Dolby Laboratories, Inc.
Form 10-K
November 24, 2015
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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 25, 2015
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)

Securities registered pursuant to Section 12(b) of the Act:

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

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.

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 27, 2015 was $1.1 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 27, 2015. This calculation does not reflect a determination that such persons are affiliates for any other purposes. On October 30, 2015, the registrant had 51,635,498 shares of Class A common stock, par value $0.001 per share, and 49,215,750 shares of Class B common stock, par value $0.001 per share, 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 2016 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 25, 2015. 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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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
AOCI	Accumulated Other Comprehensive Income
APIC	Additional-Paid In-Capital
ASP	Average Selling Price
ASU	Accounting Standards Update
ATSC	Advanced Television Systems Committee
AVR	Audio/Video Receiver
CODM	Chief Operating Decision-Maker
COGS	Cost Of Goods Sold
COSO	Committee Of Sponsoring Organizations (Of The Treadway Commission)
DCI	Digital Cinema Initiative
DD	Dolby Digital®
DD+	Dolby Digital Plus™
DMA	Digital Media Adapter
DTV	Digital Television
DVB	Digital Video Broadcasting
DVD	Digital Versatile Disc
EPS	Earnings Per Share
ESP	Estimated Selling Price
ESPP	Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
FCPA	Foreign Corrupt Practices Act
G&A	General & Administrative
GAAP	Generally Accepted Accounting Principles
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
IPO	Initial Public Offering
IPTV	Internet Protocol Television
ISO	Incentive Stock Option
ISV	Independent Software Vendor
IT	Information Technology
LCD	Liquid Crystal Display
LP	Limited Partner/Partnership
ME	Multiple Element
NATO	North American Theatre Owners
NOL	Net Operating Loss
NQ	Non-Qualified/Non-Statutory Stock Option
OCI	Other Comprehensive Income
ODD	Optical Disc Drive

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

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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 and 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.

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PART I

ITEM 1. BUSINESS

OVERVIEW

Dolby Laboratories creates audio, imaging, and voice technologies that transform entertainment and communications at the cinema, at home, at work and on mobile devices. Founded in 1965, our core strengths stem from expertise in digital signal processing and compression technologies that have transformed the ability of artists to convey entertainment experiences to their audiences through recorded media. Such technologies led to the development of our noise-reduction systems for analog tape recordings, and have since evolved into multichannel and object-oriented sound for cinema, digital television transmissions and devices, OTT video services, and DVD and Blu-ray discs and devices. More recently, our technologies have played a prominent role in the development of the next generation of audio technologies for the cinema, home entertainment, mobile and gaming experiences. Today, we derive the majority of our revenue from licensing our audio technologies. We also provide products and services that enable content creators and distributors to produce, encode, transmit and playback content for superior consumer experiences. We are also developing new applications, most recently for voice conferencing, as well as imaging solutions that enable HDR picture quality in televisions and cinemas.

On October 31, 2014, we completed our acquisition of Doremi Technologies LLC ("Doremi"), a privately held company, and certain assets related to the business of Doremi from Doremi Labs, Inc. and Highlands Technologies SAS. Doremi was a leading developer and manufacturer of digital cinema servers and the acquisition is expected to accelerate the delivery and deployment of innovative solutions to exhibitors. Doremi's cumulative operating results from the acquisition date are included in our consolidated financial statements for the fiscal year ended September 25, 2015. These results did not have a material impact on our total consolidated revenues or net income for the period. Refer to Note 13 “Acquisitions” to our consolidated financial statements for additional information regarding the acquisition.

OUR STRATEGY

Key elements of our strategy include:

Advancing the Science of Sight and Sound. We apply our understanding of the human senses, and audio and imaging engineering to develop technologies aimed at improving how people experience and interact with their communications and entertainment content.

Providing Creative Solutions. We promote the use of our solutions as creative tools, and provide our products, services and technologies to filmmakers, sound mixers and other production teams in their creative processes. Our tools help showcase the quality and impact of their efforts and intent, and this may generate market demand.

Delivering Superior Experiences. Our technologies and solutions optimize playback and communications so that users may enjoy sound and sight in Dolby, a more rich, clear, and immersive experience.

REVENUE GENERATION

The following table presents a summary of the composition of our revenues for all periods presented:

Revenue	Fiscal Year Ended September 25, 2015		September 26, 2014		September 27, 2013	
Licensing	89	%	92	%	89	%
Products	9	%	6	%	9	%
Services	2	%	2	%	2	%
Total	100	%	100	%	100	%

We license our technologies in 50 countries, and our licensees distribute products that incorporate our technologies throughout the world. As shown in the table below, we generate a significant portion of our revenue from outside the United States. 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.

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Revenue By Geographic Location	Fiscal Year Ended September 25, 2015		September 26, 2014		September 27, 2013	
United States	29	%	33	%	28	%
International	71	%	67	%	72	%

Licensing

We license our technologies to a broad range of customers who incorporate them into their products for enhanced audio and imaging functionality. These products cover a wide range of end-user experiences whether it be at home, at work, on mobile devices, or at the cinema. We have active licensing arrangements with approximately 550 electronics product OEMs and software developer licensees.

We offer a broad array of technologies that are used for numerous applications. However, our key technologies are as follows:

Technology	Description
Dolby Digital Plus (DD+)	An advanced digital audio coding technology that offers efficient audio transmission of premium audio for a wide range of media applications such as DTV, mobile, and Internet-based services
Dolby Digital (DD)	A digital audio coding technology that provides multichannel sound in the home from DVDs, digital terrestrial broadcast, cable, and satellite systems
AAC & HE-AAC	High quality audio coding technologies used for broadcast, download and streaming content
Dolby® TrueHD	A lossless audio coding technology that enables content providers to include premium audio for Blu-ray Disc and streaming services without using excessive storage capacity
Dolby Atmos®	An object-oriented audio technology for home theaters, device speakers, and headphones that allows sound to be precisely placed and moved anywhere in the listening environment including the overhead dimension. The Dolby Atmos experience can be provided via multiple Dolby audio coding technologies
Dolby® AC-4	A next-generation digital audio coding system that addresses the current and future needs of broadcast and streaming entertainment services. Dolby AC-4 provides the greatest efficiency in delivering new experiences to every playback device
Dolby Voice®	An audio conferencing technology with superior spatial perception, voice clarity and background noise reduction that emulates the in-person meeting experience
Dolby Vision™	Dolby Vision is an imaging technology that offers more realistic distinctions in color, brighter highlights, and improved shadow details for cinema, DTV, and other consumer devices

The following table presents the composition of our licensing business and revenues for all periods presented:

Market	Fiscal Year Ended September 25, 2015		September 26, 2014		September 27, 2013		Main Products Incorporating Our Technologies
Broadcast	44	%	43	%	37	%	Televisions & STBs
PC	17	%	19	%	24	%	Windows and Apple operating systems
Consumer Electronics	14	%	15	%	16	%	DVD and Blu-ray Disc devices, AVRs, DMAs, HTIBs & Soundbars
Mobile	13	%	13	%	12	%	Smartphones, tablets & other mobile devices
Other	12	%	10	%	11	%	Video game consoles, automobile entertainment & audio conferencing
Total	100	%	100	%	100	%	

We have three primary licensing models: a two-tier model, an integrated licensing model, and a patent licensing model.

Two-Tier Licensing Model. Most of our consumer entertainment 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 ICs. Licensed semiconductor manufacturers, whom we refer to as “implementation licensees,” sell their ICs to OEMs of consumer entertainment products, which we refer to as “system licensees.” System licensees separately obtain licenses from us that allow them to make and sell finished end-user products that incorporate our technologies in ICs purchased from our implementation licensees.

Implementation licensees pay us a one-time, up-front fee per license. In exchange, the licensee receives a licensing package which includes information useful in implementing our technologies into their chipsets. Once implemented, the licensee will send us a sample chipset for quality control evaluation and after we validate the design, the licensee is permitted to sell the chipset for use solely by our system licensees.

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System licensees are required to provide us with prototypes of products that incorporate our technologies for which they are licensed for quality control evaluation, or under certain circumstances, with self-test results for our review. If the prototype or test results are approved, the licensee is permitted to buy ICs from any Dolby implementation licensee with a license for the same Dolby technology, and to sell approved products to retailers, distributors, and consumers. For the use of our technologies, our system licensees pay an initial licensing fee as well as royalties, which represent the majority of the revenue recognized from these arrangements. The amount of royalties we collect from a system licensee on a particular product depends on a number of factors including the mix of Dolby technologies used, the nature of the implementations, and the volume of products incorporating our technologies that are shipped by the system licensee.

Integrated Licensing Model. We also license our technologies to software operating system vendors and ISVs, and to certain other OEMs that act as combined implementation and system licensees. These licensees incorporate our technologies in their software used on PCs, in mobile applications, or in ICs they manufacture and incorporate into their products. As with the two-tier licensing model, the combined implementation and system licensee pays us an initial licensing fee in addition to royalties as determined by the mix of Dolby technologies used, the nature of the implementations, and the volume of products incorporating our technologies that are shipped, and is subject to the same quality control evaluation process.

Patent Licensing Model. We license our patents directly to manufacturers that use our intellectual property in their products. We also license our patents indirectly through patent pools which are arrangements between multiple patent owners to jointly offer and license pooled patents to licensees. Finally, we generate service fees for managing patent pools on behalf of third party patent owners through our wholly-owned subsidiary, Via Licensing Corporation. The Via Licensing patent pools enable product manufacturers to efficiently and transparently secure patent licenses for audio coding, interactive television, digital radio and wireless technologies. Currently, most of our revenues earned from patent licensing relate to the licensing of AAC technologies.

Settlements & Back Payments From Licensees. Due to ongoing collection efforts, licensing revenue recognized in any given quarter may include back payments and/or settlements with licensees. Such collections have become a recurring element of our business which we cannot predict with certainty. Within the Results of Operations section of Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations", settlements and back payments are collectively referred to as "recoveries."

Products

We design and manufacture audio and imaging products for the film production, cinema, television, broadcast, and entertainment industries. Distributed in over 70 countries, these products are used in content creation, distribution, and playback to enhance image and sound quality, and improve transmission and playback.

The following table presents the composition of our products revenue for all periods presented:

	Fiscal Year Ended					
Market	September 25, 2015		September 26, 2014		September 27, 2013	
Cinema	89	%	86	%	87	%
Broadcast	6	%	10	%	9	%
Other	5	%	4	%	4	%
Total	100	%	100	%	100	%

Products revenue is derived primarily from sales of the following:

Product	Description
Digital Cinema Servers	Our Digital Cinema Server products are used to load, store, decrypt, decode and watermark digital film files for presentation on digital cinema projectors. We also provide products that encrypt, encode and package digital film data for distribution
Dolby Cinema Audio Products	Our Cinema Processors decode and render digital cinema soundtracks including those using Dolby Atmos. We also provide products that author, encrypt, encode and package Dolby

	Atmos sound tracks. Dolby Atmos is an object-oriented audio platform enabling precision and flexibility in sound placement and movement to create the most natural and realistic experience in a cinema environment
Other Products	Broadcast hardware and software used to encode, transmit, and decode multiple channels of high quality audio for DTV and HDTV distribution, Dolby Voice conference phones, monitors, and 3-D glasses and kits

Services

We offer a broad array of services to support theatrical and television production for cinema exhibition, broadcast, and home entertainment. Our engineers assist in the integration and support of our technologies and products to create and reproduce both audio and imaging content. The specific areas in which their assistance is provided can involve equipment calibration, mixing room alignment, equalization, as well as color and light image calibration. Our engineers also provide equipment training, system and venue design consultation, as well as on-site technical expertise to cinema operators, film festivals, movie premieres, and trade shows throughout the world.

INTELLECTUAL PROPERTY

We have a substantial base of intellectual property assets, including patents, trademarks, copyrights, and trade secrets developed based on our technical expertise.

As of September 25, 2015, we had approximately 5,100 issued patents in addition to approximately 3,200 pending patent applications in more than 70 jurisdictions throughout the world. Our currently issued patents expire at various times through April 2040.

Some of our patents relating to Dolby Digital technologies, from which we derive a significant, but declining portion of our licensing revenue, have expired and others will expire over the next several years. The primary products where Dolby Digital is widely used include DVD players (but not Blu-ray players), TVs, and STBs. We have transitioned a number of our Dolby Digital licensees to Dolby Digital Plus technologies, an extension of our Dolby Digital technologies, whose patents generally expire later than the Dolby Digital patents. We are continuing to make progress in transitioning other Dolby Digital licensees to Dolby Digital Plus, technologies from which we derive the majority of our licensing revenue.

We pursue a general practice of filing patent applications for our technologies in the U.S. and foreign countries where our customers manufacture, distribute, or sell licensed products. We actively pursue new applications to expand our patent portfolio to address new technological innovations. We have multiple patents covering aspects and improvements for many of our technologies.

We have approximately 990 trademark registrations throughout the world for a variety of word marks, logos, and slogans. Our trademarks cover our various products, technologies, improvements, and features, as well as the services that we provide. These trademarks are an integral part of our technology licensing program, and licensees typically elect to place our trademarks on their products to inform consumers that their products incorporate our technology and meet our quality specifications.

We protect our intellectual property rights both domestically and internationally. From time to time, we experience problems with OEMs of consumer entertainment products in emerging economies. OEMs have failed to report or have underreported shipments of their products that incorporate our technologies. We have also had problems with implementation licensees selling ICs with our technologies to third parties that are not system licensees. We anticipate that such problems will continue to occur. We have taken steps in the past to enforce our intellectual property rights and expect to do so in the future.

Moreover, we have relatively few or no issued patents in certain countries. For example, in China, Taiwan, and India, we have only limited patent protection for our Dolby Digital technologies. Consequently, we may realize less revenue for Dolby Digital from those regions in the future. Maintaining or growing our licensing revenue in developing countries such as China, Taiwan, and India will depend in part, on our ability to obtain patent rights in these countries, which is uncertain. Further, because of the limitations of the legal systems in many countries, the effectiveness of patents obtained or that may in the future be obtained, if any, is uncertain.

INDUSTRY STANDARDS

Selected Dolby technologies have been adopted as the explicit or de-facto industry standard for broadcast and online delivery in various markets. Explicit industry standards are adopted through a standardization process whereby government entities, industry standards-setting bodies, trade associations, and others evaluate and then prescribe the use of a technology. For example, as global broadcast standards for digital television and HD television have developed, Dolby audio technologies have been adopted in various regions of the world, highlights of which are as follows:

- Dolby Digital is mandated for multiple regions including North America and South Korea.
- Developing digital television markets across sub-Saharan Africa, South-East Asia and India have required Dolby Digital Plus in their digital terrestrial television specifications. Dolby Digital Plus and HE-AAC are mandated

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across many countries including France, Italy, the United Kingdom, Sweden, Germany, and Russia for terrestrial broadcast.

- Dolby Digital Plus is the de-facto technology used by a wide range of pay-TV operators and streaming services worldwide.
- China has selected Dolby Digital and Dolby Digital Plus as optional technologies for the country's digital terrestrial television specification.

We participate in a broad spectrum of organizations and industry standards bodies worldwide that establish explicit industry standards. In addition, Dolby technologies have become de facto industry standards in many consumer entertainment products. De facto industry standards are adopted by industry participants when technologies are introduced to the marketplace and become widely used. 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 OEMs to include these technologies in their televisions and STBs for the European market.

RESEARCH AND DEVELOPMENT

We conduct R&D activities at numerous locations both in the United States and internationally. Dolby's history of producing innovative technology has created many forms of intellectual property. When licensed from us, this intellectual property generates revenue that enables further innovation.

We have historically focused the majority of our R&D resources on audio technologies. In recent years, we have expanded our efforts to identify and develop new technologies. Beyond the strong audio platform we have created, we announced two new platforms during fiscal 2014 - Voice and Imaging. Each of these platforms can support many offerings and we anticipate bringing new products to market using these platforms in the future.

R&D expenses included in our consolidated statements of operations were as follows (in thousands):

	Fiscal Year Ended		
	September 25, 2015	September 26, 2014	September 27, 2013
Research & Development	$201,324	$183,128	$168,746

PRODUCT MANUFACTURING

Our product quality is enabled through the use of well-established, and in some cases, highly automated, assembly processes along with rigorous testing of our products. Although we have some manufacturing facilities, we rely primarily upon contract manufacturers for the majority of our production capacity. We purchase components and fabricated parts from multiple suppliers; however, we rely on sole source suppliers for certain components used to manufacture our products. We source components and fabricated parts both locally and globally.

SALES AND MARKETING

Our marketing efforts focus on demonstrating how our solutions improve entertainment and communications. We sell our solutions primarily using an internal sales organization to various customers in the markets where we operate. We promote our solutions and our brand through industry events such as trade-shows, film festivals, movie premieres, product launches, as well as through our website, public relations, direct marketing, co-marketing programs and social media. In addition, we hold the naming rights to the Dolby Theatre, home to the Academy Awards® in Hollywood, California, where we showcase our technology and host high-profile events.

We maintain more than twenty sales offices in key regions around the globe. S&M expenses included in our consolidated statements of operations were as follows (in thousands):

	Fiscal Year Ended		
	September 25, 2015	September 26, 2014	September 27, 2013
Sales & Marketing	$279,174	$252,647	$231,103

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CUSTOMERS

We license our technologies to a broad set of customers that operate in a wide range of industries, and we sell our professional products either directly to the end user or, more commonly, through dealers and distributors. Users of our professional products and services include film studios, content creators, post-production facilities, cinema operators, broadcasters, and video game designers.

Samsung is one of our licensees and accounted for approximately 12%, 11% and 12% of our total revenue in fiscal 2015, 2014 and 2013, respectively, and consisted primarily of licensing revenue from our mobile and broadcast markets.

COMPETITION

The markets for entertainment industry technologies are highly competitive, and we face competitive threats and pricing pressure in our markets. Competitors in our respective fields include:

Licensed Technologies	Products	Services
Audyssey Laboratories, Inc.	Barco NV	Deluxe Entertainment Services Group Inc.
DTS, Inc.	GDC Technology Limited	DTS, Inc.
Fraunhofer Institut Integrierte Schaltungen	IMAX Corporation	Sony Corporation
Koninklijke Philips Electronics NV	MasterImage 3D, Inc.	Technicolor
Technicolor	NEC Corporation	
Thomson Video Networks	Qube Cinema, Inc.	
Samsung	QSC Audio Products, LLC	
Sony Corporation	RealD, Inc.	
Waves Audio Ltd.	Sony Corporation	
	Technicolor	
	Ultra Stereo Labs, Inc. (USL)	
	XpanD, Inc.	

Some of our current and future competitors may have significantly greater financial, technical, marketing, and other resources than we do, or may have more experience or advantages in the markets in which they compete. For example, some of our current or potential competitors may have an advantage over us based on greater experience in certain technology markets. In addition, some of our current or potential competitors may be able to offer integrated systems in certain markets for entertainment technologies, including audio, imaging, and digital rights management technologies, which could make competing technologies that we develop or acquire obsolete. By offering an integrated system solution, these potential competitors may also be able to offer competing technologies at lower prices than we can, which could adversely affect our operating results.

Many products that include our audio technologies also include audio technologies developed by our competitors. We believe that the principal competitive factors in our markets include some or all of the following:

- Degree of access and inclusion in industry standards;
- Technological performance, flexibility, and range of application;
- Brand recognition and reputation;
- Timeliness and relevance of new product introductions;
- Quality and reliability of products and services;
- Relationships with producers, directors, and distributors in the film industry, with television broadcast industry leaders, and with the management of semiconductor and consumer electronics OEMs;
- Availability of compatible high quality audio content; and
- Price.

We believe we compete favorably with respect to many of these factors. Our products and services span the audio and imaging sectors of several distinct and diverse industries, including the cinema, broadcasting, visual, gaming, communications and recording industries. The lack of clear definition of the markets in which our products, services, and technologies are sold or licensed, the nature of our technologies, their potential use for various commercial applications, and the diverse nature of and lack of detailed reporting by our competitors, make it impracticable to quantify our position.

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EMPLOYEES

As of September 25, 2015, we had 1,867 employees worldwide, of which 714 employees were based outside of the U.S. None of our employees are subject to a collective bargaining agreement.

CORPORATE AND AVAILABLE INFORMATION

We were founded in London, England in 1965 and incorporated in the State of New York in 1967. We reincorporated in California in 1976 and reincorporated in Delaware in September 2004. Until October 2015, our principal corporate offices had been located at 100 Potrero Avenue, San Francisco, California 94103. Beginning in October 2015, our principal corporate offices are now located at 1275 Market Street, San Francisco, California 94103. Our telephone number is (415) 558-0200.

Our Internet address is www.dolby.com. We make available on our website, free of charge, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our SEC reports can be accessed through the Investor Relations section of our Internet website. The information found on our Internet website is not part of this or any other report we file with or furnish to the SEC.

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ITEM 1A. RISK FACTORS

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not currently known to us or that we currently deem less significant may also affect our business operations or financial results. If any of the following risks actually occur, our business, operating results and financial condition could be materially adversely affected.

REVENUE GENERATION

Markets We Target

Dependence on Sales by Licensees. We depend on OEMs and other licensees to incorporate our technologies into their products. Our license agreements generally do not have minimum purchase commitments, are typically non-exclusive, and frequently do not require incorporation or use of our technologies. Our revenue will decline if our licensees choose not to incorporate our technologies in their products or they sell fewer products incorporating our technologies.

Impact of PC Sales. Revenue from our PC market depends on several factors, including underlying PC unit shipment growth, the extent to which our technologies are included on computers, through operating systems or otherwise, and the terms of any royalties or other payments we receive. We face challenges in the PC market, including:

- Purchasing trends away from traditional PCs and toward computing devices without optical disc drives, such as ultrabooks and tablets;
- Because PC OEMs are required to pay us a higher per-unit royalty for Windows 8 and Windows 10 PCs that include optical disc playback functionality than Windows 8 or Windows 10 PCs that do not include such functionality, the continued decreasing inclusion of optical disc drives in Windows 8 or Windows 10 PCs will result in lower per-unit royalties;
- PC software that includes our technologies on an unauthorized and infringing basis, for which we receive no royalty payments; and
- Continued decreasing inclusion of independent software vendor media applications by PC OEMs.

Declines in Optical Disc Media. For many years, movies have been distributed, purchased, and consumed through optical disc media, such as DVD and more recently, Blu-ray Disc. However, the rapid advancement of online and mobile content delivery has resulted in a trend toward movie downloading and streaming services. We expect the shift away from optical disc media to online and mobile media content consumption to continue, resulting in decreased revenue from DVD and Blu-ray Disc players.

Mobile Industry Risks. Successful penetration of the mobile device market is important to our future growth. The mobile device market, particularly smartphones and tablets, is characterized by rapidly changing market conditions, frequent product introductions and intense competition based on features and price. Our Dolby Digital and DD+ technologies are not mandated as an industry standard for mobile devices. We must continually convince mobile device OEMs and end users of mobile devices of the value of our technologies. With shorter product lifecycles, it is easier for mobile device OEMs to add or remove our technologies from mobile devices than it was for PC OEMs.

In order to increase the value of our technologies in the mobile market, we have worked with online and mobile media content service providers to encode their content with our technologies, which could affect OEM and software vendor demand for our decoding technologies. However, the online and mobile media content services markets are also characterized by intense competition, evolving industry standards and business and distribution models, disruptive software and hardware technology developments, frequent product and service introductions and short life cycles, and price sensitivity on the part of consumers, all of which may result in downward pressure on pricing or the removal of our technologies by these providers.

Cinema Industry Risks. Our cinema product sales are subject to fluctuations based on events and conditions in the cinema industry, such as the construction of new screens or upgrade of existing screens. In addition, in the first quarter of fiscal 2015, we launched Dolby Cinema, a branded premium cinema offering for exhibitors and movie audiences that combines Dolby Vision laser projection and Dolby Atmos sound, and more recently, announced Dolby Cinema at AMC Prime, our latest premium cinema offering for movie audiences. Although we have invested, and expect to continue to invest, a substantial amount of time and resources developing Dolby Cinema and building our partnership with AMC in connection with the launch of Dolby Cinema at AMC Prime, this is a new market for us and we may not recognize a meaningful amount of revenue from these efforts in the near future, or at all, if Dolby Cinema is not ultimately successful. In addition, the success of our Dolby Cinema offering will be tied to the pipeline and success of motion pictures available at Dolby Cinema locations generally.

In addition, a decrease in our ability to develop and introduce new cinema products and services successfully could affect licensing of our consumer technologies, because the strength of our brand and our ability to use professional product developments to introduce new consumer technologies would be impaired. A number of factors can affect the number of movies that are produced, including strikes and work stoppages within the cinema industry and budgetary constraints and changes in cinema industry business models.

Maturity of Digital Cinema Market. The industry transition to digital cinema is essentially complete, and the demand for new digital cinema screens has dropped significantly, leading to lower sales volumes of our cinema products. Future cinema product growth depends on a number of factors, including new theater construction, the introduction of new technologies, such as Dolby Atmos and Dolby Vision, our successful integration of Doremi, and entering into a replacement cycle where previously purchased cinema products are upgraded or replaced. We face a number of challenges relating to the maturity of the digital cinema market, including:

- Exhibitors may choose competing products with different features or lower prices; and
- Pricing and other competitive pressures have caused us to implement pricing strategies which have adversely affected gross margins of our cinema products.

Customers and Distributors

Loss of Key Licensee or Customer. A small number of our licensees or customers may represent a significant percentage of our licensing, products, or services revenue. Although we generally have agreements with these licensees or customers, these agreements typically do not require any minimum purchases or minimum royalty fees and do not prohibit licensees from using competing technologies or customers from purchasing products and services from competitors. Because many of our markets are rapidly evolving, customer demand for our technologies and products can shift quickly. Because of our increased presence in the mobile market where our Dolby Digital and Dolby Digital Plus technologies are not mandated as industry standards, the risk that a large licensee may reduce or eliminate its use of our technologies has increased.

Reliance on Semiconductor Manufacturers. Our licensing revenue from system licensees depends in large part upon the availability of ICs that implement our technologies. IC manufacturers incorporate our technologies into these ICs, which are then incorporated in consumer entertainment products. We do not manufacture these ICs, but rather depend on IC manufacturers to develop, produce, and then sell them to system licensees in accordance with their agreements. We do not control the IC manufacturers' decisions whether or not to incorporate our technologies into their ICs, and we do not control their product development or commercialization efforts.

Consumer Spending Weakness. Weakness in general economic conditions may suppress consumer demand in our markets. Many of the products in which our technologies are incorporated are discretionary goods, such as PCs, televisions, STBs, Blu-ray Disc players, video game consoles, AVRs, mobile devices, in-car entertainment systems, and home-theater systems. Weakness in general economic conditions may also lead to licensees and customers becoming delinquent on their obligations to us or being unable to pay, resulting in a higher level of write-offs. Economic conditions may increase underreporting and non-reporting of royalty-bearing revenue by our licensees as well as increase the unauthorized use of our technologies.

Reliance on Distributors. We rely significantly on a global network of independent, regional distributors to market and distribute our cinema and broadcast products. Our distributor arrangements are non-exclusive and our distributors are not obligated to buy our products and can represent competing products, and they may be unwilling or unable to dedicate the resources necessary to promote our portfolio of products. Our distributors could retain product channel inventory levels that exceed future anticipated sales, which could affect future sales to those distributors. In addition, failure of our distributors to adhere to our policies designed to promote compliance with global anticorruption laws, export controls, and local laws, could subject us to criminal or civil penalties and stockholder litigation.

Marketing and Branding

Importance of Brand Strength. Maintaining and strengthening the Dolby brand is critical to maintaining and expanding our licensing, products, and services business, as well as our ability to offer technologies for new markets, including Dolby Voice for the communications market, Dolby Cinema, Dolby Vision and other imaging offerings for the consumer market, and others. Our continued success depends on our reputation for providing high quality technologies, products, and services across a wide range of entertainment markets, including the consumer entertainment, PC, broadcast, and gaming markets. If we fail to promote and maintain the Dolby brand successfully in licensing, products or services, our business will suffer. Furthermore, we believe that the strength of our brand may affect the likelihood that our technologies are adopted as industry standards in various markets and for various applications. Our ability to maintain and strengthen our brand will depend heavily on our ability to develop innovative technologies for the entertainment industry, to enter into new markets successfully, and to provide high quality products and services in these new markets.

Industry Standards

The entertainment industry depends upon industry standards to ensure compatibility across delivery platforms and a wide variety of consumer entertainment products. We make significant efforts to design our products and technologies to address capability, quality, and cost considerations so that they either meet, or more importantly, are adopted as industry standards across the broad range of entertainment industry markets in which we participate, as well as the markets in which we hope to compete in the future. To have our products and technologies adopted as industry standards, we must convince a broad spectrum of standards-setting organizations throughout the world, as well as our major customers and licensees who are members of such organizations, to adopt them as such. The market for broadcast technologies has traditionally been heavily based on industry standards, often mandated by governments choosing from among alternative standards, and we expect this to be the case in the future.

Difficulty Becoming Incorporated in an Industry Standard. Standards-setting organizations establish technology standards for use in a wide range of consumer entertainment products. It can be difficult for companies to have their technologies adopted as an industry standard, as multiple companies, including ones that typically compete against one another, are involved in the development of new technology standards for use in entertainment-oriented products.

Participants May Choose Among Alternative Technologies within Standards. Even when a standards-setting organization incorporates our technologies in an industry standard for a particular market, our technologies may not be the sole technologies adopted for that market. Our operating results depend upon participants in that market choosing to adopt our technologies instead of competitive technologies that also may be acceptable under such standard. For example, the continued growth of our revenue from the broadcast market will depend upon both the continued global adoption of digital television generally and the choice to use our technologies where it is one of several accepted industry standards.

Being Part of a Standard May Limit Our Licensing Practices. When a standards-setting organization mandates our technologies, we generally must agree to license such technologies on a fair, reasonable, and non-discriminatory basis, which could limit our control over the use of these technologies. In these situations, we must often limit the royalty rates we charge for these technologies and we may be unable to limit to whom we license such technologies or to restrict many terms of the license. We have in the past, and may in the future, be subject to claims that our licensing of industry standard technologies may not conform to the requirements of the standards-setting organization. Allegations such as these could be asserted in private actions seeking monetary damages and injunctive relief, or in regulatory actions. Claimants in such cases could seek to restrict or change our licensing practices or our ability to license our technologies.

Royalty Reporting

Our operating results fluctuate based on the risks set forth in this section, as well as on:

- Timing of royalty reports from our licensees and meeting revenue recognition criteria;
- Royalty reports including positive or negative corrective adjustments;
- Retroactive royalties that cover extended periods of time; and
- Timing of revenue recognition under licensing agreements and other contractual arrangements, including recognition of unusually large amounts of revenue in any given quarter because not all of our revenue recognition criteria were met in prior periods.

Inaccurate Licensee Royalty Reporting. We generate licensing revenue primarily from OEMs who license our technologies and incorporate those technologies in their products. Our license agreements generally obligate our licensees to pay us a specified royalty for every product they ship that incorporates our technologies, and we rely on our licensees to report their shipments accurately. However, we have difficulty independently determining whether our licensees are reporting shipments accurately, particularly with respect to software incorporating our technologies

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because unauthorized copies of such software can be made relatively easily. A third party may disagree with our interpretation of the terms of a license agreement or, as a result of an audit, a third party could challenge the accuracy of our calculation. We are regularly involved in discussions with third party technology licensees regarding license terms. Most of our license agreements permit us to audit our licensees' records and we routinely exercise these rights, but audits are generally expensive, time-consuming, and potentially detrimental to our ongoing business relationships with our licensees. In the past, licensees have understated or failed to report the number of products incorporating our technologies that they shipped, and we have not been able to collect and recognize revenue to which we were entitled. We expect that we will continue to experience understatement and non-reporting of royalties by our licensees.

Royalties We Owe Others. In some cases, the products we sell and the technologies we license to our customers include intellectual property that we have licensed from third parties. Our agreements with these third parties generally require us to pay them royalties for that use, and give the third parties the right to audit our calculation of those royalties. A third party may disagree with our interpretation of the terms of a license agreement or, as a result of an audit, a third party could challenge the accuracy of our calculation. We are regularly involved in discussions with third party technology licensors regarding license terms. A successful challenge by a third party could result in the termination of a license agreement or an increase in the amount of royalties we have to pay to the third party.

TECHNOLOGY TRENDS AND DEVELOPMENTS

Technology Innovation. Our revenue growth will depend upon our success in new and existing markets for our technologies, such as digital broadcast, mobile devices, online and mobile media distribution, consumer imaging and communications. The markets for our technologies and products are defined by:

- Rapid technological change;
- New and improved technology and frequent product introductions;
- Changing consumer and licensee demands;
- Evolving industry standards; and
- Technology and product obsolescence.

Our future success depends on our ability to enhance our technologies and products and to develop new technologies and products that address the market needs in a timely manner. Technology development is a complex, uncertain process requiring high levels of innovation, highly-skilled engineering and development personnel, and the accurate anticipation of technological and market trends. We may not be able to identify, develop, acquire, market, or support new or enhanced technologies or products on a timely basis, if at all.

Experience with New Markets and Business Models. Our future growth will depend, in part, upon our expansion into areas beyond our core audio licensing business. Over the past two years, we have introduced Dolby Voice technology for the communications market, Dolby Vision for the home and cinema markets, and our branded-theater experience, Dolby Cinema. As we enter into these new markets, we will face new sources of competition, new business models, and new customer relationships. In order to be successful in these markets, we will need to cultivate new industry relationships to bring our products, services, and technologies to market. Our inexperience in one or more of these markets could limit our ability to successfully execute on our growth strategy.

INTELLECTUAL PROPERTY

Our business is dependent upon protecting our patents, trademarks, trade secrets, copyrights, and other intellectual property rights. Effective intellectual property rights protection, however, may not be available under the laws of every country in which our products and services and those of our licensees are distributed. The efforts we have taken to protect our proprietary rights may not be sufficient or effective. We also seek to maintain select intellectual property as trade secrets, and third parties or our employees could intentionally or accidentally compromise the intellectual property that we maintain as trade secrets. In addition, protecting our intellectual property rights is costly and time consuming. We have taken steps in the past to enforce our intellectual property rights and expect to do so in the future. However, it may not be practicable or cost effective for us to enforce our intellectual property rights fully, particularly in some countries or where the initiation of a claim might harm our business relationships.

We generally seek patent protection for our innovations. However, our patent program faces a number of challenges, including:

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- Possibility that innovations may not be protectable;
- Failure to protect innovations that later turn out to be important;
- Insufficient patent protection to prevent third parties from designing around our patent claims;
- Our pending patent applications may not be approved; and
- Possibility that an issued patent may later be found to be invalid or unenforceable.

Patent Royalties and Expiration. Many of the technologies that we license to our system licensees are covered by patents, and the licensing revenue that we receive from those licenses depends in large part upon the life of such patents. In general, our agreements with our licensees require them to pay us a full royalty with respect to a particular technology only until the last patent covering that technology expires in a particular country. As of September 25, 2015, we had approximately 5,100 issued patents in addition to approximately 3,200 pending patent applications in more than 70 jurisdictions throughout the world. Our currently issued patents expire at various times through April 2040.

We seek to mitigate this risk in a variety of ways. We regularly look for opportunities to expand our patent portfolio through organic development and acquisitions. We develop proprietary technologies to replace licensing revenue from technologies covered by expiring patents with licensing revenue supported by patents with a longer remaining life. And we develop and license our technologies in a manner designed to minimize the chance that a system licensee would develop competing technologies that do not include any Dolby intellectual property.

In particular, some of our patents relating to Dolby Digital technologies, from which we derive a significant, but declining portion of our licensing revenue, have expired and others will expire over the next several years. The primary products where Dolby Digital is widely used include DVD players (but not Blu-ray players), TVs and STBs. We have transitioned a number of our Dolby Digital licensees, and continue to make progress in transitioning other Dolby Digital licensees, to Dolby Digital Plus technologies, an extension of our Dolby Digital technologies, whose patents generally expire later than the Dolby Digital patents. To be successful, we must continue to transition licensees to Dolby Digital Plus, and discourage licensees of Dolby Digital Plus to transition back to Dolby Digital as our original patents covering this technology expire.

Unauthorized Use of Our Intellectual Property. We have often experienced, and expect to continue to experience, problems with non-licensee OEMs and software vendors, particularly in China and other emerging economies, incorporating our technologies and trademarks into their products without our authorization and without paying us any licensing fees. Manufacturers of integrated circuits, or ICs, containing our technologies occasionally sell these ICs to third parties who are not our system licensees. These sales, and the failure of such manufacturers to report the sales, facilitate the unauthorized use of our intellectual property. As emerging economies transition from analog to digital content, such as the transition from analog to digital broadcast, we expect to experience increased problems with this form of piracy.

Intellectual Property Litigation. Companies in the technology and entertainment industries frequently engage in litigation based on allegations of infringement or other violations of intellectual property rights. We have faced such claims in the past and we expect to face similar claims in the future. Any intellectual property claims, with or without merit, could be time-consuming, expensive to litigate or settle, and could divert management resources and attention. In the past, we have settled claims relating to infringement allegations and agreed to make payments in connection with such settlements. An adverse determination in any intellectual property claim could require that we pay damages or stop using technologies found to be in violation of a third party’s rights and could prevent us from offering our products and services to others. In order to avoid these restrictions, we may have to seek a license for the technology, which may not be available on reasonable terms or at all. Licensors could also require us to pay significant royalties. As a result, we may be required to develop alternative non-infringing technologies, which could require significant effort and expense. If we cannot license or develop technologies for any aspects of our business found to be infringing, we may be forced to limit our product and service offerings and may be unable to compete effectively.

In some instances, we have contractually agreed to provide indemnifications to licensees relating to our intellectual property. Additionally, at times we have chosen to defend our licensees from third party intellectual property infringement claims even where such defense was not contractually required, and we may choose to take on such defense in the future.

Licensee Disputes. At times, we are engaged in disputes regarding the licensing of our intellectual property rights, including matters related to our royalty rates and other terms of our licensing arrangements. These types of disputes can be asserted by our customers or prospective customers or by other third parties as part of negotiations with us or in private actions seeking monetary damages or injunctive relief, or in regulatory actions. In the past,

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licensees have threatened to initiate litigation against us based on potential antitrust claims or regarding our licensing royalty rate practices. Damages and requests for injunctive relief asserted in claims like these could be significant, and could be disruptive to our business.

U.S. and Foreign Patent Rights. Our licensing business depends in part on the uniform and consistent treatment of patent rights in the U.S. and abroad. Changes to the patent laws and regulations in the U.S. and abroad may limit our ability to obtain, license, and enforce our rights. Additionally, court and administrative rulings may interpret existing patent laws and regulations in ways that hurt our ability to obtain, license, and enforce our patents. We face challenges protecting our intellectual property in foreign jurisdictions, including:

- Our ability to enforce our contractual and intellectual property rights, especially in countries that do not recognize and enforce intellectual property rights to the same extent as the U.S., Japan, Korea, and European countries do, which increases the risk of unauthorized use of our technologies;
- Limited or no patent protection for our Dolby Digital technologies in countries such as China, Taiwan, and India, which may require us to obtain patent rights for new and existing technologies in order to grow or maintain our revenue; and
- Because of limitations in the legal systems in many countries, our ability to obtain and enforce patents in many countries is uncertain, and we must strengthen and develop relationships with entertainment industry participants worldwide to increase our ability to enforce our intellectual property and contractual rights without relying solely on the legal systems in the countries in which we operate.

OPERATIONS

Reliance on Key Suppliers. Our reliance on suppliers for some of the key materials and components we use in manufacturing our products involves risks, including limited control over the price, timely delivery, and quality of such components. We generally have no formal agreements in place with our suppliers for the continued supply of materials and components. Although we have identified alternate suppliers for most of our key materials and components, any required changes in our suppliers could cause delays in our operations and increase our production costs. In addition, our suppliers may not be able to meet our production demands as to volume, quality, or timeliness. Moreover, we rely on sole source suppliers for some of the components that we use to manufacture our products, including specific charged coupled devices, light emitting diodes, and digital signal processors. These sole source suppliers may become unable or unwilling to deliver these components to us at an acceptable cost or at all, which could force us to redesign those specific products. Our inability to obtain timely delivery of key components of acceptable quality, any significant increases in the prices of components, or the redesign of our products could result in production delays, increased costs, and reductions in shipments of our products.

Product Quality. Our products, and products that incorporate our technologies, are complex and sometimes contain undetected software or hardware errors, particularly when first introduced or when new versions are released. In addition, we have limited control over manufacturing performed by contract manufacturers, which could result in quality problems. Furthermore, our products and technologies are sometimes combined with or incorporated into products from other vendors, sometimes making it difficult to identify the source of a problem. Any negative publicity or impact relating to these product problems could affect the perception of our brand and market acceptance of our products or technologies. These errors could result in a loss of or delay in market acceptance of our products or cause delays in delivering them and meeting customer demands, any of which could reduce our revenue and raise significant customer relations issues. In addition, if our products or technologies contain errors we could be required to replace or reengineer them, which would increase our costs. Moreover, if any such errors cause unintended consequences, we could incur substantial costs in defending and settling product liability claims. Although we generally attempt to contractually limit our liability, if these contract provisions are not enforced, or are unenforceable for any reason, or if liabilities arise that are not effectively limited, we could incur substantial costs in defending and settling product liability claims.

Production Processes and Production. Production difficulties or inefficiencies can interrupt production, resulting in our inability to deliver products on time in a cost effective manner, which could harm our competitive position. We have a single production facility and increasingly use contract manufacturers for a significant portion of our production capacity. Our reliance on contract manufacturers for the manufacture of our products involves risks, including limited control over timely delivery and quality of such products. If production of our products is interrupted, we may not be able to manufacture products on a timely basis. A shortage of manufacturing capacity for our products could reduce our operating results and damage our customer relationships. We may be unable to quickly adapt our manufacturing capacity to rapidly changing market conditions and a contract manufacturer may encounter similar

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difficulties. Likewise, we may be unable to quickly respond to fluctuations in customer demand or contract manufacturer interruptions. At times we underutilize our manufacturing facilities as a result of reduced demand for some of our products.

Data Security. We rely on information technology systems in the conduct of our business, including systems designed and managed by third parties. Many of these systems contain sensitive and confidential information, including our trade secrets and proprietary business information, personal data, and information of or pertaining to our customers, suppliers and business partners. The secure maintenance of this information is critical to our operations and business strategy. Increasingly, companies are subject to a wide variety of attacks on their networks and systems on an ongoing basis. Our information technology and infrastructure may be vulnerable to penetration or attacks by computer programmers and hackers, software bugs or other technical malfunctions, or other disruptions.

While we have taken a number of steps to protect our information technology systems, the number and sophistication of malicious attacks that companies have experienced from third parties has increased over the past few years. In addition, because techniques used by computer programmers and hackers (many of whom are highly sophisticated and well-funded) to access or sabotage networks and computer systems change frequently and often are not recognized until after they are used, we may be unable to anticipate or immediately detect these techniques. This could delay our response or the effectiveness of our response and impede our operations and ability to limit our exposure to third-party claims and potential liability. Attacks on our systems are sometimes successful, and, in some instances, we might be unaware of an incident or its magnitude and effects. We also may suffer data security breaches and the unauthorized access to, misuse or acquisition of, personal data or other sensitive and confidential information as the result of intentional or inadvertent breaches by our employees or service providers. Any data security breach, whether external or internal in origin, could compromise our networks and systems, creating system disruptions or slowdowns and exploiting security vulnerabilities of our products. Any such breach can result in the information stored on our networks and systems being improperly accessed, publicly disclosed, lost, or stolen, which could subject us to liability to our customers, suppliers, business partners and others. We seek to detect and investigate such attempts and incidents and to prevent their recurrence where practicable through changes to our internal processes and tools, but in some cases preventive and remedial action might not be successful. In addition, despite the implementation of network security measures, our networks also may be vulnerable to computer viruses, break-ins, denial of service attacks, and similar other disruptions.

Disruptions to our information technology systems, due to outages, security breaches or other causes, can have severe consequences to our business, including financial loss and reputational damage.

COMPETITION

The markets for our technologies are highly competitive, and we face competitive threats and pricing pressure in our markets. Consumers may perceive the quality of the visual and audio experiences produced by some of our competitors’ technologies to be equivalent or superior to the sight and sound experiences produced by our technologies. Some of our current or future competitors may have significantly greater financial, technical, marketing, and other resources than we do, or may have more experience or advantages in the markets in which they compete. These competitors may also be able to offer integrated systems in markets for entertainment technologies on a royalty-free basis or at a lower price than our technologies, including audio, imaging, and other technologies, which could make competing technologies that we develop less attractive.

Pricing Pressures. The markets for the consumer entertainment products in which our technologies are incorporated are intensely competitive and price sensitive. We expect to face increased royalty pricing pressure for our technologies as we seek to drive the adoption of our technologies into online content and portable devices, such as tablets and smartphones. Retail prices for consumer entertainment products that include our sound technologies, such as DVD and Blu-ray players and home theater systems, have decreased significantly, and we expect prices to decrease for the foreseeable future. In response, OEMs have sought to reduce their product costs, which can result in downward pressure on the licensing fees we charge.

Customers as Competitors. We face competitive risks in situations where our customers are also current or potential competitors. For example, Sony and Technicolor are significant licensee customers, but are also competitors with respect to some of our consumer, broadcast, and cinema technologies. Our customers may choose to use competing technologies they have developed or in which they have an interest rather than use our technologies. The existence of important customer relationships may influence which strategic opportunities we pursue, as we may forgo some opportunities in the interests of preserving a critical customer relationship.

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Competition from Other Audio Formats and Imaging Solutions. We believe that the success we have had licensing our audio technologies to system licensees is due, in part, to the strength of our brand and the perception that our technologies provide a high quality solution for multichannel audio. However, both free and proprietary sound technologies are becoming increasingly prevalent, and we expect competitors to continue to enter this field with other offerings. Furthermore, to the extent that customers perceive our competitors' products as providing the same advantages as our technologies at a lower or comparable price, there is a risk that these customers may treat sound encoding technologies as commodities, resulting in loss of status of our technologies, decline in their use, and significant pricing pressure. In addition, we introduced our HDR imaging technology, Dolby Vision, only one year ago, and we expect to face intense competition from existing and more well-established competitors. Moreover, there can be no assurance that consumers will adopt Dolby Vision in the near future, or at all.

Competition for Employees. In order to be successful, we must attract, develop, and retain employees, including employees to work on our growth initiatives where our current employees may lack experience with the business models and markets we are pursuing. Competition for experienced employees in our markets can be intense. In order to attract and retain employees, we must provide a competitive compensation package, including cash and equity compensation. Our equity awards include stock options and restricted stock units. The future value of these awards is uncertain, and depends on our stock price performance over time. In order for our compensation packages to be viewed as competitive, prospective employees must perceive our equity awards to be a valuable benefit.

STRATEGIC ACTIVITIES

Importance of Relationships with Entertainment Industry. To be successful, we must maintain and grow our relationships with a broad range of entertainment industry participants, including:

- Content creators, such as film directors, studios, music producers and mobile and online content producers;
- Content distributors, such as film exhibitors, broadcasters, operators, and OTT video service providers and video game publishers; and
- Device manufacturers.

Relationships have historically played an important role in the entertainment markets that we serve. For example, sales of our products and services are particularly dependent upon our relationships with major film studios and broadcasters, and licensing of our technologies is particularly dependent upon our relationships with system licensees and IC manufacturers. If we fail to maintain and strengthen these relationships, these entertainment industry participants may be less likely to purchase and use our technologies, products, and services, or create content incorporating our technologies.

Consequences of M&A Activity. We evaluate a wide array of possible strategic transactions, including acquisitions. We consider these types of transactions in connection with, among other things, our efforts to strengthen our core audio and cinema businesses and expand beyond sound technologies. Although we cannot predict whether or not we will complete any such acquisitions or other transactions in the future, any of these transactions could be significant in relation to our market capitalization, financial condition, or results of operations. The process of integrating an acquired company, business, or technology may create unforeseen difficulties and expenditures. Foreign acquisitions involve unique risks in addition to those mentioned above, including those related to integration of operations across different geographies, cultures, and languages; currency risks; and risks associated with the economic, political, and regulatory environment in specific countries. Future acquisitions could result in potentially dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses, and write-offs of goodwill. Future acquisitions may also require us to obtain additional equity or debt financing, which may not be available on favorable terms or at all. Also, the anticipated benefits of our acquisitions may not materialize.

We face various risks in integrating acquired businesses, including:

- Diversion of management time and focus from operating our business to acquisition integration challenges;
- Cultural and logistical challenges associated with integrating employees from acquired businesses into our organization;

- Retaining employees, suppliers and customers from businesses we acquire;
- The need to implement or improve internal controls, procedures, and policies appropriate for a public company at businesses that prior to the acquisition may have lacked effective controls, procedures, and policies;

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- Possible write-offs or impairment charges resulting from acquisitions;
- Unanticipated or unknown liabilities relating to acquired businesses; and
- The need to integrate acquired businesses' accounting, management information, manufacturing, human resources, and other administrative systems to permit effective management.

LEGAL AND REGULATORY COMPLIANCE

International Business and Compliance. We are dependent on international sales for a substantial amount of our total revenue. We are subject to a number of risks related to conducting business internationally, including:

- U.S. and foreign government trade restrictions, including those which may impose restrictions on importation of programming, technology, or components to or from the U.S.;
- Compliance with applicable international laws and regulations, including antitrust laws, that may differ or conflict with laws in other countries where we conduct business, or are otherwise not harmonized with one another;
- Foreign government taxes, regulations, and permit requirements, including foreign taxes that we may not be able to offset against taxes imposed upon us in the U.S., and other laws limiting our ability to repatriate funds to the U.S.;
- Changes in diplomatic and trade relationships;
- Difficulty in establishing, staffing, and managing foreign operations;
- Adverse fluctuations in foreign currency exchange rates and interest rates, including risks related to any interest rate swap or other hedging activities we undertake;
- Political or social instability, natural disasters, war or events of terrorism; and
- The strength of international economies.

In Note 15 "Legal Matters" to our consolidated financial statements, we describe reviews of our business practices by government regulators in Korea and China pursuant to their competition laws. Certain foreign governments, particularly in China, have advanced arguments under their competition laws that exert downward pressure on royalties for intellectual property. Because these jurisdictions have only recently implemented competition laws, their enforcement activities are unpredictable. Furthermore, the implementation of our recent agreement relating to the inquiry of the National Development and Reform Commission of China remains uncertain.

In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by U.S. regulations applicable to us such as the FCPA and U.S. export controls. Although we implement policies and procedures designed to ensure compliance with the FCPA and U.S. export controls, there can be no assurance that all of our employees, distributors, dealers, and agents will not take actions in violation of our policies or these regulations.

Costs of Environmental Laws and Regulation. Our operations use substances regulated under federal, state, local, and international laws governing the environment, including those governing the discharge of pollutants into the air and water, the management, disposal, and labeling of hazardous substances and wastes, and the cleanup of contaminated sites. In addition, future environmental laws and regulations have the potential to affect our operations, increase our costs, decrease our revenue, or change the way we design or manufacture our products. We face increasing complexity in our product design as we adjust to requirements relating to the materials composition of our products. For some products, substituting particular components containing regulated hazardous substances is more difficult or costly, and additional redesign efforts could result in production delays. We could incur costs, fines, and civil or criminal sanctions, third party property damage or personal injury claims, or could be required to incur substantial investigation or remediation costs, if we were to violate or become liable under environmental laws.

Conflict Minerals. The SEC has adopted rules regarding disclosure of the use of conflict minerals (commonly referred to as tantalum, tin, tungsten, and gold), which are sourced from the Democratic Republic of the Congo and surrounding countries. This requirement could affect the sourcing, availability and pricing of materials used in our products as well as the companies we use to manufacture our products. In circumstances where conflict minerals in our products are found to be sourced from the Democratic Republic of the Congo or surrounding countries, Dolby may take further actions to change materials, designs or manufacturers to reduce the possibility that Dolby's contracts to manufacture products that contain conflict minerals finance or benefit local armed groups in the region. The implementation of these rules could adversely affect the sourcing, supply and pricing of materials used in our products. As there may be only a limited number of suppliers that can certify to us that they are offering “conflict free” conflict minerals, we cannot be sure that we will be able to obtain necessary conflict minerals from such suppliers in sufficient quantities or at competitive prices. These actions could also add engineering and other costs in connection

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with the manufacturing of our products.

We may not be able to sufficiently verify the origins for the minerals used in our products. Our reputation may suffer if we determine that our products contain conflict minerals that are not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products. In addition, some customers may require that all of our products are certified to be conflict free and if we cannot satisfy these customers, they may choose a competitor's products.

Tax Rates and Liabilities. Changes in the valuation of our deferred tax assets and liabilities, the geographic mix of our revenue, or changes in tax laws or their interpretation could affect our future effective tax rates. We file income tax returns in the U.S. and in several U.S. state and foreign jurisdictions, and must use judgment in determining our worldwide provision for income taxes. For example, the following could affect our income taxes:

- Earnings being lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates;
- Changes in the valuation of our deferred tax assets and liabilities;
- Expiration of or lapses in the R&D tax credit laws;
- Fluctuations in tax exempt interest income;
- Transfer pricing adjustments;
- Tax effects of nondeductible compensation;
- Tax costs related to intercompany realignments;
- Any obligations or decisions to repatriate earnings from abroad earlier than anticipated;
- Changes in accounting principles; or
- Changes in tax laws and regulations in the countries in which we operate, including U.S. legislative changes to the taxation of earnings of our foreign subsidiaries.

A number of international legislative and regulatory bodies have proposed draft legislation and begun investigations on the tax practices of multinational companies. One of these efforts has been led by the OECD, an international association of 34 countries including the United States, which has finalized recommendations to revise many corporate taxes, transfer pricing, and tax treaty provisions in member countries. In addition, the European Union and its European Commission has begun to review and opine on the appropriateness of agreements between various member countries and companies that might be in violation of European Union competition rules against unjustified state aid. While none of these bodies has identified Dolby as a potential target of its actions, it is possible that these efforts may in the future impact our income tax liabilities.

We are subject to the periodic examination of our income tax returns by tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes, but an adverse decision by tax authorities could significantly impact our financial results. Additionally, due to the evolving nature of tax rules combined with the large number of jurisdictions in which we operate, it is possible that our estimates of our tax liability and the realizability of our deferred tax assets could change in the future, which may result in additional tax liabilities.

STOCK-RELATED ISSUES

Controlling Stockholder. At September 25, 2015, the Dolby family and their affiliates owned 1,346,606 shares of our Class A common stock and 50,627,075 shares of our Class B common stock. As of September 25, 2015, the Dolby family and their affiliates had voting power of 99.8% of our outstanding Class B common stock, which in the aggregate represented 91.0% of the combined voting power of our outstanding Class A and Class B common stock. Under our certificate of incorporation, holders of Class B common stock are entitled to ten votes per share while holders of Class A common stock are entitled to one vote per share. Generally, shares of Class B common stock automatically convert into shares of Class A common stock upon transfer of such Class B common stock, other than transfers to certain specified persons and entities, including the spouse and descendants of Ray Dolby and the spouses and domestic partners of such descendants.

Because of this dual class structure, the Dolby family and their affiliates will, for the foreseeable future, have significant influence over our management and affairs, and will be able to control virtually all matters requiring stockholder approval, including the election of directors and significant corporate transactions such as mergers or other sales of our company or assets, even if they come to own considerably less than 50% of the total number of outstanding shares of our Class A and Class B common stock.

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Moreover, these persons may take actions in their own interests that our other stockholders do not view as beneficial. Absent a transfer of Class B common stock that would trigger an automatic conversion as described above, there is no threshold or time deadline at which the shares of Class B common stock will automatically convert into shares of Class A common stock.

Insider Sales of Common Stock. If our founder's family, officers, directors or employees sell, or indicate an intention to sell, substantial amounts of our Class A common stock in the public market, including shares of Class A common stock issuable upon conversion of shares of Class B common stock, the trading price of our Class A common stock could decline.

Stock Repurchase Program. Our stock repurchase program may reduce the public float of shares available for trading on a daily basis. Such purchases may be limited, suspended, or terminated at any time without prior notice. There can be no assurance that we will buy additional shares of our Class A common stock under our stock repurchase program or that any future repurchases will have a positive impact on our stock price or earnings per share. Important factors that could cause us to discontinue or decrease our share repurchases include, among others, unfavorable market conditions, the market price of our Class A common stock, the nature of other investment or strategic opportunities presented to us, the rate of dilution of our equity compensation programs, our ability to make appropriate, timely, and beneficial decisions as to when, how, and whether to purchase shares under the stock repurchase program, and the availability of funds necessary to continue purchasing stock. If we curtail our repurchase program, our stock price may be negatively affected.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Dolby Wootton Bassett, LLC, of which Dagmar Dolby as Trustee of the Dolby family trust is the sole member, and the Dagmar Dolby Trust established under the Dolby family trust Instrument dated May 7, 1999, own a majority financial interest in real estate entities that own or from whom we lease certain facilities located in California and the U.K. We own the remaining financial interests in these real estate entities. Our ownership interest in these consolidated affiliated entities, in addition to information regarding the location of the property leased to Dolby Laboratories as of September 25, 2015 is summarized within the table below. The leases for these facilities expire at various times through 2020.

Entity Name	Minority Ownership Interest	Location Of Properties	Approximate Square Footage
Dolby Properties Brisbane, LLC	49.0%	Brisbane, California	43,500
Dolby Properties Burbank, LLC	49.0%	Burbank, California	28,000
Dolby Properties UK, LLC	49.0%	Wootton Bassett, England	33,000
Dolby Properties, LP	10.0%		

1275 Market Street, San Francisco, California

During fiscal 2015, we began to occupy the commercial office building located at 1275 Market Street, San Francisco, California that we purchased in fiscal 2012 for $109.8 million. We have since made certain improvements to prepare the building for its intended use as our new principal corporate office and worldwide headquarters effective fiscal 2016. For additional information regarding this transaction, see Note 5 “Property, Plant & Equipment” to our consolidated financial statements.

Prior to the fourth quarter of fiscal 2015, our principal corporate offices were at 100 Potrero Avenue, and our principal administrative offices were at 999 Brannan Street, both in San Francisco, CA. We continue to lease 100 Potrero from entities affiliated with the Dolby family, and we use this space as an extension of our 1275 Market headquarters. We previously leased 999 Brannan from a real estate entity we jointly owned with entities affiliated with the Dolby family; however, during the fourth quarter of fiscal 2015, our lease expired, and we also sold our 37.5% ownership interest in that entity to various entities affiliated with the Dolby family. For additional information regarding this transaction, see Note 16 “Related Parties” to our consolidated financial statements.

100 Potrero Avenue, San Francisco, California

Since 1980, we have leased a corporate office, warehouse space and additional parking located at 100, 130, and 140 Potrero Avenue, San Francisco, California from the various Dolby family trusts. The lease for this office expires on October 31, 2024 and provides approximately 70,000 square feet of space. The Dolby family trusts retain the right to sublease approximately 1,099 square feet of office space in the premises with prior notice to us, at a rental rate equal to the then current base rent per square foot paid by us plus $14 per square foot per year (reflecting estimated costs payable by us for the operation and maintenance of the premises, subject to an annual increase of 1.5% per year during each year of the sublease term). We are generally responsible for operating expenses, taxes, and the condition, operation, repair, maintenance, security and management of the premises. We have also agreed to indemnify and hold the Dolby family trusts, as landlord, harmless from and against certain liabilities, damages, claims, costs, penalties and expenses arising from our conduct related to the premises.

Other Transactions

During fiscal 2014, we purchased a commercial office building in Sunnyvale, California for $19.7 million which is primarily used for R&D purposes. During fiscal 2015, and in connection with our acquisition of Doremi and other related initiatives, we added ten new property leases to our portfolio during the current fiscal year, including facilities both in the U.S and international locations such as France. We also lease additional R&D, sales, product testing, and administrative facilities from third parties in California, New York, and internationally, including in Asia, Europe, Australia, Dubai and Brazil. We believe that our current facilities are adequate to meet our needs for the near future and that suitable additional or alternative space will be available on commercially reasonable terms to accommodate our foreseeable future operations.

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ITEM 3. LEGAL PROCEEDINGS

We are involved in various legal proceedings from time to time arising from the normal course of business activities, including claims of alleged infringement of intellectual property rights, commercial, employment, and other matters. In our opinion, resolution of these pending matters is not expected to have a material adverse impact on our operating results or financial condition. Given the unpredictable nature of legal proceedings, it is possible that an unfavorable resolution of one or more such proceedings could materially affect our future operating results or financial condition in a particular period; however, based on the information known by us as of the date of this filing and the rules and regulations applicable to the preparation of our consolidated financial statements, any such amount is either immaterial or it is not possible to provide an estimated amount of any such potential loss.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our Class A common stock is traded on the New York Stock Exchange (“NYSE”) under the symbol “DLB.” Our Class B common stock is neither listed nor publicly traded. As of October 30, 2015, there were 13 holders of record of our Class A common stock and 45 holders of record of our Class B common stock. The number of Class A beneficial stockholders is substantially greater than the number of holders of record since a large portion of our common stock is held through brokerage firms. The following table sets forth the range of high and low sales prices on the NYSE of the Class A common stock for the periods indicated, as reported by the NYSE.

	Fiscal Year 2015		Fiscal Year 2014	
	High	Low	High	Low
Q1 - Quarter Ended December	$45.99	$38.40	$38.57	$34.51
Q2 - Quarter Ended March	43.87	37.97	44.97	38.48
Q3 - Quarter Ended June	41.19	37.53	44.89	39.01
Q4 - Quarter Ended September	39.77	30.91	46.93	41.26

Dividend Policy

In October 2014, we announced a recurring quarterly cash dividend program for our stockholders that was initiated by our Board of Directors. Under the program, declaration of the first quarterly dividend of $0.10 per share on our Class A and Class B common stock was declared and paid to all eligible stockholders of record for each quarter during fiscal 2015. On October 21, 2015, we announced a cash dividend of $0.12 per share of Class A and Class B common stock, payable on November 10, 2015, to stockholders of record as of the close of business on November 2, 2015. The per share amount of the dividend represents a 20% increase over the prior amount under our quarterly cash dividend program.

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. See Note 7 “Stockholders' Equity & Stock-Based Compensation” to our consolidated financial statements for additional information related to the quarterly dividend. Further discussion of our recurring quarterly dividend and the special dividend is included within Shareholder Return in Item 7 "Management’s Discussion and Analysis of Financial Condition and Results of Operations."

Prior to the establishment of this program, our Board of Directors declared a special dividend of $4.00 per share on our Class A and Class B common stock during the first quarter of fiscal 2013. The special dividend payment was made in December 2012 and totaled $408.2 million. Prior to fiscal 2013, we had never declared nor paid a cash dividend on our common stock.

Sales of Unregistered Securities

As of the beginning of the third quarter of fiscal 2015, all shares of our Class B common stock awarded under our 2000 Stock Incentive Plan had been issued to employees, officers, and directors upon the exercise of the underlying options. During fiscal 2015, the remaining options outstanding under this plan were exercised. As of September 25, 2015, there are no remaining outstanding options to purchase shares of Class B common stock.

We believe these transactions were exempt from the registration requirements of the Securities Act of 1933, as amended (“Securities Act”) in reliance on Rule 701 thereunder as transactions pursuant to compensatory benefit plans and contracts relating to compensation as provided under Rule 701. All issuances of shares of our Class B common stock pursuant to the exercise of these options were made in reliance on Rule 701. All option grants made under the 2000 Stock Incentive Plan were made prior to the effectiveness of our IPO, and no further option grants will be made under our 2000 Stock Incentive Plan. None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, or any public offering.

Each share of our Class B common stock is convertible into one share of our Class A common stock at any time at the option of the holder or upon the affirmative vote of the holders of a majority of the shares of Class B common stock. In addition, each share of Class B common stock shall convert automatically into one share of Class A common

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stock upon any transfer, except for certain transfers described in our amended and restated certificate of incorporation.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers by the Issuer and Affiliated Purchasers

In November 2009, our Board of Directors announced a stock repurchase program ("program"), providing for the repurchase of our Class A common stock. Stock repurchases under the program may be made through open market transactions, negotiated purchases, or otherwise, at times and in amounts that we consider appropriate. The timing of repurchases and the number of shares repurchased depend upon a variety of factors, including price, regulatory requirements, the rate of dilution from our equity compensation plans and other market conditions. The program does not have a specified expiration date, and can be limited, suspended or terminated at our discretion at any time without prior notice. Shares repurchased under the program will be returned to the status of authorized but unissued shares of Class A common stock.

The following table summarizes the initial amount of authorized repurchases as well as additional repurchases approved by our Board of Directors as of September 25, 2015 (in thousands):

Authorization Period	Authorization Amount
Fiscal 2010: November 2009	$250,000
Fiscal 2010: July 2010	300,000
Fiscal 2011: July 2011	250,000
Fiscal 2012: February 2012	100,000
Fiscal 2015: October 2014	200,000
Total	$1,100,000

The following table provides information regarding our share repurchases made under this program during the fourth quarter of fiscal 2015:

Repurchase Activity	Total Shares Purchased	Average Price Paid Per Share (1)	Total Shares Purchased As Part Of Publicly Announced Programs	Remaining Authorized Repurchases (2)
June 27, 2015 - July 24, 2015	—	$ —	—	$212.1 million
July 25, 2015 - August 21, 2015	1,327,617	34.13	1,327,617	$166.8 million
August 22, 2015 - September 25, 2015	441,782	31.81	441,782	$152.7 million
Total	1,769,399		1,769,399	

(1) Average price paid per share excludes commission costs.

(2) Amounts represent the approximate dollar value of the maximum remaining number of shares that may yet be purchased under the stock repurchase program, and excludes commission costs.

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Stock Price Performance Graph

The following graph compares the total cumulative return of our Class A common stock with the total cumulative return for the New York Stock Exchange Composite Index ("NYSE Composite") and the Russell 3000 Index ("Russell 3000") for the five fiscal years ended September 25, 2015. The figures represented below assume an investment of $100 in our Class A common stock at the closing price of $61.74 on September 24, 2010, and in the NYSE Composite and Russell 3000 on the same date and the reinvestment of dividends into shares of common stock. The comparisons in the table are required by the Securities and Exchange Commission and are not intended to forecast or be indicative of possible future performance of our Class A common stock. This graph shall not be deemed "filed" for purposes of Section 18 of Securities Exchange Act of 1934, as amended ("Exchange Act") or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any of our filings under the Securities Act or the Exchange Act.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our audited consolidated financial statements and the accompanying notes included within this filing. The consolidated balance sheet data for the fiscal years ended September 25, 2015 and September 26, 2014, and consolidated statements of operations data for the fiscal years ended September 25, 2015, September 26, 2014, and September 27, 2013 were derived from our audited consolidated financial statements included in this report. The consolidated statements of operations and balance sheet data for the fiscal years ended September 28, 2012 and September 30, 2011 were derived from our audited consolidated financial statements not included in this report. The historical financial results presented below are not necessarily indicative of results to be achieved in future periods. Note that fiscal 2011 consisted of 53 weeks, while all other fiscal years presented consisted of 52 weeks. Our fiscal year ending September 30, 2016 will consist of 53 weeks. All amounts presented below are displayed in thousands, except per share amounts.

	Fiscal Year Ended				
	September 25, 2015	September 26, 2014	September 27, 2013	September 28, 2012	September 30, 2011
Reclassified implementation licensee settlements	N/A	N/A	N/A	$6,750	$5,560

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	Fiscal Year Ended				
	September 25, 2015	September 26, 2014	September 27, 2013	September 28, 2012	September 30, 2011
Operations:					
Revenue	$970,638	$960,176	$909,674	$933,014	$961,065
Gross margin	875,822	890,000	812,955	840,987	849,894
Operating expenses	662,594	616,282	567,693	478,995	420,161
Income before provision for income taxes	245,782	276,099	250,646	368,991	440,643
Net income attributable to Dolby Laboratories, Inc.	181,390	206,103	189,271	264,302	309,267
Net Income Per Share:					
Basic	$1.77	$2.02	$1.86	$2.47	$2.78
Diluted	$1.75	$1.99	$1.84	$2.46	$2.75
Weighted-Average Shares Outstanding:					
Basic	102,354	102,151	101,879	106,926	111,444
Diluted	103,862	103,632	102,788	107,541	112,554
Cash dividends declared per common share	$0.42	$—	$4.00	$—	$—
Cash dividend paid per common share	$0.40	$—	$4.00	$—	$—
	September 25, 2015	September 26, 2014	September 27, 2013	September 28, 2012	September 30, 2011
Cash and cash equivalents	$531,926	$568,472	$454,397	$492,600	$551,512
Working capital	708,649	816,481	639,907	813,446	999,213
Short-term and long-term investments	459,916	527,543	446,605	664,307	664,078
Total assets	2,133,293	1,984,012	1,737,945	1,960,798	1,884,387
Long-term debt	—	—	—	—	—
Total stockholders' equity—Dolby Laboratories, Inc.	1,816,007	1,731,648	1,481,110	1,720,269	1,663,513

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results may differ substantially from those referred to herein due to a number of factors, including but not limited to risks described in Item 1A, "Risk Factors" and elsewhere in this Annual Report on Form 10-K. We disclaim any duty to update any of the forward-looking statements to conform our prior statements to actual results.

EXECUTIVE SUMMARY

Following are fiscal 2015 highlights as well as future challenges in key areas:

LICENSING

Broadcast

Highlights: We saw broader adoption of our broadcast audio technologies in fiscal 2015, and continued to focus on emerging markets where both the potential for TV and STB shipments is significant, and the transition to digital broadcast is still underway. We worked with country-specific operators and standards bodies to encourage adoption of our technologies for digital broadcast. To date, we've made notable progress in China, India and Southeast Asia. Dolby Digital Plus was recently mandated in the digital television specification in India, which positions us well for their transition to digital broadcast. Dolby is also becoming a de-facto standard in Africa with adoption in key markets such as Kenya, Ghana, Nigeria and South Africa.

Challenges: In emerging markets where conversion to digital television is still underway, our growth is dependent upon continued adoption of our solutions, such as our Dolby Digital Plus audio technology. Globally, we must continue to adapt to changing technologies and methods of content delivery, and must also continue to develop and encourage adoption of new technologies. To the extent that we are unable to succeed in these efforts, incorporation of our technologies into these products may be impacted, and future revenues may be adversely affected. Further, in some emerging growth countries such as China, we face significant challenges enforcing our contractual and intellectual property rights. The failure of our licensees to accurately report the shipment of products incorporating our technologies may adversely impact future revenues.

Personal Computers

Highlights: Revenues from the PC market continue to account for approximately 17% of our licensing revenues. Our technologies enhance playback in the various Windows operating systems for PCs and tablets, and in Windows 10, this functionality is natively supported in Microsoft's latest browser, Microsoft Edge. Dolby's presence in the browser enables us to reach more users and new types of content, including streaming video entertainment.

Challenges: Demand in this sector has been subject to significant fluctuations as consumers realign their preferences in the face of an ever-evolving field of hardware choices. In recent years, unit demand for PCs has been in secular decline and the percentage of PCs with optical disc functionality has also been decreasing.

Consumer Electronics

Highlights: We continue to see opportunities in new and existing use cases such as soundbars, DMAs such as Apple TV, and Dolby Atmos for the home. Dolby Atmos is now included in AVRs and HTiBs from all of the leading providers, and is also incorporated in nearly thirty models of launched or announced speakers. We have worked with major studios to release and distribute movie titles in Dolby Atmos via Blu-ray Disc and via streaming services such as Vudu and Netflix. Most recently, Comcast announced plans to support Dolby Atmos in their X1 platform in 2016. We will continue to work with content developers and distributors to expand entertainment selections using the Dolby Atmos format.

Challenges: We must continue to present compelling reasons for consumers to demand our audio technologies wherever they consume and enjoy premium content. To the extent that OEMs do not incorporate our technologies in current and developing products, our revenues could be impacted.

Mobile

Highlights: Our mobile market is driven by sales of smartphones, tablets and other mobile devices that use our technologies. In the current fiscal year, we expanded the array of smartphones and tablets that have adopted our audio technologies across the Android™, Windows and Amazon ecosystems. Collectively, these devices now deliver

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enhanced entertainment experiences by accessing content from an increasing number of OTT services using DD+. Dolby technologies are featured in twelve handsets and tablets from Amazon, Lenovo, LG, HTC, ZTE and Microsoft, and most recently, Dolby Atmos has been adopted in twelve handsets and tablets from Lenovo and Amazon.
Challenges: Growth in this market is dependent on several factors, including our success in collaborating with manufacturers of mobile devices to incorporate our technologies, the development of various ecosystems, which includes the availability of content in Dolby formats, and the performance of the mobile device market as a whole. The rate of new product development in this sector continues to be rapid and can result in dramatic swings in consumer trends as well as design changes that may exclude our technologies. To facilitate our growth, we work closely with our partners to further enhance the content, distribution and playback on all major ecosystems.
PRODUCTS
Highlights: In our core cinema markets, we offer servers and audio processors to enable the playback of content in cinemas. In an effort to accelerate the development of new cinema server solutions for exhibitors, we completed the acquisition of Doremi, and certain assets related to the business of Doremi from Doremi Labs, Inc. and Highlands Technologies SAS (the “Doremi-related assets”) in the first quarter of fiscal 2015. Doremi was a privately held company and a leading developer and manufacturer of digital cinema servers. Our product revenue base has increased with the inclusion of Doremi’s shipments. Product sales have also increased due to shipments of Dolby Atmos. As a stand-alone offering, Dolby Atmos continues to enjoy increasing adoption by studios, content creators, post-production facilities and exhibitors. As of the end of our current fiscal year, there are over fourteen hundred Dolby Atmos-enabled screens installed or committed to be installed, compared to a year ago when there were more than seven hundred such screens globally.
Challenges: Demand for our cinema products is dependent upon industry economic cycles along with our ability to develop and introduce new technologies, further our relationships with content creators, and promote new consumer audio and imaging experiences. To the extent that we do not make progress in these areas, and are unsuccessful in resisting pricing pressures and prevailing over competing technologies, our revenues may be adversely affected.

NEW GROWTH INITIATIVES
Dolby Voice
Opportunity: Dolby Voice is an audio conferencing solution that emulates the in-person meeting experience with superior spatial perception, voice clarity, and background noise suppression. Launched in fiscal 2014 in global partnership with BT®, a leading provider of audio and imaging conferencing systems, the BT MeetMe with Dolby Voice service is available via the desktop and on mobile devices. During fiscal 2015, we launched the Dolby Conference Phone which was designed specifically to further enhance and optimize the conference call experience using Dolby Voice. In the current fiscal year, we saw a steady increase in the customer base with now over ninety enterprise customers signed up. Further deployment continues.
Challenges: Our success in this market will depend on the number of conference service providers and enterprise customers the service attracts, as well as on sales of Dolby Conference phones, and the magnitude of end user activity the service generates.
Dolby Cinema
Opportunity: In fiscal 2015 and in partnership with established movie theater exhibitors, we launched Dolby Cinema, a branded premium cinema that features spectacular imagery using Dolby Vision laser projection, object-oriented Dolby Atmos audio technology, and inspired theater design. To date, we have partnered with three cinema exhibitors including AMC in the U.S. AMC has opened the first eight Dolby Cinemas at some of the highest grossing sites in the country, and has announced plans to open fifty sites by the end of the calendar 2016. As part of our ongoing efforts to build a robust pipeline of theatrical content for Dolby Cinema locations, every major studio has released Dolby Vision theatrical titles. Upcoming major releases include "In the Heart of the Sea," "The Good Dinosaur", "Star Wars: Episode VII - The Force Awakens", and "The Jungle Book".
Challenges: Although the premium large format sector of the cinema industry is currently a growing segment, Dolby Cinema is a new offering and will be in competition with other existing solutions. Our success with this initiative

depends in large part on our ability to differentiate our offering, provide a compelling experience, and attract and retain a viewing audience.

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Dolby Vision

Opportunity: Dolby Vision is an imaging technology that offers more realistic distinctions in color, brighter highlights, and improved shadow details for cinema, digital TV, and other consumer devices. This playback technology focuses on the ability of each pixel to contribute to the overall image, and is not dependent on the number of pixels. In the fourth quarter, Vizio announced the availability of the Vizio Reference Series, the industry's first HDR 4K TV with Dolby Vision, and leading Chinese OEMs TCL and Skyworth also announced Dolby Vision TVs that will ship later in the 2015 calendar year. We also announced collaborations with various partners including several key SoC providers, to offer Dolby Vision enabled technologies for digital TVs, and other consumer devices. To support home entertainment, specified Dolby Vision mastered titles are now available from Warner Bros. Home Entertainment Inc. via the streaming service Vudu, and we believe additional Dolby Vision titles from other content providers will soon be available through Netflix.

Challenges: To successfully establish Dolby Vision, we will need to work with OEMs to expand the array of consumer devices that incorporate Dolby Vision, expand the pipeline of Dolby Vision entertainment available from content creators, and encourage consumer adoption in the face of competing products and technologies.

Revenue From Significant Customers

In fiscal 2015, 2014 and 2013, revenue from Samsung represented approximately 12%, 11% and 12% of our total revenue, respectively, and consisted primarily of licensing revenue from our mobile and broadcast markets.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements and accompanying notes are prepared in accordance with U.S. GAAP, and pursuant to SEC rules and regulations. The preparation of these financial statements requires us to establish accounting policies and make certain estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses. The SEC considers an accounting policy and estimate to be critical if it is both important to a company's financial condition or results of operations, and requires significant judgment by management in its application. If actual results or events differ materially from our judgments and estimates, our reported financial condition and results of operation for future periods could be materially affected. Historically, actual results have not differed significantly from our estimates and assumptions. On a regular basis, we evaluate our assumptions, judgments, and estimates and these have not changed notably in recent years nor do we anticipate them to change notably in the future. We have reviewed the selection and development of the critical accounting policies and estimates discussed below with the Audit Committee of our Board of Directors.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, we have delivered the product or performed the service, the fee is fixed or determinable, and collection is probable. Determining whether and when these criteria have been satisfied may involve assumptions and judgments that can have a significant impact on the timing and amount of revenue we report.

Revenue recognition for transactions may include multiple elements such as hardware and accompanying software, upgrade rights, support and maintenance, and rights to receive commissioning services in connection with certain digital servers. For these transactions, we may also have to exercise judgment in performing the following:

- Identifying the significant deliverables within the arrangements and determine whether the significant deliverables constitute separate units of accounting. We evaluate each element in a multiple-element arrangement to determine whether it represents a separate unit of accounting. An element constitutes a separate unit of accounting when it has standalone value and delivery of an undelivered element is both probable and within our control. When these criteria are not met, the delivered and undelivered elements are combined and the arrangement fees are allocated to this combined single unit;
- Assessing inputs used to determine selling price (whether VSOE, TPE, or ESP) for the significant deliverables. We determine our ESP for an individual element within a ME revenue arrangement using the same methods used to determine the selling price of an element sold on a standalone basis. If we sell the element on a standalone basis, we estimate the selling price by considering actual sales prices. Otherwise, we estimate the selling price by considering

internal factors such as pricing practices and margin objectives. Consideration is also given to market conditions such as competitor pricing strategies, customer demands and industry technology lifecycles. Management applies judgment to establish margin objectives, pricing strategies and technology lifecycles;

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- Estimating, as necessary, the period of time over which customers receive certain elements of the arrangement following initial delivery so as to assess the period over which revenue should be recognized.

Goodwill, Intangible Assets, and Long-Lived Assets

As part of our annual goodwill impairment test, we first evaluate goodwill to determine if it is more likely than not that the occurrence of an event or change in circumstances has reduced the fair value of a reporting unit below its carrying value. This qualitative assessment requires that we consider events or circumstances that may include macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, changes in management or key personnel, changes in strategy and changes in customers.

If the qualitative assessment indicates that the two-step quantitative analysis should be performed, we exercise judgment at various steps, including the identification of reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. We assess the fair value of each reporting unit using expected cash flows that reflect our best estimate of future revenue using our historical information, third-party industry data, and review of our internal operations. We also estimate operating costs using these sources. We adjust expected future cash flows by discount rates based on our weighted average cost of capital and related considerations. The estimates used to calculate the fair value of a reporting unit may change from year to year based on operating results, market conditions, and other factors. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment, if any, for each reporting unit.

Intangible assets and long-lived assets subject to amortization and depreciation, respectively, are only evaluated for impairment upon a significant change in the operating or macroeconomic environment. If an asset's undiscounted future cash flows are lower than its carrying value, the asset is written down to its estimated fair value, which is based on its discounted future cash flows. Assessing discounted future cash flows requires management to make assumptions and exercise judgment in forecasting revenues and the useful lives of assets, as well as selecting the discount rate that reflects the risk inherent in our future cash flows.

Stock-Based Compensation

To determine the fair value of a stock-based award using the Black-Scholes option pricing model, we make assumptions regarding the expected term of the award, the expected future volatility of our stock price over the expected term of the award, and the risk-free interest rate over the expected term of the award. We estimate the expected term of our stock-based awards by evaluating historical exercise patterns of our employees. We use a blend of the historical volatility of our common stock and the implied volatility of our traded options as an estimate of the expected volatility of our stock price over the expected term of the awards. We use an average interest rate based on U.S. Treasury instruments with terms consistent with the expected term of our awards to estimate the risk-free interest rate. We reduce the stock-based compensation expense for estimated forfeitures based on our historical experience. We are required to estimate forfeitures at the time of the grant and revise our estimate, if necessary, in subsequent periods if actual forfeitures differ from our estimate.

Income Taxes

We make estimates and judgments that affect our accounting for income taxes. This includes estimating temporary differences from differing treatment of items for tax and accounting purposes, future taxable income and actual tax exposure, possible or likely changes in current tax laws, and uncertainties in tax positions. These differences result in deferred tax assets and liabilities which are included in our consolidated balance sheets. We recognize tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. We also assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent that we believe that recovery is not likely, we establish a valuation allowance. Lastly, we are subject to the review of our income tax returns by the IRS and other tax authorities here in the U.S. and abroad. We periodically assess the likelihood of adverse outcomes from these examinations to determine the adequacy of our provision for income taxes.

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RESULTS OF OPERATIONS

For each line item included on our consolidated statements of operations described and analyzed below, the significant factors identified as the leading drivers contributing to the overall fluctuation are presented in descending order according to the quantitative magnitude of their impact on the overall change (from an absolute value perspective). Note that recovery payments received from licensees either in the form of back payments or settlements are collectively referred to as "recoveries."

Licensing revenue, cost of licensing, and total operating expenses for fiscal 2015 were $3.2 million, $0.1 million, and $0.9 million higher, respectively, than the amounts reported in the earnings release within our Form 8-K filed on October 21, 2015 reflecting adjustments to our fourth quarter 2015 results.

Revenue and Gross Margin

Licensing

Licensing revenue consists of fees earned from licensing our technologies to customers who incorporate them into their products and services to enable and enhance audio and voice capabilities. The technologies that we license are either internally developed, acquired, or licensed from third parties. Our cost of licensing consists mainly of amortization of purchased intangible assets and intangible assets acquired in business combinations as well as third party royalty obligations paid to license intellectual property that we then sublicense to our customers.

Licensing	Fiscal Year Ended			2015 vs. 2014		2014 vs. 2013	
	September 25, 2015	September 26, 2014	September 27, 2013	$	%	$	%
Revenue	$868,111	$878,844	$807,081	$(10,733)	(1)%	$71,763	9%
Percentage of total revenue	89%	92%	89%				
Cost of licensing	10,879	10,814	16,856	65	1%	(6,042)	(36)%
Gross margin	857,232	868,030	790,225	(10,798)	(1)%	77,805	10%
Gross margin percentage	99%	99%	98%				

2015 vs. 2014

Factor		Revenue		Gross Margin
PC	â	Lower ASPs from product mix as fewer PCs included optical disc drives, and lower shipments, partially offset by an increase in recoveries	ßà	No significant fluctuations
Other	á	Higher automotive DVD shipments and recovery activity, new revenue from Dolby Voice, and higher shipments of gaming consoles		
CE	â	Lower shipments of DVDs, AVRs, HTIBs and Blu-ray Discs, partially offset by higher shipments of soundbars and an increase in recoveries		
Broadcast	á	Increase in patent licensing and higher shipments of STBs, partially offset by lower recoveries as fiscal 2014 included a payment of $24.7 million from a large licensee		
Mobile	ßà	No significant fluctuations		

2014 vs. 2013

Factor		Revenue		Gross Margin
Broadcast	á	Increase in recoveries received for royalties including $24.7 million from a large licensee, and higher shipments of TVs and STBs that incorporate our technologies	á	Decrease in cost of licensing due to the release of a previously-accrued liability of $5.3 million
PC	â	Lower revenues associated with product mix and lower unit shipments from declines in the underlying PC market		

Mobile	á	Increase in direct patent licensing revenues from mobile phones, recoveries and unit growth of tablets that incorporate our technologies	in the fourth quarter of fiscal 2014 related to certain revenue sharing agreements
Other	á	Higher revenues from our gaming market largely attributable to the new PlayStation 4 and Xbox One game consoles that were launched late in the 2013 calendar year	
	â	Non-recurring revenue recognized in the third quarter of fiscal 2013 from a licensing arrangement for certain imaging technologies outside of our core markets	
CE	á	Higher shipments of soundbars and digital media adapters incorporating our technologies, partially offset by shipment decreases of Blu-ray Disc devices and AVRs	

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Products

Products revenue is generated from the sale of audio and imaging products for the film production, cinema, and television broadcast industries. Cost of products consists primarily of the cost of materials related to products sold, applied labor and manufacturing overhead, and amortization of certain intangible assets. Our cost of products also includes third party royalty obligations paid to license intellectual property that we include in our products.

Products	Fiscal Year Ended September 25, 2015	September 26, 2014	September 27, 2013	2015 vs. 2014 $	%	2014 vs. 2013 $	%
Revenue	$83,904	$59,219	$80,603	$24,685	42 %	$(21,384)	(27)%
Percentage of total revenue	9 %	6 %	9 %				
Cost of products	70,490	45,132	64,270	25,358	56 %	(19,138)	(30)%
Gross margin	13,414	14,087	16,333	(673)	(5)%	(2,246)	(14)%
Gross margin percentage	16 %	24 %	20 %				

2015 vs. 2014

Factor		Revenue		Gross Margin
Cinema	á	Inclusion of digital server shipments from our acquisition of Doremi and higher sales of Dolby Atmos products	â	Less favorable product mix of digital servers, lower ASPs of Dolby audio products, higher charges from excess & obsolete digital server inventory and higher manufacturing costs
Other		No significant fluctuations	â	Higher amortization on newly-acquired intangible assets

2014 vs. 2013

Factor		Revenue		Gross Margin
Cinema	â	Lower shipments and lower ASPs on digital server and cinema audio products, partially offset by higher shipments of Dolby Atmos processors	á	Improved product mix with higher margins and lower warranty charges, partially offset by higher excess manufacturing capacity charges
Other	â	Lower shipments	â	Less favorable product mix, lower ASPs and higher excess manufacturing capacity charges

Services

Services revenue consists of fees for consulting, commissioning and training services in support of film production and television broadcast, as well as maintenance and support for our products. Cost of services primarily consists of personnel and personnel-related costs for employees performing our professional services, the cost of outside consultants, and other direct expenses incurred on behalf of customers.

Services	Fiscal Year Ended September 25, 2015	September 26, 2014	September 27, 2013	2015 vs. 2014 $	%	2014 vs. 2013 $	%
Revenue	$18,623	$22,113	$21,990	$(3,490)	(16)%	$123	1 %
Percentage of total revenue	2 %	2 %	2 %				
Cost of services	13,447	14,230	15,593	(783)	(6)%	(1,363)	(9)%
Gross margin	5,176	7,883	6,397	(2,707)	(34)%	1,486	23 %
Gross margin percentage	28 %	36 %	29 %				

2015 vs. 2014

Factor		Revenue		Gross Margin
Configuration & Post-Production	â	Lower film mastering and other services	â	Prior fiscal comparative period includes the recognition of previously deferred revenue

				with no associated COGS
Support & Other	á	Increased support and maintenance services	á	Lower labor and other related costs

2014 vs. 2013

Factor		Revenue		Gross Margin
Configuration & Post-Production	á	Higher commissioning services for Dolby Atmos-enabled cinemas and related maintenance services, partially offset by declines in digital mastering services	á	Comparatively lower installation expenses in fiscal 2014 relative to fiscal 2013
Film-Based Production	â	Declines in film-based production services consistent with the industry transition to digital cinema	á	Lower labor and other related costs

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Operating Expenses

Research and Development

R&D expenses consist primarily of employee compensation and benefits expenses, stock-based compensation, consulting and contract labor costs, depreciation and amortization, facilities costs, costs for outside materials and services, and information technology expenses.

	Fiscal Year Ended			2015 vs. 2014		2014 vs. 2013	
	September 25, 2015	September 26, 2014	September 27, 2013	$	%	$	%
Research and development	$201,324	$183,128	$168,746	$18,196	10 %	$14,382	9 %
Percentage of total revenue	21 %	19 %	19 %				

2015 vs. 2014

Category		Key Drivers
Compensation & Benefits	á	Higher employee headcount including personnel from the acquisition of Doremi and related expenses along with merit increases
Product Development	á	Higher costs related primarily to the funding of various research projects and initiatives aimed at developing new products and technologies
Depreciation & Amortization	á	Higher depreciation primarily from assets placed into service including the occupation of our new worldwide headquarters which includes a significant number of R&D labs

2014 vs. 2013

Category		Key Drivers
Compensation & Benefits	á	Higher employee headcount aimed at developing new product and technology offerings and related expenses, merit increases and higher variable compensation costs
Legal, Professional & Consulting Fees	â	Lower one-time costs related primarily to the funding of various research projects and initiatives

Sales and Marketing

S&M expenses consist primarily of employee compensation and benefits expenses, stock-based compensation, marketing and promotional expenses particularly for events such as trade shows and conferences, travel-related expenses for our sales and marketing personnel, consulting fees, facilities costs, depreciation and amortization, information technology expenses, and legal costs associated with settlements and back payments ("recoveries") from licensees.

	Fiscal Year Ended			2015 vs. 2014		2014 vs. 2013	
	September 25, 2015	September 26, 2014	September 27, 2013	$	%	$	%
Sales and marketing	$279,174	$252,647	$231,103	$26,527	10 %	$21,544	9 %
Percentage of total revenue	29 %	26 %	25 %				

2015 vs. 2014

Category		Key Drivers
Compensation & Benefits	á	Higher employee headcount including personnel from the acquisition of Doremi along with total company merit increases
Marketing Programs	á	Higher costs associated with the launch of Dolby Cinema as well as industry trade shows and other marketing events
Depreciation & Amortization	á	Higher depreciation primarily from amortization of newly-acquired intangible assets and from assets placed into service

Legal, Professional & Consulting Fees	â	Lower consulting and other costs relative to fiscal 2014, partially offset by higher professional fees for intellectual property related activities

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2014 vs. 2013

Category		Key Drivers
Compensation & Benefits	á	Driven by the impact of merit increases across the existing employee base and higher variable compensation costs
Legal, Professional & Consulting Fees	á	Higher consulting and other costs associated with expanded marketing programs for numerous initiatives and higher professional fees for intellectual property related activities
Marketing Programs	á	Higher costs associated with expanded marketing programs for various growth initiatives, as well as industry trade shows and other marketing events

General and Administrative

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

	Fiscal Year Ended			2015 vs. 2014		2014 vs. 2013	
	September 25, 2015	September 26, 2014	September 27, 2013	$	%	$	%
General and administrative	$182,176	$178,104	$161,970	$4,072	2 %	$16,134	10 %
Percentage of total revenue	19 %	19 %	18 %				

2015 vs. 2014

Category		Key Drivers
Depreciation & Amortization	á	Higher depreciation primarily from assets placed into service including occupation of our new worldwide headquarters
Legal, Professional & Consulting Fees	â	Lower costs incurred in connection with our acquisition of Doremi relative to fiscal 2014 along with a decrease in costs associated with patent filings and other legal activities
Technology & Communications	á	Higher costs associated with our new worldwide headquarters and new office locations
Compensation & Benefits	á	Higher employee headcount along with merit increases

2014 vs. 2013

Category		Key Drivers
Compensation & Benefits	á	Higher employee headcount, in addition to the impact of merit increases across the existing employee base and higher variable compensation costs
Legal, Professional & Consulting Fees	á	Costs incurred in connection with the acquisition of Doremi, increased costs associated with patent filings and other legal activities, and an increase in various IT & HR project costs

Restructuring

The extent of restructuring charges recorded and fluctuations in a given fiscal year as compared to other fiscal years are attributed to differences in the nature of activities under the various plans.

	Fiscal Year Ended			2015 vs. 2014		2014 vs. 2013	
	September 25, 2015	September 26, 2014	September 27, 2013	$	%	$	%
Restructuring	$(80)	$2,403	$5,874	$(2,483)	(103)%	$(3,471)	(59)%
Percentage of total revenue	— %	— %	1 %				

Restructuring charges recorded in fiscal 2014 were incurred in relation to our fiscal 2014 Restructuring Plan implemented during the first quarter of fiscal 2014, and represent costs to reorganize and consolidate certain activities and positions within our global business infrastructure. These charges primarily related to severance and other related benefits provided to employees that were affected as a result of this action. Note that a restructuring credit of $0.1 million was recorded during fiscal 2015 in connection with the completion of activity under this Plan.

Restructuring charges recorded in fiscal 2013 were incurred in relation to our fiscal 2013 Restructuring Plan, and include the expenses we incurred in relation to a strategic restructuring program implemented to reorganize certain activities and responsibilities within our marketing function. These charges were primarily related to severance and

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other related benefits provided to affected employees in addition to costs associated with the exit of a facility. Note that during fiscal 2014, we recognized a credit of $0.7 million representing the release of a previously-accrued exit obligation for this facility following its sale.

Other Income/Expense

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

Other Income/Expense	Fiscal Year Ended September 25, 2015	September 26, 2014	September 27, 2013	2015 vs. 2014 $	%	2014 vs. 2013 $	%
Interest income	$4,544	$3,344	$3,848	$1,200	36 %	$(504)	(13)%
Interest expense	(183)	183	(575)	(366)	(200)%	758	(132)%
Other income/(expense), net	28,193	(1,146)	2,111	29,339	(2,560)%	(3,257)	(154)%
Total	$32,554	$2,381	$5,384	$30,173	1,267 %	$(3,003)	(56)%

2015 vs. 2014

Category		Key Drivers
Other Income/(Expense)	á	Increase in other income primarily due to a pre-tax gain of $26.2 million from the sale of our ownership interest in a jointly-owned real estate entity (refer to footnote 16 for additional information)
	á	Decrease in other expense as fiscal 2014 included a $3.0 million impairment charge on a cost method investment, partially offset by losses attributed to foreign exchange rate fluctuations
Interest Income	á	Increase due to higher overall investment balances and higher yields during fiscal 2015 relative to fiscal 2014

2014 vs. 2013

Category		Key Drivers
Other Income/(Expense)	â	Increase in other expense primarily due to a $3.0 million impairment charge on a cost method investment
	â	Decrease in other income from lower realized gains in fiscal 2014 as the prior comparative period included higher realized gains following the securities to fund the special dividend payment made in the first quarter of fiscal 2013
Interest Expense	á	Decrease primarily relates to a credit for the release of accrued interest on royalties payable under a patent agreement
Interest Income	â	Lower yields on investment balances during fiscal 2014 relative to fiscal 2013 following the special dividend payment made in the first quarter of fiscal 2013

Income Taxes

Our effective tax rate is based on a projection of our annual fiscal year results, and is affected each quarter-end by several factors. These include changes in our projected fiscal year results, recurring items such as tax rates and relative income earned in foreign jurisdictions as well as discrete items that may occur in, but are not necessarily consistent between periods. For additional information related to effective tax rates, see Note 10 “Income Taxes” to our consolidated financial statements.

	Fiscal Year Ended September 25, 2015	September 26, 2014	September 27, 2013
Provision for income taxes	$(62,542)	$(67,379)	$(60,344)
Effective tax rate	25 %	24 %	24 %

2015 vs. 2014		
Factor	Impact On Effective Tax Rate	
Real Estate Interest Sale	á	Increase as taxes attributed to the sale of our ownership interest in a jointly-owned real estate entity had a higher marginal tax rate than our entity-wide blended average
U.S. Manufacturing Tax Incentives	á	Reduced benefits attributed to decrease in U.S. manufacturing tax incentive deductions
Federal R&D Credits	â	Increase in discrete benefits from federal R&D credits that were retroactively reinstated for the 2014 calendar year

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2014 vs. 2013

Factor		Impact On Effective Tax Rate
Foreign Operations	â	Increased benefits in fiscal 2014 due to a higher proportion of earnings from lower tax-rate jurisdictions
Federal R&D Credits	á	Reduced benefits from federal R&D credits that expired after December 2013 and have not been reinstated
Foreign Operations Reorganization	á	Increased benefits in fiscal 2013 following the re-organization of a foreign subsidiary which did not occur in fiscal 2014

LIQUIDITY, CAPITAL RESOURCES, AND FINANCIAL CONDITION

Our principal sources of liquidity are cash, cash equivalents, and investments, as well as cash flows from operations. We believe that these sources will be sufficient to satisfy our currently anticipated cash requirements through at least the next twelve months. As of September 25, 2015, we had cash and cash equivalents of $531.9 million, which consisted of cash and highly-liquid money market funds. In addition, we had short and long-term investments of $459.9 million, which consisted primarily of municipal debt securities, commercial paper, corporate bonds, and U.S. agency securities.

Our policy is to indefinitely reinvest a portion of our undistributed earnings in certain foreign subsidiaries to support the operations and growth of these subsidiaries. Of our total cash, cash equivalents, and investments held as of September 25, 2015, approximately $546 million, or 55%, was held by our foreign subsidiaries. This represented a $129 million increase from the $417 million that was held by our foreign subsidiaries as of September 26, 2014. If these undistributed earnings held by foreign subsidiaries are repatriated to the U.S., they may be subject to U.S. federal income taxes and foreign withholding taxes, less the applicable foreign tax credits.

	September 25, 2015	September 26, 2014
	(in thousands)	
Cash and cash equivalents	$531,926	$568,472
Short-term investments	138,901	231,208
Long-term investments	321,015	296,335
Accounts receivable, net	101,563	86,168
Accounts payable and accrued liabilities	190,017	174,274
Working capital (1)	708,649	816,481

(1) Working capital consists of total current assets less total current liabilities.

Capital Expenditures and Uses of Capital

Our capital expenditures consist of purchases of land, building, building fixtures, laboratory equipment, office equipment, computer hardware and software, leasehold improvements, and production and test equipment. We continue to invest in sales and marketing and R&D that contribute to the overall growth of our business and technological innovation. In fiscal 2012, we used existing cash to purchase commercial office property in San Francisco, California for $109.8 million, and made substantial improvements to the building which is now fully occupied as our new worldwide headquarters.

Acquisitions. During fiscal 2015, we completed the acquisition of Doremi and the Doremi-related assets for total purchase consideration of $98.4 million, net of cash acquired. For additional details, see Note 13 “Acquisitions” to our consolidated financial statements.

We retain sufficient cash holdings to support our operations and we also purchase investment grade securities diversified among security types, industries, and issuers. We have used cash generated from our operations to fund a variety of activities related to our business in addition to our ongoing operations, including business expansion and growth, acquisitions, and repurchases of our common stock. We have historically generated significant cash from operations, however these cash flows and the value of our investment portfolio could be affected by various risks and uncertainties, as described in Part I, Item 1A "Risk Factors."

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Shareholder Return

Since fiscal 2010, we have returned significant cash to stockholders through repurchases of common stock under our repurchase program, a special one-time dividend, and our quarterly dividend program established in fiscal 2015.

Stock Repurchase Program. Our stock repurchase program was established in fiscal 2009, and in October 2014, we announced that our Board of Directors approved an increase to the size of our stock repurchase program by an additional $200.0 million.

Special Dividend. During fiscal 2013, we declared and paid a special dividend. Based on the 102,051,386 shares of common stock outstanding as of the record date, the total special dividend payment was $408.2 million.

Quarterly Dividend Program. During the first quarter of fiscal 2015, we announced a recurring quarterly cash dividend program for our stockholders. Under the program, quarterly dividends of $0.10 per share on our Class A and Class B common stock were both declared and paid to eligible stockholders of record for each quarter during fiscal 2015. On October 21, 2015, we announced a cash dividend of $0.12 per share of Class A and Class B common stock, payable on November 10, 2015, to stockholders of record as of the close of business on November 2, 2015. The per share amount of the dividend represents a 20% increase over the prior amount under our quarterly cash dividend program. Refer to Note 7 "Stockholders' Equity & Stock-Based Compensation" to our consolidated financial statements for a summary of dividend payments made under the program to date and additional information regarding our stock repurchase program.

Cash Flows Analysis

For the following comparative analysis performed for each of the sections of the statement of cash flows, the significant factors identified as the leading drivers contributing to the fluctuation are presented in descending order according to the magnitude of their impact relative to the overall change (amounts displayed in thousands, except as otherwise noted).

Operating Activities

	Fiscal Year Ended	
	September 25, 2015	September 26, 2014
Net cash provided by operating activities	$309,377	$361,547

Net cash provided by operating activities decreased $52.2 million in fiscal 2015 as compared to fiscal 2014, primarily due to the following:

Factor		Impact On Cash Flows
Net Income	â	Increase in operating expenses including depreciation and cost of revenue, partially offset by the pre-tax gain of $26.2 million from the sale of our ownership interest in a jointly-owned real estate entity
Working Capital	â	Net decrease due primarily to increases in accounts receivable, prepayments and deferred income taxes, partially offset by increases in accounts payable and accrued liabilities, all due to timing

Investing Activities

	Fiscal Year Ended	
	September 25, 2015	September 26, 2014
Net cash used in investing activities	$(203,595)	$(204,944)
Capital expenditures	(157,552)	(78,718)

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Net cash used in investing activities was lower by $1.3 million in fiscal 2015 as compared to fiscal 2014, primarily due to the following:

Factor		Impact On Cash Flows
Sales Of Investments	á	Higher cash inflows from proceeds received from sales and maturities of marketable securities
Purchase Of Investments	â	Higher cash outflows from purchases of marketable securities
Capital Expenditures	â	Increase in the cash expenditures for PP&E, the majority of which relates to our new worldwide headquarters
Business Combinations	â	Cash outflows during fiscal 2015 relating to the acquisition of Doremi
Intangible Asset Acquisitions	â	Higher cash outflows for purchases of intangible assets
Sale Of Real Estate	á	Net cash proceeds from the sale of our ownership interest in a jointly-owned real estate entity

Financing Activities

	Fiscal Year Ended September 25, 2015		September 26, 2014		
Net cash used in financing activities	$(138,519	)	$(40,580	)	
Repurchase of common stock	(107,349	September 29, 2012	October 1, 2011		
Derivatives not designated as hedging instruments:					
Interest rate contracts	$(12	)	$	(8)	Other income (expense)
Foreign exchange contracts	(5	)	(7	)	Other income (expense)
Total derivatives not designated as hedging instruments	$(17	)	$	(15)	

The following tables summarize the gains and losses recognized in the condensed consolidated financial statements, including amounts related to discontinued operations, for the three and nine months ended September 29, 2012 and October 1, 2011:

Foreign Exchange Contracts	Three Months Ended September 29, 2012		October 1, 2011		Financial Statement Location
Derivatives in cash flow hedging relationships:					
Gain (loss) recognized in Accumulated other comprehensive loss	$1		$(4	)	Accumulated other comprehensive loss
Gain (loss) reclassified from Accumulated other comprehensive loss into Net earnings	(1	)	1		Cost of sales

Foreign Exchange Contracts	Nine Months Ended September 29, 2012		October 1, 2011		Financial Statement Location
Derivatives in cash flow hedging relationships:					
Gain (loss) recognized in Accumulated other comprehensive loss	$2		$(1	)	Accumulated other comprehensive loss
Gain (loss) reclassified from Accumulated other comprehensive loss into Net earnings	(2	)	4		Cost of sales

6. Income Taxes

At September 29, 2012 and December 31, 2011, the Company had valuation allowances of $352 million and $366 million, respectively, including $323 million and $336 million, respectively, relating to deferred tax assets for non-U.S. subsidiaries. During the three months ended April 2, 2011, the Company reassessed its valuation allowance requirements taking into consideration the distribution of the shares of Motorola Mobility Holdings, Inc. ("Motorola Mobility"). The Company evaluated all available evidence in its analysis, including the historical and projected pre-tax profits generated by the Motorola Solutions U.S. operations. The Company also considered tax planning strategies that are prudent and can be reasonably implemented. As a result, in the three months ended April 2, 2011, the Company recorded a $244 million tax benefit related to the reversal of a significant portion of the valuation allowance established on U.S. deferred tax assets.

The U.S. valuation allowance as of September 29, 2012 relates primarily to state tax carryforwards. The valuation allowance relating to deferred tax assets of non-U.S. subsidiaries was reduced for tax attributes of a non-controlling interest disposed of during the first quarter, partially offset by increases for current year activity and exchange rate variances. The Company believes the remaining deferred tax assets are more-likely-than-not to be realized based on estimates of future taxable income and the implementation of tax planning strategies.

The Company had unrecognized tax benefits of $160 million and $191 million at September 29, 2012 and December 31, 2011, respectively, of which $118 million and $150 million, respectively, if recognized, would affect the effective tax rate, net of resulting changes to valuation allowances. During the nine months ended September 29, 2012, the Company reduced its unrecognized tax benefits primarily for settlements with tax authorities in the amount of $34 million, of which $13 million was recognized as a tax benefit and the remainder reduced tax carryforwards and prepaid tax assets. The decrease in the unrecognized tax benefits due to settlements with tax authorities is partially offset by an increase in unrecognized tax benefits related to current and prior year tax positions.

Based on the potential outcome of the Company’s global tax examinations or the expiration of the statute of limitations for specific jurisdictions, it is reasonably possible that the unrecognized tax benefits will change within the next 12 months. The associated net tax impact on the effective tax rate, exclusive of valuation allowance changes, is estimated to be in the range of a $50 million tax charge to a $50 million tax benefit, with cash payments in the range of $0 to $25 million.

During the nine months ended September 29, 2012, the Internal Revenue Service (“IRS”) concluded its audit of Motorola Solutions, Inc.'s 2008 and 2009 tax years. The IRS is currently examining the Company's 2010 and 2011 tax years. The Company has audits pending in several tax jurisdictions. Although the final resolution of the Company's global tax disputes is uncertain, based on current information, in the opinion of the Company's management, the ultimate disposition of these matters is not expected to have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations. However, an unfavorable resolution of the Company's global tax disputes could have a material adverse effect on the Company's results of operations in the periods in which the matters are ultimately resolved.

7. Retirement Benefits

Pension Benefit Plans

The net periodic pension costs for the U.S. and Non-U.S. plans were as follows:

	September 29, 2012		October 1, 2011	
Three Months Ended	U.S.	Non U.S.	U.S.	Non U.S.
Service cost	$—	$3	$—	$4
Interest cost	87	18	85	19
Expected return on plan assets	(105)	(19)	(97)	(21)
Amortization of:				
Unrecognized net loss	65	6	48	4
Unrecognized prior service credit	—	(1)	—	(2)
Settlement/curtailment loss	—	—	4	—
Net periodic pension expense	$47	$7	$40	$4

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Nine Months Ended	September 29, 2012 U.S.	Non U.S.	October 1, 2011 U.S.	Non U.S.
Service cost	$—	$8	$—	$18
Interest cost	262	55	256	68
Expected return on plan assets	(316)	(58)	(291)	(75)
Amortization of:				
Unrecognized net loss	195	16	143	12
Unrecognized prior service cost	—	(2)	—	(10)
Settlement/curtailment loss (gain)	—	—	8	(9)
Net periodic pension cost	$141	$19	$116	$4

During the nine months ended September 29, 2012, payments of $340 million were made to the Company's U.S. plans, meeting the projected contributions for 2012, and $24 million to the Company's Non-U.S. plans.

In January 2011, the Pension Benefit Guaranty Corporation ("PBGC") announced an agreement with Motorola Solutions under which we would contribute $100 million above and beyond our legal requirement to one of our U.S. pension plans over the next five years. The Company and the PBGC entered into the agreement as the Company was in the process of separating Motorola Mobility and pursuing the sale of certain assets of the Networks business. The Company made an additional $250 million of pension contributions to one of its U.S. pension plans over the amounts required in the fourth quarter 2011, of which $100 million fulfilled the PBGC obligation. As a result, the Company has no further obligations under this agreement with the PBGC.

During the nine months ended October 1, 2011, the Company recognized a curtailment gain in its United Kingdom defined benefit plan, offset by a settlement loss in its Japan defined benefit plan, due to the Networks transaction. As a result, the Company recorded a net gain of $9 million to Other charges in the Company's condensed consolidated statements of operations.

Postretirement Health Care Benefits Plan

Net postretirement health care expenses consist of the following:

	Three Months Ended September 29, 2012	Three Months Ended October 1, 2011	Nine Months Ended September 29, 2012	Nine Months Ended October 1, 2011
Service cost	$1	$1	$3	$3
Interest cost	4	5	14	17
Expected return on plan assets	(3)	(4)	(9)	(12)
Amortization of:				
Unrecognized net loss	3	3	9	9
Unrecognized prior service cost	(5)	—	(5)	—
Net postretirement health care expense	$—	$5	$12	$17

The Company made no contributions to its postretirement health care fund during the nine months ended September 29, 2012.

During the three months ended September 29, 2012, the Company announced an amendment to the Postretirement Health Care Benefits Plan. Starting January 1, 2013, benefits under the plan to participants over age 65 will be paid to a retiree health reimbursement account instead of directly providing health insurance coverage to the participants. These retirees will be able to use the annual subsidy they receive through this account toward the purchase of their own health care coverage from private insurance companies and for reimbursement of eligible health care expenses. This change has resulted in a remeasurement of the plan where $139 million of the accumulated postretirement benefit obligation was reduced through a decrease in accumulated other comprehensive loss of $87 million, net of taxes. The majority of the reduced liability will be recognized over 3.5 years, which is the period in which the remaining employees eligible for the plan will qualify for benefits under the plan.

Defined Contribution Plans

The Company and certain subsidiaries have various defined contribution plans, in which all eligible employees participate. In the U.S., the 401(k) plan is a contributory plan. Matching contributions are based upon the amount of the employees' contributions. Beginning January 1, 2012, the Company may make an additional discretionary 401(k) plan matching contribution to eligible employees. For the nine months ended September 29, 2012, the Company has not made any discretionary matching contributions.

8. Share-Based Compensation Plans

Compensation expense for the Company's employee stock options, stock appreciation rights, employee stock purchase plan, restricted stock and restricted stock units ("RSUs") was as follows:

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Share-based compensation expense included in:				
Costs of sales	$6	$6	$19	$14
Selling, general and administrative expenses	27	29	84	83
Research and development expenditures	11	10	36	26
Share-based compensation expense included in Operating earnings	44	45	139	123
Tax benefit	14	14	47	39
Share-based compensation expense, net of tax	$30	$31	$92	$84
Decrease in basic earnings per share	$(0.11)	$(0.09)	$(0.31)	$(0.25)
Decrease in diluted earnings per share	$(0.11)	$(0.09)	$(0.30)	$(0.24)
Share-based compensation expense in discontinued operations	$—	$—	$—	$13

For the nine months ended September 29, 2012, the Company granted 1.5 million RSUs and 1.2 million stock options. The total compensation expense, net of estimated forfeitures, for these RSUs and stock options was $65 million and $11 million, respectively. The expense will be recognized over a weighted average vesting period of 3 years.

Employee Stock Purchase Plan

The employee stock purchase plan allows eligible participants to purchase shares of the Company's common stock through payroll deductions of eligible compensation on an after-tax basis. Effective April 1, 2012, the Company increased the maximum purchase from 10% to 20% of eligible compensation. Plan participants cannot purchase more than $25,000 of stock in any calendar year.

9. Fair Value Measurements

The Company holds certain fixed income securities, equity securities and derivatives, which are recognized and disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Fair value is measured using the fair value hierarchy and related valuation methodologies as defined in the authoritative literature. This guidance specifies a hierarchy of valuation techniques based on whether the inputs to each measurement are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions about current market conditions. The prescribed fair value hierarchy and related valuation methodologies are as follows:

Level 1—Quoted prices for identical instruments in active markets.

Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations, in which all significant inputs are observable in active markets.

Level 3—Valuations derived from valuation techniques, in which one or more significant inputs are unobservable.

The fair values of the Company's financial assets and liabilities by level in the fair value hierarchy as of September 29, 2012 and December 31, 2011 were as follows:

September 29, 2012	Level 1	Level 2	Total
Assets:			
Sigma Fund securities:			
U.S. government, agency and government-sponsored enterprise obligations	$—	$1,758	$1,758
Foreign exchange derivative contracts	—	5	5
Available-for-sale securities:			
U.S. government, agency and government-sponsored enterprise obligations	—	15	15
Corporate bonds	—	11	11
Mortgage-backed securities	—	2	2
Common stock and equivalents	22	8	30
Liabilities:			
Foreign exchange derivative contracts	$—	$1	$1
Interest agreement derivative contracts	—	4	4
December 31, 2011	Level 1	Level 2	Total
Assets:			
Sigma Fund securities:			
U.S. government, agency and government-sponsored enterprise obligations	$—	$2,944	$2,944
Foreign exchange derivative contracts	—	1	1
Available-for-sale securities:			
U.S. government, agency and government-sponsored enterprise obligations	—	16	16
Corporate bonds	—	10	10
Mortgage-backed securities	—	2	2
Common stock and equivalents	3	8	11
Liabilities:			
Foreign exchange derivative contracts	$—	$5	$5
Interest agreement derivative contracts	—	3	3

The Company had no Level 3 holdings as of September 29, 2012 and December 31, 2011.

The following table summarizes the changes in fair value of our Level 3 assets:

	Three Months Ended	Nine Months Ended
	October 1, 2011	October 1, 2011
Beginning balance	$ 21	$15
Transfers to Level 3	—	21
Payments received and securities sold	—	(18)
Gain (loss) on Sigma Fund investments included in Other income (expense)	(2)	1
Ending balance	$ 19	$19

At September 29, 2012, the Company had $452 million of investments in money market mutual funds classified as Cash and cash equivalents in its condensed consolidated balance sheet, compared to $437 million at December 31, 2011. The money market funds have quoted market prices that are equivalent to par.

Using quoted market prices and market interest rates, the Company determined that the fair value of long-term debt at September 29, 2012 was $2.1 billion (Level 2), compared to a face value of $1.9 billion. Since considerable judgment is required in interpreting market information, the fair value of the long-term debt is not necessarily indicative of the amount which could be realized in a current market exchange.
All other financial instruments are carried at cost, which is not materially different than the instruments' fair values.

10. Long-term Customer Financing and Sales of Receivables
Long-term Customer Financing
Long-term receivables consist of trade receivables with payment terms greater than twelve months, long-term loans and lease receivables under sales-type leases. Long-term receivables consist of the following:

	September 29, 2012	December 31, 2011
Long-term receivables	$114	$177
Less allowance for losses	(1)	(10)
	113	167
Less current portion	(70)	(130)
Non-current long-term receivables, net	$43	$37

The current portion of long-term receivables is included in Accounts receivable, net and the non-current portion of long-term receivables is included in Other assets in the Company's condensed consolidated balance sheets.
Certain purchasers of the Company's products and services may request that the Company provide long-term financing (defined as financing with a term of greater than one year) in connection with the sale of products and services. These requests may include all or a portion of the purchase price of the products and services. The Company's obligation to provide long-term financing may be conditioned on the issuance of a letter of credit in favor of the Company by a reputable bank to support the purchaser's credit or a pre-existing commitment from a reputable bank to purchase the long-term receivables from the Company. The Company had outstanding commitments to provide long-term financing to third parties totaling $100 million at September 29, 2012, compared to $138 million at December 31, 2011. The majority of the outstanding commitments at September 29, 2012 are related to a variety of government and public safety customers.
The Company retained the funded portion of the financing arrangements related to the Networks business following the sale to NSN, which totaled a net amount of $51 million at September 29, 2012. These receivables have an allowance for uncollectable accounts of $9 million classified as current, and $1 million classified as non-current.
As of September 29, 2012, $43 million of net receivables are classified as long-term. The remainder of the long-term receivables are current and included in Accounts receivable, net.
Sales of Receivables
The Company had no committed facilities for the sale of accounts receivable or long-term receivables at September 29, 2012 or at December 31, 2011.
The following table summarizes the proceeds received from non-recourse sales of accounts receivable and long-term receivables for the three and nine months ended September 29, 2012 and October 1, 2011:

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Cumulative quarterly proceeds received from one-time sales:				
Accounts receivable sales proceeds	$5	$3	$12	$4
Long-term receivable sales proceeds	32	170	156	193
Total proceeds from one-time sales of accounts receivable	$37	$173	$168	$197

At September 29, 2012, the Company had retained servicing obligations for $349 million of long-term receivables, compared to $263 million of long-term receivables at December 31, 2011. Servicing obligations are limited to collection activities related to the non-recourse sales of accounts receivables and long-term receivables.

At September 29, 2012, the Company was subject to a recourse obligation related to the sale of $200 million of accounts receivable sold during 2011 and the nine months ended September 29, 2012 generated by the Networks business and retained after the sale to NSN. This obligation is only triggered upon the insufficiency of a third party legally binding support letter backing the sold receivables. The conditions which must occur in order for the Company to be required to make a payment under this obligation are deemed remote and the fair value of this obligation at the outset of the arrangement and as of September 29, 2012, is zero.

Credit Quality of Customer Financing Receivables and Allowance for Credit Losses

An aging analysis of financing receivables at September 29, 2012 and December 31, 2011 is as follows:

September 29, 2012	Total Long-term Receivable	Current Billed Due	Past Due Under 90 Days	Past Due Over 90 Days
Municipal leases secured tax exempt	$5	$ —	$—	$—
Commercial loans and leases secured	79	2	—	4
Commercial loans unsecured	30	—	—	—
Total gross long-term receivables, including current portion	$114	$ 2	$—	$4
December 31, 2011	**Total Long-term Receivable**	**Current Billed Due**	**Past Due Under 90 Days**	**Past Due Over 90 Days**
Municipal leases secured tax exempt	$14	$ —	$—	$—
Commercial loans and leases secured	61	1	2	—
Commercial loans unsecured	102	—	—	—
Total gross long-term receivables, including current portion	$177	$ 1	$2	$—

The Company did have financing receivables past due over 90 days as of September 29, 2012 in relation to a loan related to the funded portion of a financing arrangement from the Networks business following the sale to NSN. The Company is no longer accruing interest on this loan as of December 31, 2011. A $10 million reserve was established for this loan due to collectability issues at December 31, 2011, of which $9 million is classified as current, and $1 million is classified as non-current at September 29, 2012.

11. Commitments and Contingencies

Legal

The Company is a defendant in various suits, claims and investigations that arise in the normal course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company’s consolidated financial position, liquidity or results of operations. However, an unfavorable resolution could have a material adverse effect on the Company’s results of operations in the periods in which the matters are ultimately resolved.

Other

The Company is a party to a variety of agreements pursuant to which it is obligated to indemnify the other party with respect to certain matters. In indemnification cases, payment by the Company is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow the Company to challenge the other party's claims. In some instances, the Company may have recourse against third parties for certain payments made by the Company.

Some of these obligations arise as a result of divestitures of the Company's assets or businesses and require the Company to indemnify the other party against losses arising from breaches of representations and warranties and covenants and, in some cases, the settlement of pending obligations. The Company's obligations under divestiture agreements for indemnification based on breaches of representations and warranties are generally limited in terms of duration, and for amounts not in excess of a percentage of the contract value. The total amount of indemnification under these types of provisions is approximately $214 million, of which the Company had no accruals at September 29, 2012 for potential claims under these provisions.

In addition, the Company may provide indemnifications for losses that result from the breach of general warranties contained in certain commercial and intellectual property agreements. Historically, the Company has not made significant payments under these agreements. However there is an increasing risk in relation to patent indemnities given the current legal climate.

In addition, pursuant to the Master Separation and Distribution Agreement and certain other agreements with Motorola Mobility, Motorola Mobility agreed to indemnify the Company for certain liabilities, and the Company agreed to indemnify Motorola Mobility for certain liabilities, in each case for uncapped amounts.

12. Segment Information

The following table summarizes the Net sales by segment:

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Government	$1,521	$1,360	$4,281	$3,811
Enterprise	632	725	1,976	2,092
	$2,153	$2,085	$6,257	$5,903

The following table summarizes the Operating earnings by segment:

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Government	$273	$186	$620	$390
Enterprise	51	68	213	192
Operating earnings	324	254	833	582
Total other income (expense)	—	(16)	(25)	(111)
Earnings from continuing operations before income taxes	$324	$238	$808	$471

13. Reorganization of Businesses

2012 Charges

During the three months ended September 29, 2012, the Company recorded net reorganization of business charges of $13 million including $10 million of charges in Other charges, and $3 million of charges in Costs of sales in our condensed consolidated statements of operations. The $13 million of charges all relate to employee separation costs.
During the nine months ended September 29, 2012, the Company recorded net reorganization of business charges of $36 million, including $30 million of charges in Other charges and $6 million of charges in Costs of sales in the Company's condensed consolidated statements of operations. Included in the aggregate of $36 million are charges of $43 million for employee separation costs, and $1 million for building impairment charges, partially offset by $8 million of reversals for accruals no longer needed.
The following table displays the net charges incurred by segment:

September 29, 2012	Three Months Ended	Nine Months Ended
Government	$ 8	$24
Enterprise	5	12
	$ 13	$36

The following table displays a rollforward of the reorganization of businesses accruals established for lease exit costs and employee separation costs from January 1, 2012 to September 29, 2012:

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	Accruals at January 1, 2012	Additional Charges	Adjustments	Amount Used	Accruals at September 29, 2012
Exit costs	$14	$—	$2	$(8)	$8
Employee separation costs	30	43	(7)	(33)	33
	$44	$43	$(5)	$(41)	$41

Exit Costs

At January 1, 2012, the Company had an accrual of $14 million for exit costs attributable to lease terminations. During the nine months ended September 29, 2012, there were no additional charges related to the exit of leased facilities. The $8 million used reflects cash payments. The remaining accrual of $8 million, which is included in Accrued liabilities in the Company's condensed consolidated balance sheets at September 29, 2012, primarily represents future cash payments for lease termination obligations that are expected to be paid over a number of years.

Employee Separation Costs

At January 1, 2012, the Company had an accrual of $30 million for employee separation costs, representing the severance costs for: (i) severed employees who began receiving payments in 2011, and (ii) approximately 500 employees who began receiving payments in 2012. The 2012 additional charges of $43 million represent severance costs for approximately 700 employees, of which 500 were indirect employees and 200 were direct employees. The adjustment of $7 million reflects reversals of accruals no longer needed. The $33 million used reflects cash payments. The remaining accrual of $33 million, which is included in Accrued liabilities in the Company's condensed consolidated balance sheets at September 29, 2012, is expected to be paid, generally, within one year to approximately 700 employees, who have either been severed or have been notified of their severance and have begun or will begin receiving payments.

2011 Charges

During the three months ended October 1, 2011, the Company recorded net reorganization of business charges of $10 million, primarily under Other charges in the Company's condensed consolidated statements of operations. Included in the $10 million are charges of $8 million for employee separation costs and $2 million for exit costs.

During the nine months ended October 1, 2011, the Company recorded net reorganization of business charges of $35 million, including $3 million of charges in Costs of sales and $32 million of charges under Other charges in the Company's condensed consolidated statements of operations. Included in the $35 million are charges of $22 million related to the separation of approximately 400 indirect employees, and $15 million related to the exit of leased facilities, partially offset by $2 million of reversals for accruals no longer needed.

The following table displays the net charges incurred by segment:

October 1, 2011	Three Months Ended	Nine Months Ended
Government	$ 7	$25
Enterprise	3	10
	$ 10	$35

14. Intangible Assets and Goodwill

Intangible Assets

Amortized intangible assets were comprised of the following:

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	September 29, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Completed technology	$635	$630	$635	$627
Patents	277	277	277	277
Customer-related	137	118	137	103
Licensed technology	23	18	23	18
Other intangibles	90	89	90	89
	$1,162	$1,132	$1,162	$1,114

Amortization expense on intangible assets was $6 million for the three months ended September 29, 2012 and $50 million for the three months ended October 1, 2011. For the nine months ended September 29, 2012 and October 1, 2011, amortization expense on intangible assets was $18 million and $150 million, respectively. As of September 29, 2012, annual amortization expense is estimated to be $25 million in 2012, $10 million in 2013, $8 million in 2014, $3 million in 2015 and $2 million in 2016.

Amortized intangible assets, excluding goodwill, by segment:

	September 29, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Government	$53	$48	$53	$48
Enterprise	1,109	1,084	1,109	1,066
	$1,162	$1,132	$1,162	$1,114

Goodwill

The following table displays a rollforward of the carrying amount of goodwill by segment from January 1, 2012 to September 29, 2012:

	Government	Enterprise	Total
Balances as of January 1, 2012:			
Aggregate goodwill acquired/divested	$350	$2,642	$2,992
Accumulated impairment losses	—	(1,564)	(1,564)
Goodwill, net of impairment losses	$350	$1,078	$1,428
Goodwill acquired	—	3	3
Goodwill divested	(1)	—	(1)
Balance as of September 29, 2012:			
Aggregate goodwill acquired/divested	$349	$2,645	$2,994
Accumulated impairment losses	—	(1,564)	(1,564)
Goodwill, net of impairment losses	$349	$1,081	$1,430

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
This commentary should be read in conjunction with the condensed consolidated financial statements and related notes thereto of Motorola Solutions, Inc. ("Motorola Solutions" or the "Company," "we," "our," or "us") for the three and nine months ended September 29, 2012 and October 1, 2011, as well as our consolidated financial statements and related notes thereto and management's discussion and analysis of financial condition and results of operations in our Annual Report on Form 10-K for the year ended December 31, 2011.
Executive Overview
We are a leading provider of mission-critical communication infrastructure, devices, software and services. Our communications-focused products and services help government and enterprise customers improve their operations through increased effectiveness and efficiency of their mobile workforces. Our customers benefit from our global footprint and thought leadership. We are positioned for success with sales in more than 100 countries, 21,000 employees worldwide, an industry leadership position, an unmatched portfolio of products and services and a strong patent portfolio.
We report financial results for two segments:
Government: Our Government segment includes sales of public safety mission-critical communications systems, commercial two-way radio systems and devices, software and services. In the third quarter of 2012, the segment's net sales were $1.5 billion, representing 71% of our consolidated net sales.
Enterprise: Our Enterprise segment includes sales of rugged and enterprise-grade mobile computers and tablets, laser/imaging/RFID-based data capture products, wireless local area network ("WLAN") and integrated digital enhanced network ("iDEN") infrastructure, software and services. In the third quarter of 2012, the segment's net sales were $632 million, representing 29% of our consolidated net sales.
Recent Developments
On October 1, 2012, we announced the completion of the acquisition of Psion plc, a U.K. based leader in mobile computing solutions, for approximately $200 million in cash. The results and operations of Psion will be included in the Enterprise segment in our consolidated financial statements subsequent to the date of the acquisition.
On January 1, 2012, we completed a series of transactions which resulted in exiting the amateur, marine and airband radio businesses. The operating results of the amateur, marine and airband radio businesses, formerly included as part of the Government segment, are reported as discontinued operations in the condensed consolidated statements of operations for all periods presented.
Third Quarter Summary

- We increased net sales by 3% to $2.2 billion in the third quarter of 2012, compared to net sales of $2.1 billion in the third quarter of 2011.
- We generated operating earnings of $324 million, or 15.0% of net sales, in the third quarter of 2012, compared to $254 million, or 12.2% of net sales, in the third quarter of 2011.
- We had earnings from continuing operations, net of tax, of $206 million, or $0.72 per diluted common share, in the third quarter of 2012, compared to earnings from continuing operations, net of tax, of $153 million, or $0.45 per diluted common share, in the third quarter of 2011.
- We generated cash from operating activities of $504 million during the first nine months of 2012, compared to $804 million in the first nine months of 2011.
- We returned $2.3 billion in capital to shareholders through share repurchases and dividends during the first nine months of 2012.

Highlights for each of our segments are as follows:

- Government: Net sales were $1.5 billion in the third quarter of 2012, an increase of 12% compared to net sales of $1.4 billion during the third quarter of 2011. On a geographic basis, net sales increased in North America, Latin America and Europe, Middle East and Africa region ("EMEA"), and remained approximately flat in Asia, compared to the year-ago quarter.
- Enterprise: Net sales were $632 million in the third quarter of 2012, a decrease of 13% compared to net sales of $725 million in the third quarter of 2011. On a geographic basis, net sales declined in all regions compared to the year-ago quarter.

Results of Operations

(Dollars in millions, except per share amounts)	Three Months Ended September 29, 2012	% of Sales**	October 1, 2011	% of Sales**	Nine Months Ended September 29, 2012	% of Sales**	October 1, 2011	% of Sales**
Net sales from products	$1,567		$1,552		$4,574		$4,379	
Net sales from services	586		533		1,683		1,524	
Net sales	2,153		2,085		6,257		5,903	
Costs of product sales	682	43.5 %	679	43.8 %	2,052	44.9 %	1,949	44.5 %
Costs of service sales	384	65.5 %	351	65.9 %	1,085	64.5 %	968	63.5 %
Costs of sales	1,066		1,030		3,137		2,917	
Gross margin	1,087	50.5 %	1,055	50.6 %	3,120	49.9 %	2,986	50.6 %
Selling, general and administrative expenses	485	22.5 %	471	22.6 %	1,454	23.2 %	1,414	24.0 %
Research and development expenditures	262	12.2 %	270	12.9 %	785	12.5 %	769	13.0 %
Other charges	16	0.7 %	60	2.9 %	48	0.8 %	221	3.7 %
Operating earnings	324	15.0 %	254	12.2 %	833	13.3 %	582	9.9 %
Other income (expense):								
Interest expense, net	(16)	(0.7)%	(18)	(0.9)%	(46)	(0.7)%	(59)	(1.0)%
Gain on sales of investments and businesses, net	19	0.9 %	2	0.1 %	39	0.6 %	21	0.4 %
Other expense	(3)	(0.1)%	—	— %	(18)	(0.3)%	(73)	(1.2)%
Total other expense	—	— %	(16)	(0.8)%	(25)	(0.4)%	(111)	(1.9)%
Earnings from continuing operations before income taxes	324	15.0 %	238	11.4 %	808	12.9 %	471	8.0 %
Income tax expense (benefit)	118	5.5 %	83	4.0 %	266	4.3 %	(93)	(1.6)%
	206	9.6 %	155	7.4 %	542	8.7 %	564	9.6 %
Less: Earnings (loss) attributable to noncontrolling interests	—	— %	2	0.1 %	—	— %	(6)	(0.1)%
Earnings from continuing operations*	206	9.6 %	153	7.3 %	542	8.7 %	570	9.7 %
Earnings (loss) from discontinued operations, net of tax	—	— %	(25)	(1.2)%	3	— %	404	6.8 %
Net earnings	$206	9.6 %	$128	6.1 %	$545	8.7 %	$974	16.5 %
Earnings (loss) per diluted common share:								
Continuing operations	$0.72		$0.45		$1.80		$1.66	
Discontinued operations	—		(0.07)		0.01		1.18	
	$0.72		$0.38		$1.81		$2.84	

* Amounts attributable to Motorola Solutions, Inc. common stockholders.

** Percentages may not add due to rounding

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Results of Operations—Three months ended September 29, 2012 compared to three months ended October 1, 2011

Net Sales

Net sales were $2.2 billion in the third quarter of 2012, up 3% compared to net sales of $2.1 billion in the third quarter of 2011. The increase in net sales reflects a $161 million, or 12%, increase in net sales in the Government segment driven by broad based growth across the portfolio, partially offset by a $93 million, or 13%, decrease in net sales in the Enterprise segment driven by a decline in volume, which includes the anticipated decline in iDEN infrastructure sales, fewer large deals, and unfavorable foreign currency fluctuations.

Gross Margin

Gross margin was $1.1 billion, or 50.5% of net sales, in the third quarter of 2012, compared to $1.1 billion, or 50.6% of net sales, in the third quarter of 2011. The increase in gross margin of $32 million reflects an increase in gross margin in our Government segment driven by the 12% increase in net sales, offset by a decrease in gross margin in our Enterprise segment primarily related to a decline in volume, including the anticipated decline in iDEN, as well as unfavorable foreign currency effects. We increased gross margin as a percentage of sales in both product and service sales. The increase in gross margin percentage from product sales primarily relates to favorable mix change quarter over quarter. The increase in gross margin percentage from service sales primarily relates to leverage from increased volume. Gross margin as a percentage of net sales in the third quarter of 2012 slightly decreased compared to the third quarter of 2011, as sales from services, which generally have lower gross margins than our sales from products, comprised a higher percent of sales in the third quarter of 2012 compared to 2011.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased 3% to $485 million, or 22.5% of net sales, in the third quarter of 2012, compared to $471 million, or 22.6% of net sales, in the third quarter of 2011. The increase in expense is driven by an increase in pension and employee benefit related expenses.

Research and Development Expenditures

Research and development ("R&D") expenditures decreased 3% to $262 million, or 12.2% of net sales, in the third quarter of 2012, compared to $270 million, or 12.9% of net sales, in the third quarter of 2011. The decrease in R&D expenditures reflects decreased R&D expenditures in our Government segment and roughly flat in our Enterprise segment, primarily due to a decrease in employee benefit related expenses, partially offset by increased investment in next-generation technologies, including small strategic acquisitions closed during and subsequent to the third quarter of 2011.

Other Charges

We recorded net charges of $16 million in Other charges in the third quarter of 2012, compared to net charges of $60 million in the third quarter of 2011. The net charges in the third quarter of 2012 included: (i) $10 million of net reorganization of business charges, and (ii) $6 million of charges relating to the amortization of intangibles. The charges in the third quarter of 2011 included: (i) $50 million of charges relating to the amortization of intangibles, and (ii) $10 million of net reorganization of business charges. The net reorganization of business charges are discussed in further detail in the "Reorganization of Businesses" section.

Net Interest Expense

Net interest expense was $16 million in the third quarter of 2012, compared to net interest expense of $18 million in the third quarter of 2011. Net interest expense in the third quarter of 2012 included interest expense of $29 million, partially offset by interest income of $13 million. Net interest expense in the third quarter of 2011 includes interest expense of $31 million, partially offset by interest income of $13 million. The decrease in net interest expense in the third quarter of 2012 is primarily attributable to a decline in interest expense due to lower average debt outstanding during the third quarter of 2012 compared to the third quarter of 2011.

Net Gains on Sales of Investments and Businesses

Net gains on sales of investments and businesses were $19 million in the third quarter of 2012, compared to $2 million in the third quarter of 2011. In the third quarter of 2012, the net gains were primarily comprised of a gain related to the sale of one of our equity investments.

Other

Net Other expense was $3 million in the third quarter of 2012, compared to a de minimis net Other expense in the third quarter of 2011. The net Other expense in the third quarter of 2012 was primarily comprised of a $6 million investment write-down expense, partially offset by $3 million of other net investment earnings. The net Other expense in the third quarter of 2011 included: (i) $6 million of foreign currency loss, and (ii) $2 million loss from Sigma Fund investments, partially offset by $8 million of other net investment earnings.

Effective Tax Rate

We recorded $118 million of net tax expense in the third quarter of 2012, resulting in an effective tax rate of 36%, compared to $83 million of net tax expense in the third quarter of 2011, resulting in an effective tax rate of 35%. While our effective tax rate may change from period to period due to non-recurring events, such as settlements of income tax audits and changes in valuation allowances, we expect our effective tax rate to be close to the U.S. statutory tax rate primarily due to our current repatriation strategy and the U.S. federal income tax accrual on undistributed foreign earnings.

Earnings from Continuing Operations

After taxes, and excluding the Earnings attributable to noncontrolling interests, we had net earnings from continuing operations of $206 million, or $0.72 per diluted share, in the third quarter of 2012, compared to net earnings from continuing operations of $153 million, or $0.45 per diluted share, in the third quarter of 2011.

The increase in net earnings from continuing operations was primarily driven by: (i) a 3% increase in sales with improved operating leverage, (ii) a decrease of $44 million in Other charges related to lower intangible asset amortization, and (iii) a decrease of $16 million of Total other expense driven by net investment gains. The increase in earnings per diluted share was primarily due to the reduction in shares outstanding as a result of our share repurchase program.

Earnings from Discontinued Operations

In the third quarter of 2012, we had no after-tax earnings from discontinued operations, compared to an after tax loss from discontinued operations of $25 million, or $0.07 per diluted share, in the third quarter of 2011. The after-tax loss from discontinued operations in the third quarter of 2011 is primarily from a pre-tax post closing purchase price reduction of $52 million related to the sale of the Networks business.

Results of Operations—Nine months ended September 29, 2012 compared to nine months ended October 1, 2011

Net Sales

Net sales were $6.3 billion in the first nine months of 2012, up 6% compared to net sales of $5.9 billion in the first nine months of 2011. The increase in net sales reflects a $470 million, or 12%, increase in net sales in the Government segment driven by growth in all regions, partially offset by a $116 million, or 6%, decrease in net sales in the Enterprise segment driven by a decline in volume, including the anticipated decline in iDEN infrastructure sales and fewer large deals, and unfavorable foreign currency fluctuations.

Gross Margin

Gross margin was $3.1 billion, or 49.9% of net sales, in the first nine months of 2012, compared to $3.0 billion, or 50.6% of net sales, in the first nine months of 2011. The increase in gross margin of $134 million reflects higher gross margin in our Government segment driven by the 12% increase in net sales, offset by lower gross margin in our Enterprise segment primarily related to a decline in volume, including the anticipated decline in iDEN infrastructure sales, and unfavorable foreign currency effects. The decrease in gross margin as a percentage of net sales in the first nine months of 2012, compared to the first nine months of 2011 reflects a decrease in gross margin percentage from product sales and a decrease in gross margin percentage from service sales. The decline in gross margin percentage from product sales primarily relates to unfavorable mix change year over year during the first nine months of 2012 than the first nine months of 2011, as well as unfavorable foreign currency effects. The decline in gross margin percentage from service sales primarily relates to the expansion of managed services which generally have lower gross margin than our traditional service contracts.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased 3% to $1.5 billion, or 23.2% of net sales, in the first nine months of 2012, compared to $1.4 billion, or 24.0% of net sales, in the first nine months of 2011. The increase is driven by an increase in pension and employee benefit related expenses.

Research and Development Expenditures

Research and development ("R&D") expenditures increased 2% to $785 million, or 12.5% of net sales, in the first nine months of 2012, compared to $769 million, or 13.0% of net sales, in the first nine months of 2011. The increase in R&D expenditures reflects higher R&D expenditures in both segments, primarily due to: (i) an increase in employee benefit related

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expenses, and (ii) increased investment in next-generation technologies, including small strategic acquisitions closed during and subsequent to the third quarter of 2011.

Other Charges

We recorded net charges of $48 million in Other charges in the first nine months of 2012, compared to net charges of $221 million in the first nine months of 2011. The net charges in the first nine months of 2012 included: (i) $30 million of net reorganization of business charges, and (ii) $18 million of charges relating to the amortization of intangibles. The charges in the first nine months of 2011 included: (i) $150 million of charges relating to the amortization of intangibles, (ii) $48 million of net charges related to legal matters and intellectual property reserve adjustments, and (iii) $32 million of net reorganization of business charges, partially offset by $9 million of pension plan adjustments. The net reorganization of business charges are discussed in further detail in the "Reorganization of Businesses" section.

Net Interest Expense

Net interest expense was $46 million in the first nine months of 2012, compared to net interest expense of $59 million in the first nine months of 2011. Net interest expense in the first nine months of 2012 included interest expense of $79 million, partially offset by interest income of $33 million. Net interest expense in the first nine months of 2011 includes interest expense of $105 million, partially offset by interest income of $46 million. The decrease in net interest expense in the first nine months of 2012 is primarily attributable to a decline in interest expense due to lower average debt outstanding during the first nine months of 2012 compared to the first nine months of 2011, this was partially offset as interest income decreased due to lower average cash and cash equivalents during the first nine months of 2012 compared to the first nine months of 2011.

Net Gains on Sales of Investments and Businesses

Net gains on sales of investments and businesses were $39 million in the first nine months of 2012, compared to $21 million in the first nine months of 2011. In both the first nine months of 2012 and the first nine months of 2011, the net gains were primarily related to sales of our equity investments.

Other

Net Other expense was $18 million in the first nine months of 2012, compared to net Other expense of $73 million in the first nine months of 2011. The net Other expense in the first nine months of 2012 was primarily comprised of: (i) $11 million foreign currency expense, (ii) $6 million loss from the extinguishment of debt, and (iii) $8 million investment write down expense, partially offset by $7 million of other net investment earnings. The net Other expense in the first nine months of 2011 was primarily comprised of $81 million of charges related to a loss from the extinguishment of our outstanding long-term debt, partially offset by $8 million of other net investment earnings.

Effective Tax Rate

We recorded $266 million of net tax expense in the first nine months of 2012, resulting in an effective tax rate of 33%, compared to $93 million of net tax benefit in the first nine months of 2011, resulting in a negative effective tax rate. Our effective tax rate in the first nine months of 2012 is lower than the U.S. statutory tax rate of 35% primarily due to a reduction in unrecognized tax benefits for facts that now indicate the extent to which certain tax positions are more-likely-than-not of being sustained. Our negative effective tax rate in the first nine months of 2011 was primarily related to the recording of a $244 million non-cash tax benefit for the reversal of a significant portion of the valuation allowance established on U.S. deferred tax assets.

While our effective tax rate may change from period to period due to non-recurring events, such as settlements of income tax audits and changes in valuation allowances, we expect our effective tax rate to be close to the U.S. statutory tax rate primarily due to our current repatriation strategy and the U.S. federal income tax accrual on undistributed foreign earnings.

Earnings from Continuing Operations

After taxes, and excluding the Loss attributable to noncontrolling interests, we had net earnings from continuing operations of $542 million, or $1.80 per diluted share, in the first nine months of 2012, compared to net earnings from continuing operations of $570 million, or $1.66 per diluted share, in the first nine months of 2011.

The decrease in net earnings from continuing operations was primarily driven by the $244 million benefit for the valuation allowance reversal recorded during the first nine months of 2011. The decrease in income tax benefit was partially offset by: (i) $173 million decrease in Other charges related to lower intangible asset amortization, and

(ii) $134 million increase in gross margin. The increase in earnings per diluted share was primarily due to the reduction in shares outstanding as a result of our share repurchase program.

Earnings from Discontinued Operations
In the first nine months of 2012, we had after-tax earnings from discontinued operations of $3 million, or $0.01 per diluted share, compared to $404 million, or $1.18 per diluted share, in the first nine months of 2011. The gain in the first nine months of 2011 was primarily from the operations and gain on the sale of the Networks business.

Segment Information
The following commentary should be read in conjunction with the financial results of each reporting segment for the three and nine months ended September 29, 2012 and October 1, 2011 as detailed in Note 12, “Segment Information,” of our condensed consolidated financial statements.
Government Segment
For the third quarter of 2012 the segment’s net sales represented 71% of our consolidated net sales, and 65% of our consolidated net sales in the third quarter of 2011. For the first nine months of 2012, the segment's net sales represented 68% of our consolidated net sales, compared to 65% in the first nine months of 2011.

	Three Months Ended				Nine Months Ended			
	September 29, 2012	October 1, 2011	% Change		September 29, 2012	October 1, 2011	% Change	
Segment net sales	$1,521	$1,360	12	%	$4,281	$3,811	12	%
Operating earnings	273	186	47	%	620	390	59	%

Three months ended September 29, 2012 compared to three months ended October 1, 2011
The segment’s net sales were $1.5 billion in the third quarter of 2012 and $1.4 billion during the third quarter of 2011. The increase in net sales in the Government segment reflects an increase in sales of: (i) mission-critical infrastructure, (ii) professional commercial radio products, (iii) consoles and other command and control equipment, and (iv) services. On a geographic basis, net sales increased in North America, Latin America and EMEA, and remained approximately flat in Asia, compared to the year-ago quarter. Net sales in North America continued to comprise a significant portion of the segment’s business, accounting for approximately 65% of the segment’s sales in the third quarter of 2012 and 62% of the segment’s sales in the third quarter 2011.
The segment had operating earnings of $273 million in the third quarter of 2012, compared to operating earnings of $186 million in the third quarter of 2011. As a percentage of net sales in the third quarter of 2012 as compared to the third quarter of 2011, gross margin increased, and SG&A and R&D expenditures decreased. The increase in operating earnings was primarily due to: (i) an increase in gross margin, driven by the 12% increase in net sales, and (ii) a decrease in R&D expenditures, partially offset by an increase in SG&A expenses. The decrease in R&D expenditures was driven by lower employee benefit related expenses and the increase in SG&A expenses was primarily due to increases in pension and employee benefit related expenses.
Nine months ended September 29, 2012 compared to nine months ended October 1, 2011
The segment’s net sales were $4.3 billion in the first nine months of 2012 and $3.8 billion during the first nine months of 2011. The increase in net sales in the Government segment reflects an increase in sales of: (i) mission-critical infrastructure, (ii) professional commercial radio products, (iii) consoles and other command and control equipment, and (iv) services. On a geographic basis, net sales increased in all regions compared to the first nine months of 2011. Net sales in North America continued to comprise a significant portion of the segment’s business, accounting for approximately 64% of the segment’s sales in the first nine months of 2012 and 63% in the first nine months of 2011.
The segment had operating earnings of $620 million in the first nine months of 2012, compared to operating earnings of $390 million in the first nine months of 2011. As a percentage of net sales in the first nine months of 2012 as compared to the first nine months of 2011, gross margin, SG&A and R&D expenditures decreased. The increase in operating earnings was primarily due to: (i) an increase in gross margin, driven by the 12% increase in net sales, and (ii) a decline in Other charges, driven by net legal matters that occurred in the first nine months of 2011, partially offset by an increase in SG&A expenses and R&D expenditures. The increase in SG&A expenses was due to increases in pension and employee benefit related expenses, and the increase in R&D expenditures was driven by higher employee benefit related expenses and increased investment in next-generation technologies.

Enterprise Segment

For the third quarter of 2012 the segment’s net sales represented 29% of our consolidated net sales, and 35% of our consolidated net sales in the third quarter of 2011 For the first nine months of 2012, the segment's net sales represented 32% of our consolidated net sales, compared to 35% in the first nine months of 2011.

	Three Months Ended			Nine Months Ended		
	September 29, 2012	October 1, 2011	% Change	September 29, 2012	October 1, 2011	% Change
Segment net sales	$632	$725	(13)%	$1,976	2,092	(6)%
Operating earnings	51	68	(25)%	213	192	11 %

Three months ended September 29, 2012 compared to three months ended October 1, 2011

In the third quarter of 2012, the segment’s net sales were $632 million, a 13% decrease compared to net sales of $725 million in the third quarter of 2011. The 13% decrease in net sales in the Enterprise segment reflects a decrease in: (i) mobile computing, (ii) iDEN infrastructure, and (iii) WLAN, partially offset by an increase in data capture solutions. On a geographic basis, net sales declined in all regions compared to the year-ago quarter, driven by fewer large deals similar in size to those recorded in the third quarter of 2011, and unfavorable foreign currency fluctuations. Net sales in North America continued to comprise a significant portion of the segment’s business, accounting for approximately 46% of the segment’s net sales in both the third quarter of 2012 and 2011.

The segment had operating earnings of $51 million in the third quarter of 2012, compared to operating earnings of $68 million in the third quarter of 2011. As a percentage of net sales in the third quarter of 2012 as compared to the third quarter of 2011, gross margin decreased, and SG&A expenses and R&D expenditures increased. The decrease in operating earnings was primarily due to a decline in gross margin primarily attributable to a decline in volume as well as unfavorable foreign currency fluctuations, partially offset by a decrease in Other charges, as a result of a reduction in intangibles amortization as certain intangible assets associated with the Symbol acquisition are fully amortized. SG&A expenses and R&D expenditures were approximately flat in the third quarter of 2012, compared to the third quarter of 2011.

Nine months ended September 29, 2012 compared to nine months ended October 1, 2011

The segment’s net sales were $2.0 billion in the first nine months of 2012 and $2.1 billion during the first nine months of 2011. The 6% decrease in net sales in the Enterprise segment reflects a decrease in (i) iDEN infrastructure, (ii) mobile computing, and (iii) WLAN, partially offset by an increase in data capture solutions. On a geographic basis, net sales increased in Asia, and decreased in North America, Latin America and EMEA. The decreases in these regions were primarily driven by the anticipated decline in iDEN infrastructure sales, fewer large deals similar in size to those recorded in the first nine months of 2011, and unfavorable foreign currency fluctuations. Net sales in North America continued to comprise a significant portion of the segment’s business, accounting for approximately 47% and 45% of the segment’s net sales in the first nine months of 2012 and the first nine months of 2011, respectively.

The segment had operating earnings of $213 million in the first nine months of 2012, compared to operating earnings of $192 million in the first nine months of 2011. As a percentage of net sales in the first nine months of 2012 as compared to the first nine months of 2011, gross margin decreased, and SG&A and R&D expenditures increased. The increase in operating earnings was primarily due to a decrease in Other charges, as a result of a reduction in intangibles amortization as certain intangible assets associated with the Symbol acquisition are fully amortized, as well as a decline from net legal matters that occurred in the second quarter of 2011. The decrease in Other charges was partially offset by: (i) a decrease in gross margin, primarily attributable to a decline in volume, as well as unfavorable foreign currency fluctuations, (ii) increased SG&A expenses due to increases in pension and employee benefit related expenses, and (iii) an increase in R&D expenditures, driven by higher employee benefit expenses and increased investment in next-generation technologies, including small strategic acquisitions closed subsequent to the third quarter of 2011.

Reorganization of Businesses

During the first nine months of 2012, we implemented various productivity improvement plans aimed at achieving long term, sustainable profitability by driving efficiencies and reducing operating costs. During the third quarter of 2012, we recorded net reorganization of business charges of $13 million related to the separation of approximately

700 employees, of which 500 were indirect employees and 200 were direct employees. Included in the aggregate $13 million of charges were $10 million of charges under Other charges and $3 million of charges in Costs of sales in our condensed consolidated statements of operations.

During the nine months ended September 29, 2012, we recorded net reorganization of business charges of $36 million, including $30 million of charges under Other charges and $6 million of charges in Costs of sales in our condensed consolidated statements of operations. Included in the aggregate $36 million are charges of $43 million for employee separation costs and $1 million for building impairment charges, partially offset by $8 million of reversals for accruals no longer needed.

During the three months ended October 1, 2011, we recorded net reorganization of business charges of $10 million, primarily under Other charges in our condensed consolidated statements of operations. Included in the $10 million are charges of $8 million for employee separation costs and $2 million for lease exit costs.

During the nine months ended October 1, 2011, we recorded net reorganization of business charges of $35 million, including $3 million of charges in Costs of sales and $32 million of charges under Other charges in our condensed consolidated statements of operations. Included in the $35 million are charges of $22 million for employee separation costs and $15 million related to the exit of leased facilities, partially offset by $2 million of reversals for accruals no longer needed.

We expect to realize cost-saving benefits of approximately $9 million during the remaining three months of 2012 from the plans that were initiated during the first nine months of 2012, primarily in operating expenses. Beyond 2012, we expect the reorganization plans initiated during the first nine months of 2012 to provide annualized cost savings of approximately $58 million, consisting of: (i) $32 million of savings in SG&A expenses, (ii) $13 million of savings in R&D expenditures, and (iii) $13 million of savings in Cost of sales.

The following table displays the net charges incurred by business segment:

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Government	$8	$7	$24	$25
Enterprise	5	3	12	10
	$13	$10	$36	$35

Cash payments for employee severance and exit costs in connection with the reorganization of business plans were $41 million in the first nine months of 2012, as compared to $67 million in the first nine months of 2011. Of the $41 million of reorganization of businesses accruals at September 29, 2012, $33 million relate to employee separation costs and are expected to be paid in 2012 and 2013. The remaining $8 million in accruals relate to lease termination obligations that are expected to be paid over a number of years.

Liquidity and Capital Resources

We decreased the aggregate of our (i) cash and cash equivalent balances, and (ii) Sigma Fund and short-term investments by $1.6 billion from $5.1 billion as of December 31, 2011 to $3.5 billion as of September 29, 2012, primarily due to: (i) the return of $2.3 billion of capital to shareholders through share repurchases and dividends paid during the first nine months of 2012 and (ii) the $412 million used for the retirement of debt, offset by: (i) $747 million of net proceeds from the issuance of debt and (ii) $504 million of operating cash flow.

As highlighted in the condensed consolidated statements of cash flows, our liquidity and available capital resources are impacted by four key components: (i) cash and cash equivalents, (ii) operating activities, (iii) investing activities, and (iv) financing activities.

Cash and Cash Equivalents

Our cash and cash equivalents (which are highly-liquid investments with an original maturity of three months or less) were $1.8 billion at September 29, 2012, compared to $1.9 billion at December 31, 2011. At September 29, 2012, approximately $385 million of this amount was held in the U.S. and $1.4 billion was held by the Company or its subsidiaries in other countries (including $373 million in China). At both September 29, 2012 and December 31, 2011 restricted cash was $63 million (including $3 million held outside the U.S.).

Repatriation of foreign funds continues to be important given our domestic cash needs. We continuously analyze and review various repatriation strategies to efficiently repatriate funds in the context of meeting our business needs in a tax efficient manner. During the first nine months of 2012, we repatriated $780 million in funds to the U.S. from international jurisdictions. We have approximately $1.3 billion of earnings in foreign subsidiaries that are not permanently reinvested and may be repatriated without an additional income tax charge, given the U.S. federal and foreign income tax accrued on undistributed earnings and the utilization of available foreign tax credits. Where appropriate, we may also pursue capital reduction activities; however, such activities can be more involved and lengthy. While we regularly repatriate funds, and a portion of offshore funds can be repatriated with minimal adverse financial impact, repatriation of some of these funds may be subject to delay for local country approvals and could have potential adverse cash tax consequences.

Operating Activities

Cash provided by operating activities from continuing operations in the first nine months of 2012 was $504 million, compared to $804 million in 2011. Operating cash flows in the first nine months of 2012, as compared to the first nine months of 2011, were positively impacted by increased sales and expanded operating margins, increased accounts receivable collection, and lower interest payments. These impacts were offset by increased contributions to our U.S. pension plans in first nine months of 2012, as compared to the first nine months of 2011, lower proceeds from the factoring of long-term receivables, and higher tax payments driven by repatriation activities.

We contributed $340 million to our U.S. pension plans during the first nine months of 2012, reflecting $72 million of contributions scheduled for the fourth quarter but paid during the third quarter of 2012, compared to $176 million contributed in the first nine months of 2011. Our payments of $340 million during the first nine months of 2012 fulfilled our projected U.S. pension contributions for 2012. We contributed $24 million to our non-U.S. pension plans during the first nine months of 2012, compared to $30 million contributed in the first nine months of 2011. In January 2011, the Pension Benefit Guaranty Corporation ("PBGC") announced an agreement with Motorola Solutions under which we would contribute $100 million above and beyond our legal requirement to one of our U.S. pension plans over the next five years. We and the PBGC entered into the agreement as we were in the process of separating Motorola Mobility and pursuing the sale of certain assets of the Networks business. We made an additional $250 million of pension contributions to one of our U.S. pension plans over the amounts required in the fourth quarter 2011, of which $100 million fulfilled the PBGC obligation. As a result, we have no further obligations under this agreement with the PBGC.

Investing Activities

Net cash provided by investing activities was $1.3 billion in the first nine months of 2012, compared to net cash provided of $1.2 billion in the first nine months of 2011. This $170 million increase was primarily due to an increase in proceeds from sales of Sigma Fund investments, offset by the proceeds from the sale of the Networks business received in the first nine months of 2011.

Sigma Fund: We and our wholly-owned subsidiaries invest most of our U.S. dollar-denominated cash in a fund (the "Sigma Fund") that allows us to efficiently manage our cash around the world. We had net proceeds from sales of $1.5 billion of Sigma Fund investments in the first nine months of 2012, compared to $225 million in net proceeds from sales of Sigma Fund investments in the first nine months of 2011. The aggregate fair value of Sigma Fund investments was $1.8 billion at September 29, 2012 (including $957 million held outside the U.S.), compared to $3.2 billion at December 31, 2011 (including $1.3 billion held outside the U.S.).

At September 29, 2012 and December 31, 2011, the Sigma Fund was invested in cash and U.S. government, agency and government-sponsored enterprise obligations. The investments had a weighted average maturity of less than 30 days. This reflects a strategic decision to prioritize liquidity and capital preservation.

We continuously assess our cash needs and continue to believe that the balance of cash and cash equivalents, short-term investments and investments in the Sigma Fund are more than adequate to meet our current operating requirements over the next twelve months.

Acquisition and Investments: On February 27, 2012, we completed an agreement with Nokia Siemens Networks B.V. ("NSN") to take over the Norwegian nationwide Terrestrial Trunked Radio ("TETRA") public safety network. With this transaction, we have broadened our scope from being a sub-supplier of the technology for the core TETRA digital radio communications infrastructure to become the prime contractor, including all managed services for the rollout, implementation, and operation of the system.

We received $61 million in net proceeds from acquisitions and investments in the first nine months of 2012, primarily related to the agreement with NSN to take over responsibility to implement Norway´s TETRA public safety network. Subsequent to September 29, 2012, we completed the acquisition of Psion plc, a U.K. based leader in mobile computing solutions, for approximately $200 million, primarily utilizing cash held outside the U.S.

Capital Expenditures: Capital expenditures increased in the first nine months of 2012 to $140 million, compared to $103 million in the first nine months of 2011, primarily due to an increase in investments in Company-owned infrastructure related to our managed services and an increase in information technology investments.

Sales of Investments and Businesses: We made $38 million of disbursements related to the sales of investments and businesses in the first nine months of 2012, compared to proceeds of $1.1 billion in the first nine months of 2011. The disbursements in the first nine months of 2012 were primarily comprised of payments to NSN related to the purchase price adjustment from the sale of the Networks business, partially offset by proceeds from sales of certain of our equity investments.

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The proceeds in the first nine months of 2011 were primarily comprised of net proceeds received in connection with sales of: (i) the Networks business, (ii) certain of our equity investments, and (iii) the Israel-based module business.

Financing Activities

Net cash used for financing activities was $2.0 billion in the first nine months of 2012, compared to net cash used of $4.3 billion in the first nine months of 2011. Cash used for financing activities in the first nine months of 2012 was primarily comprised of: (i) $2.1 billion used for purchases of our common stock under our share repurchase program, (ii) $412 million of cash used for the repayment of debt, and (iii) $197 million of cash used for the payment of dividends, partially offset by: (i) $747 million of net proceeds from the issuance of debt, and (ii) $79 million of net cash received from the issuance of common stock in connection with our employee stock option plans and employee stock purchase plan. Net cash used for financing activities in the first nine months of 2011 was primarily comprised of: (i) $3.3 billion cash contribution relating to the Distribution of Motorola Mobility, (ii) $744 million used for purchases of our common stock under our share repurchase program and (iii) $617 million of cash used for the repayment of debt, partially offset by: (i) $148 million of net cash received from the issuance of common stock in connection with our employee stock option plans and employee stock purchase plans and (ii) $102 million of distributions from discontinued operations.

Current Portion of Long-Term Debt: Our current portion of long-term debt was $4 million at September 29, 2012, and $405 million at December 31, 2011.

Long-Term Portion of Long-Term Debt: We had outstanding long-term debt of $1.9 billion at September 29, 2012, and $1.1 billion at December 31, 2011.

In the second quarter of 2012, we issued an aggregate face principle amount of $750 million of 3.750% Senior Notes due May 15, 2022 (the “2022 Senior Notes”). Also in the second quarter of 2012, we called for the redemption of the $400 million aggregate principal amount outstanding of our 5.375% Senior Notes due November 2012 (the “2012 Senior Notes”). All of the 2012 Senior Notes were redeemed in the second quarter of 2012 for an aggregate purchase price of approximately $408 million. This debt was repurchased with a portion of the proceeds from the issuance of the 2022 Senior Notes.

We have investment grade ratings on our senior unsecured long-term debt from the three largest U.S. national rating agencies. We believe that we will be able to maintain sufficient access to the capital markets at our current ratings. Any future disruptions, uncertainty or volatility in the capital markets may result in higher funding costs for us and adversely affect our ability to access funds.

We may, from time to time, seek to retire certain of our outstanding debt through open market cash purchases, privately-negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors.

Share Repurchase Program: On July 28, 2011, we announced that our Board of Directors approved a share repurchase program that allows us to purchase up to $2.0 billion of our outstanding common stock through December 31, 2012. On January 30, 2012, we announced that our Board of Directors authorized up to $1.0 billion in additional funds for use under the existing share repurchase program through the end of 2012. On February 26, 2012, we entered into a stock purchase agreement with Carl C. Icahn and certain of his affiliates to purchase 23,739,362 shares of our common stock. On July 25, 2012, we announced that our Board of Directors authorized up to $2.0 billion in additional funds for share repurchase, bringing the aggregate amount of the share repurchase program to $5.0 billion, and extended the entire share repurchase program indefinitely with no expiration date. We paid an aggregate of $308 million during the third quarter of 2012, including transactions costs, to repurchase 6.5 million shares at an average price of $47.47 per share. During the first nine months of 2012, we paid an aggregate of $2.1 billion, including transaction costs, to repurchase 43.5 million shares at an average price of $48.50 per share. As of September 29, 2012, we have used approximately $3.2 billion of the share repurchase authority, including transaction costs, to repurchase shares, leaving approximately $1.8 billion of authority available for repurchases. All repurchased shares have been retired.

Payment of Dividends: During the nine months ended September 29, 2012, we paid $197 million in cash dividends to holders of our common stock. Subsequent to September 29, 2012, we paid $73 million in cash dividends to holders of our common stock.

Credit Facilities

As of September 29, 2012, we had a $1.5 billion unsecured syndicated revolving credit facility (the “2011 Motorola Solutions Credit Agreement”) scheduled to mature on June 30, 2014. The 2011 Motorola Solutions Credit Agreement includes a provision pursuant to which we can increase the aggregate credit facility size up to a maximum of $2.0 billion by adding lenders or having existing lenders increase their commitments. We must comply with certain customary covenants, including maximum leverage and minimum interest coverage ratios as defined in the 2011 Motorola Solutions Credit Agreement. We were in compliance with our financial covenants as of September 29, 2012. We did not borrow under the 2011 Motorola Solutions Credit Agreement during the three and nine months ended September 29, 2012.

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Long-Term Customer Financing Commitments

Outstanding Commitments: Certain purchasers of our products and services may request that we provide long-term financing (defined as financing with a term of greater than one year) in connection with the sale of products and services. These requests may include all or a portion of the purchase price of the products and services. Our obligation to provide long-term financing may be conditioned on the issuance of a letter of credit in favor of us by a reputable bank to support the purchaser's credit or a pre-existing commitment from a reputable bank to purchase the long-term receivables from us. We had outstanding commitments to provide long-term financing to third parties totaling $100 million at September 29, 2012, compared to $138 million at December 31, 2011. The majority of the outstanding commitments at September 29, 2012 are related to a variety of government and public safety customers.

Outstanding Long-Term Receivables: We had net non-current long-term receivables of $43 million (net of allowances for losses of $1 million) at September 29, 2012, compared to net long-term receivables of $37 million (net of allowances for losses of $10 million) at December 31, 2011. These long-term receivables are generally interest bearing, with interest rates generally ranging from 3% to 13%.

Sales of Receivables

We had no committed facilities for the sale of long-term receivables or short-term receivables at September 29, 2012 or at December 31, 2011.

The following table summarizes the proceeds received from non-recourse sales of accounts receivable and long-term receivables for the three and nine months ended September 29, 2012 and October 1, 2011:

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Cumulative quarterly proceeds received from one-time sales:				
Accounts receivable sales proceeds	$5	$3	$12	$4
Long-term receivables sales proceeds	32	170	156	193
Total proceeds from one-time sales of accounts receivable	$37	$173	$168	$197

At September 29, 2012, we had retained servicing obligations for $349 million of sold long-term receivables, compared to $263 million of sold long-term receivables at December 31, 2011. Servicing obligations are limited to collection activities related to the non-recourse sales of accounts receivables and long-term receivables.

Other Contingencies

Potential Contractual Damage Claims in Excess of Underlying Contract Value: In certain circumstances, we may enter into contracts with customers pursuant to which the damages that could be claimed by the other party for failed performance might exceed the revenue we receive from the contract. Contracts with these types of uncapped damage provisions are fairly rare, but individual contracts could still represent meaningful risk. There is a possibility that a damage claim by a counterparty to one of these contracts could result in expenses to us that are far in excess of the revenue received from the counterparty in connection with the contract.

Indemnification Provisions: In addition, we may provide indemnifications for losses that result from the breach of general warranties contained in certain commercial, intellectual property and divestiture agreements. Historically, we have not made significant payments under these agreements, nor have there been significant claims asserted against us. However, there is an increasing risk in relation to intellectual property indemnities given the current legal climate. In indemnification cases, our payment is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, for which procedures typically allow us to challenge the other party's claims. Further, our obligations under divestiture agreements for indemnification based on breach of representations and warranties are generally limited in terms of duration, typically not more than 24 months, and for amounts not in excess of the contract value, and in some instances we may have recourse against third parties for certain payments made by us.

Legal Matters: We are a defendant in various lawsuits, claims and actions, which arise in the normal course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, liquidity or results of operations. However, an unfavorable resolution could have a material adverse effect on our consolidated financial position, liquidity or results of operations in the periods in which the matters are ultimately resolved.

In addition, pursuant to the Master Separation and Distribution Agreement and certain other agreements with Motorola Mobility, Motorola Mobility agreed to indemnify us for certain liabilities, and we agreed to indemnify Motorola Mobility for certain liabilities, in each case for uncapped amounts.

Significant Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period.

Management bases its estimates and judgments on historical experience, current economic and industry conditions and on various other factors that are believed to be reasonable under the circumstances. This forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following significant accounting policies require significant judgment and estimates:

– Revenue recognition
– Inventory valuation
– Income taxes
– Valuation of the Sigma Fund and investment portfolios
– Restructuring activities
– Retirement-related benefits
– Valuation and recoverability of goodwill and long-lived assets

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-12, which deferred the guidance on whether to require entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement where net income is presented and the statement where other comprehensive income is presented for both interim and annual financial statements, as required by ASU 2011-05. We adopted all other requirements of ASU 2011-05 effective January 1, 2012.

In December 2011, the FASB issued Accounting Standards Update No. 2011-11 "Disclosures about Offsetting Assets and Liabilities." The standard requires additional disclosure to enhance the comparability of U.S. GAAP and International Financial Reporting Standards ("IFRS") financial statements. The new standard is effective for annual and interim periods beginning January 1, 2013. Retrospective application is required. The guidance concerns disclosure only and will not have an impact on our consolidated financial position or results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk
Derivative Financial Instruments
At September 29, 2012, we had outstanding foreign exchange contracts with notional amounts totaling $558 million, compared to $524 million outstanding at December 31, 2011. Management believes that these financial instruments should not subject us to undue risk due to foreign exchange movements because gains and losses on these contracts should generally offset gains and losses on the underlying assets, liabilities and transactions, except for the ineffective portion of the instruments, which are charged to Other within Other income (expense) in our condensed consolidated statements of operations.
The following table shows the five largest net notional amounts of the positions to buy or sell foreign currency as of September 29, 2012 and the corresponding positions as of December 31, 2011:

	Notional Amount	
Net Buy (Sell) by Currency	September 29, 2012	December 31, 2011
Chinese Renminbi	$(266)	$(283)
Euro	(64)	8
British Pound	63	55
Malaysian Ringgit	34	37
Israeli Shekel	(32)	8

Forward-Looking Statements
Except for historical matters, the matters discussed in this Form 10-Q are forward-looking statements within the meaning of applicable federal securities law. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and generally include words such as “believes,” “expects,” “intends,” “anticipates,” “estimates” and similar expressions. We can give no assurance that any future results or events discussed in these statements will be achieved. Any forward-looking statements represent our views only as of today and should not be relied upon as representing our views as of any subsequent date. Readers are cautioned that such forward-looking statements are subject to a variety of risks and uncertainties that could cause our actual results to differ materially from the statements contained in this Form 10-Q. Forward-looking statements include, but are not limited to, statements included in: (1) the Executive Overview about: (a) our business strategies and expected results, and (b) our industry and market expectations including demand levels and customer priorities for our business, (2) “Management's Discussion and Analysis,” about: (a) our commitment to and investment in R&D, (b) our expected effective tax rate, (c) future payments, charges, use of accruals and expected cost-saving benefits associated with our reorganization of business programs and employee separation costs, (d) our ability and cost to repatriate funds, (e) future cash contributions to pension plans or retiree health benefit plans, (f) our ability to collect on our Sigma Fund and other investments, (g) the completion and impact of pending acquisitions and divestitures, (h) our ability and cost to access the capital markets, (i) our plans with respect to the level of outstanding debt, (j) the return of capital to shareholders through dividends and/or repurchasing shares, (k) expected payments pursuant to commitments under long-term agreements, (l) our ability to sell accounts receivable and the terms and amounts of such sales, (m) potential contractual damages claims, (n) the outcome and effect of ongoing and future legal proceedings, and (o) the impact of recent accounting pronouncements, (3) “Quantitative and Qualitative Disclosures about Market Risk,” about the impact of foreign currency exchange risks, (4) “Legal Proceedings,” about the ultimate disposition of pending legal matters, and (5)"Controls and Procedures," about the implementation of our enterprise resource planning systems. Motorola Solutions undertakes no obligation to publicly update any forward-looking statement or risk factor, whether as a result of new information, future events or otherwise.
Some of the risk factors that affect our business and financial results are discussed in Part I, “Item 1A: Risk Factors” on pages 9 through 22 of our 2011 Annual Report on Form 10-K, and in our other SEC filings available for free on the SEC's website at www.sec.gov and on Motorola Solutions' website at www.motorolasolutions.com. We wish to caution the reader that the risk factors discussed in each of these documents and those described in our other Securities and Exchange Commission filings, could cause our actual results to differ materially from those stated in the forward-looking statements.

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Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. Under the supervision and with the participation of our senior management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on this evaluation, our chief executive officer and chief financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to Motorola Solutions, including our consolidated subsidiaries, required to be disclosed in our Securities and Exchange Commission ("SEC") reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to Motorola Solutions' management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting. There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 29, 2012, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

We are in the process of a multi-year phased upgrade and consolidation of our enterprise resource planning ("ERP") systems into a single global platform across our business. The first phase was successfully implemented during the third quarter of 2012 with no significant changes to our internal controls over financial reporting.

Continuing to implement the remaining phased approaches of our ERP system on a widespread basis involves significant changes in business processes and extensive organizational training. A phased approach reduces the risks associated with making these changes. We believe we are taking the necessary steps to monitor and maintain appropriate internal controls during these transition periods. Such steps include deploying resources to mitigate internal control risks and performing additional verifications and testing to ensure data integrity. In connection with the continued implementation of our global ERP system, we expect there will be certain redesigns of our business processes throughout the implementation, some of which may be related to internal control over financial reporting and disclosure controls and procedures.

Part II—Other Information

Item 1. Legal Proceedings

The proceedings referenced below refer to Motorola, Inc., our former name, and we have not changed the court descriptions to refer to Motorola Solutions, Inc.

Silverman Federal Securities Class Action Case

A purported class action lawsuit on behalf of the purchasers of Motorola securities between July 19, 2006 and January 5, 2007, Silverman v. Motorola, Inc., et al., was filed against the Company and certain current and former officers and directors of the Company on August 9, 2007, in the United States District Court for the Northern District of Illinois. The complaint alleges violations of Section 10(b) and Rule 10b-5 of the Securities Exchange Act of 1934, as well as, in the case of the individual defendants, the control person provisions of the Securities Exchange Act. The operative amended complaint primarily alleges that the defendants knowingly made incorrect statements concerning Motorola's projected revenues for the third and fourth quarter of 2006. The complaint also challenges Motorola's accounting and disclosures for certain transactions entered into in the third quarter of 2006. The complaint seeks unspecified damages and other relief relating to the purported inflation in the price of Motorola shares during the class period. On August 25, 2009, the district court granted plaintiff's motion for class certification. On February 1, 2012, the parties in the Silverman litigation signed a settlement agreement to resolve all claims in that case for $200 million, $150 million of which is being paid by the Company's insurance carriers. The district court approved the settlement agreement on May 9, 2012. Two appeals have been filed from the judgment entered pursuant to the settlement - one challenging the court's approval of certain terms of the settlement, and the other challenging the fee award to the attorneys for the class. Those appeals are pending and oral argument is scheduled for November 1, 2012.

Item 1A. Risk Factors

The reader should carefully consider, in connection with the other information in this report, the factors discussed in Part I, “Item 1A: Risk Factors” on pages 9 through 23 of the Company’s 2011 Annual Report on Form 10-K. These factors could cause our actual results to differ materially from those stated in forward-looking statements contained in this document and elsewhere.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
The following table provides information with respect to acquisitions by the Company of shares of its common stock during the quarter ended September 29, 2012.
ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share (2)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Program (3)	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Program(3)
7/1/12 to 7/27/12	1,801,432	$46.99	1,801,432	$2,000,915,011
7/28/12 to 8/24/12	4,263,163	$47.66	4,259,802	$1,797,983,676
8/25/12 to 9/29/12	424,756	$47.55	424,756	$1,777,794,222
Total	6,489,351	$47.47	6,485,990	

(1) In addition to purchases under the share repurchase program (as defined below), included in this column are transactions under the Company's equity compensation plans involving the delivery to the Company of 3,361 shares of Motorola Solutions common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock granted to Company employees.

(2) Average price paid per share of common stock repurchased is the execution price, including commissions paid to brokers.

(3) Through actions taken on July 28, 2011, January 30, 2012 and July 25, 2012, the Board of Directors has authorized the Company to repurchase an aggregate amount of up to $5.0 billion of its outstanding shares of common stock (the “share repurchase program”). The share repurchase program does not have an expiration date.

Item 3. Defaults Upon Senior Securities.
None
Item 4. Mine Safety Disclosures
None.
Item 5. Other Information.
None.

Item 6. Exhibits

Exhibit No.	Exhibit
*31.1	Certification of Gregory Q. Brown pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Edward J. Fitzpatrick pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification of Gregory Q. Brown pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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**101.SCH	XBRL Taxonomy Extension Scheme Document
**101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
**101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
**101.LAB	XBRL Taxonomy Extension Label Linkbase Document
**101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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*	Filed herewith
**	XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securii4es Exchange Act of 1934, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MOTOROLA SOLUTIONS, INC.

By: /S/ JOHN K. WOZNIAK
John K. Wozniak
Corporate Vice President and
Chief Accounting Officer
(Principal Accounting Officer)

Date: October 24, 2012

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