



April 27, 2016

Dolby Laboratories Reports Second Quarter Fiscal 2016 Financial Results

SAN FRANCISCO--(BUSINESS WIRE)-- Dolby Laboratories, Inc. (NYSE:DLB) today announced the Company's financial results for the second quarter (Q2) of fiscal year 2016. For the second quarter, Dolby reported total revenue of \$274.3 million, compared to \$271.9 million for the second quarter of fiscal year 2015.

Second quarter GAAP net income was \$67.4 million, or \$0.66 per diluted share, compared to \$58.0 million, or \$0.56 per diluted share, for the second quarter of fiscal 2015. On a non-GAAP basis, second quarter net income was \$83.5 million, or \$0.82 per diluted share, compared to \$74.9 million, or \$0.72 per diluted share, for the second quarter of fiscal 2015. Dolby's non-GAAP measures are described and reconciled to the corresponding GAAP measures at the end of this release.

"It was a solid quarter and we gained momentum in mobile with the inclusion of Dolby Audio in iOS," said Kevin Yeaman, President and CEO, Dolby Laboratories. "We've also expanded the number of Dolby Vision TVs in market and the amount of Dolby Vision content, while continuing to roll out Dolby Cinema locations around the world."

Dividend

Today, Dolby announced a cash dividend of \$0.12 per share of Class A and Class B common stock, payable on May 18, 2016, to stockholders of record as of the close of business on May 9, 2016.

Financial Outlook

Q3 2016

Dolby estimates that total revenue for the third quarter (Q3) of fiscal 2016 will range from \$260 million to \$275 million. Gross margin percentages are projected to range between approximately 89 percent and 90 percent on a GAAP basis and between 90 percent and 91 percent on a non-GAAP basis.

Dolby anticipates that operating expenses will be between \$172 million and \$175 million on a GAAP basis and between \$154 million and \$157 million on a non-GAAP basis.

Dolby estimates that diluted earnings per share will be between \$0.47 and \$0.53 on a GAAP basis and between \$0.62 and \$0.68 on a non-GAAP basis.

Dolby estimates that its fiscal Q3 2016 effective tax rate will be approximately 26 percent on both a GAAP and non-GAAP basis.

Fiscal Year 2016

Dolby anticipates that total revenue will range from \$1 billion to \$1.03 billion.

Dolby anticipates that operating expenses will be between \$685 million and \$690 million on a GAAP basis and between \$610 million and \$615 million on a non-GAAP basis.

Conference Call Information

Members of Dolby management will lead a conference call open to all interested parties to discuss Q2 fiscal 2016 financial results for Dolby Laboratories at 2:00 p.m. PT (5:00 p.m. ET) on Wednesday, April 27, 2016. Access to the teleconference will be available over the Internet from <http://investor.dolby.com/events.cfm> or by dialing 1-800-753-9057. International callers can access the conference call at 1-913-312-0654.

A replay of the call will be available from 5:00 p.m. PT on Wednesday, April 27, 2016, until 9:00 p.m. PT on Wednesday, May 4, 2016, by dialing 1-877-870-5176 (international callers can access the replay by dialing 1-858-384-5517) and entering the confirmation code 7546497. An archived version of the teleconference will also be available on the Dolby

Laboratories website, <http://investor.dolby.com/events.cfm>.

Non-GAAP Financial Information

To supplement Dolby's financial statements presented on a GAAP basis, Dolby provides certain non-GAAP financial measures. These measures are adjusted to exclude amounts related to stock-based compensation, expense associated with dividend equivalents paid on restricted stock units, the amortization of intangibles from business combinations, restructuring charges, and the related tax impact of these items. Dolby presents non-GAAP financial measures in reporting its financial results to provide investors with an additional tool to evaluate Dolby's operating results in a manner that focuses on what Dolby's management believes to be its ongoing business operations. Dolby's management believes it is useful for itself and investors to review both GAAP and non-GAAP measures in order to assess the performance of Dolby's business for planning and forecasting in subsequent periods. Dolby's management does not itself, nor does it suggest that investors should, consider non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Whenever Dolby uses non-GAAP financial measures, it provides a reconciliation of the non-GAAP financial measures to the most closely applicable GAAP financial measures. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures as detailed above. Investors are also encouraged to review Dolby's GAAP financial statements as reported in its US Securities and Exchange Commission (SEC) filings. A reconciliation between GAAP and non-GAAP financial measures is provided at the end of this press release and on Dolby's investor relations website at <http://investor.dolby.com>.

Forward-Looking Statements

Certain statements in this press release, including, but not limited to, statements relating to Dolby's expected financial results for Q3 2016 and fiscal 2016, our ability to advance our long-term objectives, and future quarterly dividend payments are "forward-looking statements" that are subject to risks and uncertainties. These forward-looking statements are based on management's current expectations, and as a result of certain risks and uncertainties, actual results may differ materially from those projected. The following important factors, without limitation, could cause actual results to differ materially from those in the forward-looking statements: risks associated with trends in the markets in which Dolby operates, including the personal computer, DVD, and Blu-ray Disc, broadcast, consumer electronics, gaming, mobile, and automobile markets; the loss of, or reduction in sales by, a key customer or licensee; pricing pressures; risks associated with the rate at which OEMs include optical disc playback in Windows 8 and Windows 10 devices and the rate of consumer adoption of Windows and other operating systems; risks that a shift from disc-based media to online media content could result in fewer devices with Dolby® technologies; risks associated with the effects of macroeconomic conditions, including trends in consumer spending; risks relating to the expiration of patents; the timing of Dolby's receipt of royalty reports and payments from its licensees, including back payments; timing of revenue recognition under licensing agreements and other contractual arrangements; Dolby's accuracy of calculation of royalties due to its licensors; Dolby's ability to develop, maintain, and strengthen relationships with industry participants; Dolby's ability to develop and deliver innovative technologies in response to new and growing markets; competitive risks; risks associated with conducting business in China and other countries that have historically limited recognition and enforcement of intellectual property and contractual rights; risks associated with the health of the motion picture industry generally; the development and growth of the market for digital cinema and digital 3D and Dolby's ability to successfully penetrate this market; Dolby's ability to expand its business generally, and to expand its business beyond sound technologies to other technologies related to digital entertainment delivery; risks associated with acquiring and successfully integrating businesses or technologies; and other risks detailed in Dolby's SEC filings and reports, including the risks identified under the section captioned "Risk Factors" in its most recent quarterly report on Form 10-Q. Dolby disclaims any obligation to update information contained in these forward-looking statements whether as a result of new information, future events, or otherwise.

About Dolby Laboratories

Dolby Laboratories (NYSE:DLB) creates audio, video, and voice technologies that transform entertainment and communications in mobile devices, at the cinema, at home, and at work. For more than 50 years, sight and sound experiences have become more vibrant, clear, and powerful in Dolby. For more information, please visit www.dolby.com.

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| | Fiscal Quarter Ended | | Fiscal Year-To-Date Ended | |
|--|----------------------|--------------------|---------------------------|--------------------|
| | April 1, 2016 | March 27, 2015 | April 1, 2016 | March 27, 2015 |
| Revenue: | <i>(unaudited)</i> | <i>(unaudited)</i> | <i>(unaudited)</i> | <i>(unaudited)</i> |
| Licensing | \$ 249,336 | \$ 243,333 | \$ 460,465 | \$ 459,931 |
| Products | 20,063 | 22,985 | 44,872 | 36,248 |
| Services | 4,941 | 5,632 | 9,817 | 10,009 |
| Total revenue | 274,340 | 271,950 | 515,154 | 506,188 |
| Cost of revenue: | | | | |
| Cost of licensing | 6,698 | 3,787 | 13,231 | 7,268 |
| Cost of products | 13,978 | 18,237 | 33,016 | 30,821 |
| Cost of services | 3,697 | 3,125 | 7,892 | 6,470 |
| Total cost of revenue | 24,373 | 25,149 | 54,139 | 44,559 |
| Gross margin | 249,967 | 246,801 | 461,015 | 461,629 |
| Operating expenses: | | | | |
| Research and development | 52,088 | 56,601 | 105,416 | 105,195 |
| Sales and marketing | 71,815 | 65,940 | 146,269 | 133,958 |
| General and administrative | 42,482 | 45,653 | 86,560 | 90,369 |
| Restructuring charges/(credits) | 1,255 | — | 1,255 | (39) |
| Total operating expenses | 167,640 | 168,194 | 339,500 | 329,483 |
| Operating income | 82,327 | 78,607 | 121,515 | 132,146 |
| Other income/expense: | | | | |
| Interest income | 1,250 | 1,091 | 2,547 | 1,991 |
| Interest expense | (33) | (31) | (62) | (46) |
| Other income/(expense), net | 279 | 218 | (693) | 110 |
| Total other income | 1,496 | 1,278 | 1,792 | 2,055 |
| Income before income taxes | 83,823 | 79,885 | 123,307 | 134,201 |
| Provision for income taxes | (16,278) | (21,353) | (24,751) | (33,732) |
| Net income including controlling interest | 67,545 | 58,532 | 98,556 | 100,469 |
| Less: net (income) attributable to controlling interest | (147) | (558) | (257) | (1,138) |
| Net income attributable to Dolby Laboratories, Inc. | \$ 67,398 | \$ 57,974 | \$ 98,299 | \$ 99,331 |
| Net Income Per Share: | | | | |
| Basic | \$ 0.67 | \$ 0.57 | \$ 0.98 | \$ 0.97 |
| Diluted | \$ 0.66 | \$ 0.56 | \$ 0.97 | \$ 0.95 |
| Weighted-Average Shares Outstanding: | | | | |
| Basic | 100,456 | 102,509 | 100,600 | 102,406 |
| Diluted | 101,555 | 103,904 | 101,716 | 104,097 |

DOLBY LABORATORIES, INC.
INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

| | April 1, 2016 | September 25, 2015 |
|---------------------------|--------------------|-----------------------|
| ASSETS | <i>(unaudited)</i> | |
| Current assets: | | |
| Cash and cash equivalents | \$ 521,202 | \$ 531,926 |
| Restricted cash | 5,278 | 2,936 |
| Short-term investments | 104,267 | 138,901 |

| | | |
|---|--------------------|---------------------|
| Accounts receivable, net | 102,083 | 101,563 |
| Inventories | 17,259 | 13,872 |
| Prepaid expenses and other current assets | 36,198 | 32,031 |
| Total current assets | 786,287 | 821,229 |
| Long-term investments | 268,091 | 321,015 |
| Property, plant and equipment, net | 416,254 | 403,091 |
| Intangible assets, net | 216,082 | 127,507 |
| Goodwill | 309,880 | 307,708 |
| Deferred taxes | 149,272 | 143,279 |
| Other non-current assets | 12,985 | 9,464 |
| Total assets | \$2,158,851 | \$ 2,133,293 |

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

| | | |
|----------------------------------|----------------|----------------|
| Accounts payable | \$ 17,632 | \$ 20,710 |
| Accrued liabilities | 158,534 | 169,307 |
| Income taxes payable | — | 754 |
| Deferred revenue | 22,321 | 18,910 |
| Total current liabilities | 198,487 | 209,681 |
| Long-term deferred revenue | 35,652 | 30,581 |
| Other non-current liabilities | 70,664 | 77,024 |
| Total liabilities | 304,803 | 317,286 |

Stockholders' equity:

| | | |
|--|--------------------|---------------------|
| Class A common stock | 54 | 51 |
| Class B common stock | 47 | 51 |
| Additional paid-in capital | — | 17,571 |
| Retained earnings | 1,853,602 | 1,800,857 |
| Accumulated other comprehensive (loss) | (8,342) | (11,462) |
| Total stockholders' equity - Dolby Laboratories, Inc. | 1,845,361 | 1,807,068 |
| Controlling interest | 8,687 | 8,939 |
| Total stockholders' equity | 1,854,048 | 1,816,007 |
| Total liabilities and stockholders' equity | \$2,158,851 | \$ 2,133,293 |

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

| | Fiscal Year-To-Date Ended | |
|---|----------------------------------|---------------------------|
| | April 1, 2016 | March 27, 2015 |
| | <i>(unaudited)</i> | <i>(unaudited)</i> |
| Operating activities: | | |
| Net income including controlling interest | \$ 98,556 | \$ 100,469 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 42,917 | 33,578 |
| Stock-based compensation | 35,466 | 34,509 |
| Amortization of premium on investments | 2,661 | 4,811 |
| Excess tax benefit from exercise of stock options | (338) | (2,095) |
| Provision for doubtful accounts | 1,228 | (487) |
| Deferred income taxes | (5,709) | (7,681) |
| Other non-cash items affecting net income | 498 | 1,252 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,727) | (3,457) |
| Inventories | (3,533) | 1,397 |
| Prepaid expenses and other assets | (6,979) | (6,045) |
| Accounts payable and other liabilities | (5,939) | 3,223 |

| | | |
|--|-------------------|-------------------|
| Income taxes, net | (8,752) | 12,064 |
| Deferred revenue | 8,495 | 5,486 |
| Other non-current liabilities | 22 | 916 |
| Net cash provided by operating activities | <u>156,866</u> | <u>177,940</u> |
| Investing activities: | | |
| Purchase of investments | (200,944) | (194,613) |
| Proceeds from sales of investment securities | 227,094 | 120,074 |
| Proceeds from maturities of investment securities | 59,053 | 79,885 |
| Purchases of PP&E | (48,984) | (78,488) |
| Payments for business acquisitions, net of cash acquired | — | (93,516) |
| Purchase of intangible assets | (105,270) | (6,416) |
| Change in restricted cash | (2,342) | (14) |
| Net cash used in investing activities | <u>(71,393)</u> | <u>(173,088)</u> |
| Financing activities: | | |
| Proceeds from issuance of common stock | 14,575 | 12,638 |
| Repurchase of common stock | (76,856) | (32,364) |
| Payment of cash dividend | (24,200) | (20,470) |
| Distribution to controlling interest | (214) | (5,628) |
| Excess tax benefit from the exercise of stock options | 338 | 2,095 |
| Shares repurchased for tax withholdings on vesting of restricted stock | (10,742) | (11,809) |
| Net cash used in financing activities | <u>(97,099)</u> | <u>(55,538)</u> |
| Effect of foreign exchange rate changes on cash and cash equivalents | 902 | (3,792) |
| Net decrease in cash and cash equivalents | (10,724) | (54,478) |
| Cash and cash equivalents at beginning of period | 531,926 | 568,472 |
| Cash and cash equivalents at end of period | <u>\$ 521,202</u> | <u>\$ 513,994</u> |

GAAP to Non-GAAP Reconciliations
(in millions, except per share data)

The following tables present Dolby's GAAP financial measures reconciled to the non-GAAP financial measures included in this release for the second quarter of fiscal 2016 and second quarter of fiscal 2015:

Net income:

| | Fiscal Quarter Ended | |
|--------------------------------------|-----------------------------|---------------------------|
| | April 1, 2016 | March 27, 2015 |
| GAAP net income | \$ 67.4 | \$ 58.0 |
| Stock-based compensation | 16.1 | 16.6 |
| RSU dividend equivalent | 0.3 | 0.6 |
| Amortization of acquired intangibles | 3.8 | 4.9 |
| Restructuring charges, net | 1.3 | — |
| Income tax adjustments | (5.4) | (5.2) |
| Non-GAAP net income | <u>\$ 83.5</u> | <u>\$ 74.9</u> |

Diluted earnings per share:

| | Fiscal Quarter Ended | |
|--------------------------------------|-----------------------------|---------------------------|
| | April 1, 2016 | March 27, 2015 |
| GAAP diluted earnings per share | \$ 0.66 | \$ 0.56 |
| Stock-based compensation | 0.16 | 0.16 |
| RSU dividend equivalent | — | 0.01 |
| Amortization of acquired intangibles | 0.04 | 0.05 |
| Restructuring charges, net | 0.01 | — |
| Income tax adjustments | (0.05) | (0.06) |
| Non-GAAP diluted earnings per share | <u>\$ 0.82</u> | <u>\$ 0.72</u> |

Shares used in computing diluted earnings per share (in millions)

102

104

The following tables present a reconciliation between GAAP and non-GAAP versions of the estimated financial amounts for the third quarter of fiscal 2016 and fiscal year 2016 included in this release:

Gross margin:

GAAP gross margin (low - high end of range)

Q3 2016

89% - 90%

Stock-based compensation

0.2 %

Amortization of acquired intangibles

0.8 %

Non-GAAP gross margin (low - high end of range)

90% - 91%

Operating expenses:

GAAP operating expenses (low - high end of range)

Q3 2016

\$172 - \$175

Fiscal 2016

\$685 - \$690

Stock-based compensation

(16.0)

(68.0)

RSU dividend equivalent

—

(1.0)

Amortization of acquired intangibles

(2.0)

(6.0)

Non-GAAP operating expenses (low - high end of range)

\$154 - \$157

\$610 - \$615

Diluted earnings per share:

Q3 2016

Low

High

GAAP diluted earnings per share

\$

0.47

\$

0.53

Stock-based compensation

0.17

0.17

Amortization of acquired intangibles

0.03

0.03

Income tax adjustments

(0.05)

(0.05)

Non-GAAP diluted earnings per share

\$

0.62

\$

0.68

Shares used in computing diluted earnings per share (in millions)

101

101

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