Stock Plan. In January 2005, our stockholders approved our 2005 Stock Plan, which our Board of Directors adopted in November 2004. The 2005 Stock Plan became effective on February 16, 2005, the day prior to the completion of our initial public offering. Our 2005 Stock Plan, as amended and restated, provides for the ability to grant incentive stock options, non-qualified stock options, restricted stock, RSUs, stock appreciation rights, deferred stock units, performance units, performance bonus awards and performance shares. A total of 46.0 million shares of our Class A common stock is authorized for issuance under the 2005 Stock Plan. For awards granted prior to February 2011, any shares subject to an award with a per share price less than the fair market value of our Class A common stock on the date of grant and any shares subject to an outstanding RSU award will be counted against the authorized share reserve as two shares for every one share subject to the award, and if returned to the 2005 Stock Plan, such shares will be counted as two shares for every one share returned. For those awards granted from February 2011 onward, any shares subject to an award with a per share price less than the fair market value of our Class A common stock on the date of grant and any shares subject to an outstanding RSU award will be counted against the authorized share reserve as 1.6 shares for every one share subject to the award, and if returned to the 2005 Stock Plan, such shares will be counted as 1.6 for every one share returned.

Stock Options. Stock options are granted at fair market value on the date of grant. Options granted to employees and officers prior to June 2008 generally vested over four years, with equal annual cliff-vesting and expire on the earlier of ten years after the date of grant or three months after termination of service. Options granted to employees and officers from June 2008 onward generally vest over four years, with 25% of the shares subject to the option becoming exercisable on the one-year anniversary of the date of grant and the balance of the shares vesting in equal monthly installments over the following 36 months. These options expire on the earlier of ten years after the date of grant or three months after termination of service. All options granted vest over the requisite service period and upon the exercise of stock options, we issue new shares of Class A common stock under the 2005 Stock Plan. Our 2005 Stock Plan also allows us to grant stock awards which vest based on the satisfaction of specific performance criteria.

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Performance-Based Stock Options (PSOs). In fiscal 2016, we began granting PSOs to our executive officers with shares of our Class A common stock underlying such options. The contractual term for the PSOs is seven years, with vesting contingent upon market-based performance conditions, representing the achievement of specified Dolby annualized TSR targets at the end of a three-year measurement period following the date of grant. If the minimum conditions are met, the PSOs earned will cliff vest on the third anniversary of the grant date, upon certification of achievement of the performance conditions by our Compensation Committee. Anywhere from 0% to 125% of the shares subject to a PSO may vest based on achievement of the performance conditions at the end of the three-year performance period.

In valuing the PSOs which will be recognized as compensation cost, we used a Monte Carlo valuation model. Aside from the use of an expected term for the PSOs commensurate with their shorter contractual term, the nature of the valuation inputs used in the Monte Carlo valuation model were consistent with those used to value our non-performance based options granted under the 2005 Plan. Compensation cost is being amortized on a straight-line basis over the requisite service period.

On December 15, 2016, we granted PSOs exercisable for an aggregate of up to 276,199 shares to our executive officers, all of which were outstanding as of March 31, 2017. On December 15, 2015, we granted PSOs exercisable for an aggregate of up to 419,623 shares to our executive officers, of which 397,748 were outstanding as of March 31, 2017.

The following table summarizes information about all stock options issued under our 2005 Stock Plan:

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (1) (in thousands)
Options outstanding at September 30, 2016	8,690	$ 35.98		
Grants	1,959	46.05		
Exercises	(567)	33.06		
Forfeitures and cancellations	(69)	37.70		
Options outstanding at March 31, 2017	10,013	38.10	7.1	$ 143,411
Options vested and expected to vest at March 31, 2017	9,268	37.84	7.0	135,212
Options exercisable at March 31, 2017	5,195	$ 35.55	6.0	87,726

(1) Aggregate intrinsic value is based on the closing price of our Class A common stock on March 31, 2017 of $52.41 and excludes the impact of options that were not in-the-money.

Restricted Stock Units. Beginning in fiscal 2008, we began granting RSUs to certain directors, officers and employees under our 2005 Stock Plan. Awards granted to employees and officers generally vest over four years, with equal annual cliff-vesting. Awards granted to directors prior to November 2010 generally vest over three years, with equal annual cliff-vesting. Awards granted after November 2010 and prior to fiscal 2014 to new directors vest over approximately two years, with 50% vesting per year, while awards granted from November 2010 onward to ongoing directors generally vest over approximately one year. Awards granted to new directors from fiscal 2014 onward vest on the earlier of the first anniversary of the award’s date of grant, or the day immediately preceding the date of the next annual meeting of stockholders that occurs after the award’s date of grant. Our 2005 Stock Plan also allows us to grant RSUs that vest based on the satisfaction of specific performance criteria, although no such awards had been granted as of March 31, 2017. At each vesting date, the holder of the award is issued shares of our Class A common stock. Compensation expense from these awards is equal to the fair market value of our Class A common stock on the date of grant and is recognized on a straight-line basis over the requisite service period.

The following table summarizes information about RSUs issued under our 2005 Stock Plan:

	Shares	Weighted-Average Grant Date Fair Value

	(in thousands)	
Non-vested at September 30, 2016	2,872	$ 40.16
Granted	1,091	46.15
Vested	(1,000)	36.24
Forfeitures	(63)	39.18
Non-vested at March 31, 2017	2,900	$ 43.79

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Employee Stock Purchase Plan. Our plan allows eligible employees to have up to 10 percent of their eligible compensation withheld and used to purchase Class A common stock, subject to a maximum of $25,000 worth of stock purchased in a calendar year or no more than 1,000 shares in an offering period, whichever is less. An offering period consists of successive six-month purchase periods, with a look back feature to our stock price at the commencement of a one-year offering period. The plan provides for a discount equal to 15 percent of the lower of the closing price of our Class A common stock on the New York Stock Exchange on the first and last day of the offering periods. The plan also includes an automatic reset feature that provides for an offering period to be reset and recommenced to a new lower-priced offering if the offering price of a new offering period is less than that of the immediately preceding offering period.

Stock Option Valuation Assumptions

We use the Black-Scholes option pricing model to determine the estimated fair value of employee stock options at the date of the grant. The Black-Scholes model includes inputs that require us to make certain estimates and assumptions regarding the expected term of the award, as well as the risk-free interest rate, and the volatility of our stock price over the expected term of the award.

Expected Term. The expected term of an award represents the estimated period of time that options granted will remain outstanding, and is measured from the grant date to the date at which the option is either exercised or canceled. Our determination of the expected term involves an evaluation of historical terms and other factors such as the exercise and termination patterns of our employees who hold options to acquire our Class A common stock, and is based on certain assumptions made regarding the future exercise and termination behavior.

Risk-Free Interest Rate. The risk-free interest rate is based on the yield curve of United States Treasury instruments in effect on the date of grant. In determining an estimate for the risk-free interest rate, we use average interest rates based on these instruments' constant maturities with a term that approximates and corresponds with the expected term of our awards.

Expected Stock Price Volatility. The expected volatility represents the estimated volatility in the price of our Class A common stock over a time period that approximates the expected term of the awards, and is determined using a blended combination of historical and implied volatility. Historical volatility is representative of the historical trends in our stock price for periods preceding the measurement date for a period that is commensurate with the expected term. Implied volatility is based upon externally traded option contracts of our Class A common stock.

Dividend Yield. The dividend yield is based on our anticipated dividend payout over the expected term of our option awards. Dividend declarations and the establishment of future record and payment dates are subject to the Board of Directors' continuing determination that the dividend policy is in the best interests of our stockholders. The dividend policy may be changed or canceled at the discretion of the Board of Directors at any time.

The weighted-average assumptions used in the determination of the fair value of our stock options were as follows:

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Expected term (in years)	5.13	5.24	5.13	5.24
Risk-free interest rate	1.9 %	1.5 %	2.1 %	1.7 %
Expected stock price volatility	27.0 %	30.1 %	27.5 %	29.8 %
Dividend yield	1.2 %	1.4 %	1.1 %	1.4 %

Stock-Based Compensation Expense

Stock-based compensation expense for equity awards granted to employees is determined by estimating their fair value on the date of grant, and recognizing that value as an expense on a straight-line basis over the requisite service period in which our employees earn the awards. Compensation expense related to these equity awards is recognized net of estimated forfeitures, which reduce the expense recorded in the consolidated statements of operations. The selection of applicable estimated forfeiture rates is based on an evaluation of trends in our historical forfeiture data with consideration for other potential driving factors. If in subsequent periods actual forfeitures significantly differ from our initial estimates, we will revise such estimates accordingly.

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The following two tables separately present stock-based compensation expense both by award type and classification in our consolidated statements of operations (in thousands):

Expense - By Award Type

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Compensation Expense - By Type				
Stock options	$4,575	$4,998	$9,378	$11,364
Restricted stock units	10,514	10,267	22,097	22,343
Employee stock purchase plan	894	821	1,723	1,759
Total stock-based compensation	15,983	16,086	33,198	35,466
Benefit from income taxes	(4,635)	(4,706)	(9,663)	(10,412)
Total stock-based compensation, net of tax	$11,348	$11,380	$23,535	$25,054

Expense - By Income Statement Line Item Classification

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Compensation Expense - By Classification				
Cost of products	$223	$219	$481	$499
Cost of services	123	114	257	243
Research and development	4,506	4,268	9,436	9,375
Sales and marketing	6,509	6,441	13,376	14,151
General and administrative	4,622	5,044	9,648	11,198
Total stock-based compensation	15,983	16,086	33,198	35,466
Benefit from income taxes	(4,635)	(4,706)	(9,663)	(10,412)
Total stock-based compensation, net of tax	$11,348	$11,380	$23,535	$25,054