Supplemental Information Regarding Dolby Laboratories, Inc.'s
Transition to ASC 606 and Fiscal 2019 Outlook

I. Adoption of ASC 606

Beginning in Q1 of fiscal 2019, we adopted accounting standard ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which we refer to as "ASC 606." We elected to use the Full Retrospective method to adopt ASC 606, which requires us to recast our fiscal 2018 and fiscal 2017 revenues under ASC 606 by applying the new standard retrospectively. Going forward, we will report fiscal 2019 revenues only under ASC 606, along with prior year comparisons, which will also be reported under ASC 606.

II. Certain Implications of ASC 606 on Dolby's Financial Reporting

We expect the recast of fiscal 2017 and fiscal 2018 as a result of ASC 606 to primarily impact licensing revenue, and we do not expect significant changes in cost of sales or operating expense. As a result, the change in revenue will have a corresponding effect on gross margin and operating income in the recasted income statements (for example, a decrease in revenue would have a corresponding decrease in gross margin dollars). In addition, the income tax provision will be recomputed to reflect the impact of these changes.

The transition from ASC 605 to ASC 606 most significantly impacts two key areas of Dolby's revenue accounting, as described below.

Multi-Year Contracts

The first topic related to ASC 606 that will significantly impact Dolby involves multi-year contracts. Most of our licensing arrangements with customers currently involve multi-year contracts, and in the past under ASC 605, it would have been unusual for all revenue from a multi-year contract to be recognized upfront (*i.e.*, upon execution of the contract).

Under ASC 606, the accounting framework has shifted, and now, certain terms and conditions (such as "minimum volume commitments") are more likely to result in upfront revenue recognition. An illustration of the impact of ASC 606 on such multi-year contracts is shown below.

ILLUSTRATION: IMPACT OF CERTAIN TERMS IN MULTI YEAR ARRANGEMENTS

- Dolby has historically entered into multi-year licensing contracts with certain terms that may trigger up front revenue recognition under ASC 606 but would not have under ASC 605 (an example is minimum volume commitments with future deliverables)
- As part of the recast of FY18 and FY17, certain revenue was shifted to prior years, in some cases five years
- Going forward into FY19, Dolby does not currently anticipate a significant change in the amount of licensing revenue that is recognized up-front compared to revenue amounts previously recognized under ASC 605

Under ASC 605 (Prior Standard)

Year	1	2	3	4	5	Total
Revenue	$5	$5	$5	$5	$5	$25
Customer payment	$5	$5	$5	$5	$5	$25

Under ASC 606 (New Standard)

Year	1	2	3	4	5	Total
Revenue	$25	$0	$0	$0	$0	$25
Customer payment	$5	$5	$5	$5	$5	$25

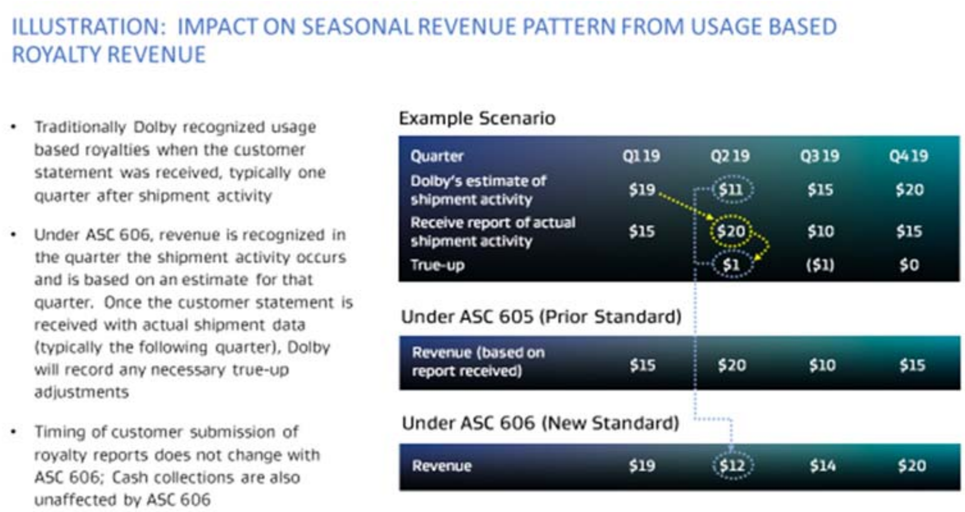
Only a small number of our contracts were affected by this change; however, when we recast our fiscal 2017 and fiscal 2018 revenue under ASC 606, some of our revenue will shift to previous years. Going forward into fiscal 2019, as we adapt to the new rules under ASC 606, we do not anticipate any significant change in the amount of licensing revenue that is recognized upfront, compared to revenue previously recognized under ASC 605.

Quarterly Recognition of Certain Licensing Royalty Revenue

The second topic related to ASC 606 that will significantly impact Dolby involves our quarterly recognition of certain royalty revenues from licensing customers. In a typical licensing arrangement, the customer enters into a contract with us agreeing to pay royalties for Dolby technology implemented in its products. Usually, the customer compiles its shipment activity throughout a quarter and then submits an aggregate report to us in the following quarter. Under ASC 605, we used those reports to compute, record and recognize royalty revenue in the quarter in which we received the report.

For instance, units shipped by a customer in a quarter ending March 31st would result in us recognizing revenue in the following quarter ending June 30th. Under ASC 606, that approach has changed, and instead, we will recognize revenue in our March 31st quarter for units shipped by the customer in that March 31st quarter. In order to do this, we will need to make estimates in the March 31st quarter of the units shipped by customers in that same quarter. Then, in the following quarter ending June 30th, when we receive the customer reports of the actual shipments that occurred in the March 31st quarter, we will book adjustments, as necessary, to "true-up" the difference between the estimated and the actual revenue (which could be an increase or decrease). The effect of this is to shift the timing of revenue recognition by one quarter – certain revenue previously recognized in one quarter will now be recognized in the prior quarter. The change may also cause more volatility in our quarterly figures because of the estimation process and the corresponding true-up adjustments, which we plan to disclose each quarter as appropriate.

An additional illustration of the impact of ASC 606 on our quarterly recognition of certain royalty revenues is shown below.



III. Dolby's Fiscal 2019 Outlook

Starting in the first quarter of fiscal 2019 and going forward, our revenue will only be reported under ASC 606, including forward-looking guidance and prior year comparisons. Before describing our fiscal 2019 outlook under ASC 606, this section will describe how fiscal 2018 revenue will be recast under ASC 606.

Fiscal 2018 Revenue Recast Under ASC 606

Because we elected to use the "Full Retrospective" method to adopt ASC 606, we are required to recast our fiscal 2018 and fiscal 2017 revenues under ASC 606; however, only an estimate of the recast of fiscal 2018 is available at this time. We will complete the recast once we receive all customer reports pertaining to fiscal 2018 activity, which we anticipate will be around the end of Q1 fiscal 2019.

We currently estimate that fiscal 2018 revenue recast under ASC 606 will be between $1.090 billion and $1.100 billion. The difference between the recast numbers and the $1.172 billion that we reported for fiscal 2018 under ASC 605 is nearly all due to licensing revenue that shifted from fiscal 2018 into previous periods, in some cases as far back as 5 years.

Fiscal 2019 Outlook Under ASC 606

For the full year fiscal 2019, we estimate that total revenue will range from $1.240 billion to $1.280 billion. Within that total, we estimate that licensing will range from $1.080 billion to $1.120 billion while products and services are estimated to range from $150 million to $170 million.

Gross margin for the year is projected to be approximately 87% on a GAAP basis and approximately 88% on a non-GAAP basis. Operating expenses are projected to range from $785 million to $795 million on a GAAP basis and from $705 million to $715 million on a non-GAAP basis. Other income is estimated to range from $20 million to $24 million for the year on both a GAAP and non-GAAP basis. The effective income tax rate is expected to range from 19% to 21% on both a GAAP and non-GAAP basis.

Dolby's non-GAAP measures are described and reconciled to the corresponding GAAP measures at the end of this communication.

Q1 Fiscal 2019 Fiscal Outlook Under ASC 606

For Q1 of fiscal 2019, we anticipate that total revenue will range from $285 million to $305 million. Within that, we estimate that licensing will range from $255 million to $265 million, while products and services revenue is projected to range from $30 million to $40 million.

Q1 of fiscal 2019 gross margin on a GAAP basis is estimated to be around 87% and the non-GAAP gross margin is estimated to be around 88%. Operating expenses in Q1 of fiscal 2019 are projected to range from $188 million to $192 million on a GAAP basis and from $168 million to $172 million on a non-GAAP basis. Other income is projected to range from $4 million to $5 million for the quarter on both a GAAP and non-GAAP basis. The effective tax rate is estimated at 19% to 21%, on both a GAAP and non-GAAP basis. Based on a combination of the factors above, we estimate that Q1 fiscal diluted earnings per share will range from 49 cents to 55 cents on a GAAP basis and from 65 cents to 71 cents on a non-GAAP basis.

Non-GAAP Financial Information

To supplement Dolby's financial measures presented on a GAAP basis, Dolby provides certain non-GAAP financial measures 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. Specifically, we exclude the following as adjustments from one or more of our non-GAAP financial measures:

Stock-based compensation expense: Stock-based compensation, unlike cash-based compensation, utilizes subjective and complex assumptions in the methodologies used to value the various stock-based award types that we grant. These assumptions may differ from those used by other companies. To facilitate more meaningful comparisons between our underlying operating results and those of other companies, we exclude stock-based compensation expense.

Amortization of acquisition-related intangibles: We amortize intangible assets acquired in connection with acquisitions. These intangible assets consist of patents and technology, customer relationships, and other intangibles. We record amortization charges relating to these intangible assets in our GAAP financial statements, and we view these charges as items arising from pre-acquisition activities that are determined by the timing and valuation of our acquisitions. As these amortization charges do not directly correlate to our operations during any particular period, and often remain unchanged between reporting periods, we exclude these charges to facilitate an evaluation of our current operating results and comparisons to our past operating performance.

Restructuring charges: Restructuring charges are costs associated with a formal restructuring plan and primarily relate to employee severance benefits and asset impairments. We exclude restructuring costs, including any adjustments to charges recorded in prior periods, as we believe that these costs are not representative of our normal operating activities and therefore, excluding these amounts enables a more effective comparison to our past operating performance.

Income tax adjustments: We believe that excluding the income tax effect of the aforementioned non-GAAP adjustments provides a more accurate view of our underlying operating results to management and investors.

Impact from U.S Tax Cuts and Jobs Act (Tax Reform): The enactment of Tax Reform requires estimates based on Dolby's current understanding of the new tax laws. These charges are the result of a discrete and infrequent event that are not representative of current operating results and therefore, excluding these amounts enables a more effective comparison to our past operating performance.

Using the aforementioned adjustments, Dolby provides various non-GAAP financial measures including, but not limited to: non-GAAP diluted earnings per share, non-GAAP gross margin, non-GAAP operating expenses, and non-GAAP effective tax rate. Dolby's management believes it is useful for itself and investors to review both GAAP and non-GAAP measures to assess the performance of Dolby's business. 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 communication and on the Dolby Laboratories investor relations website, http://investor.dolby.com.

Disclaimer and Forward-Looking Statements

The information contained in this communication, including the summary of ASC 606, is not complete and is being presented for illustrative and discussion purposes only. Dolby plans to commence publishing certain recast prior period financial information under ASC 606 after the end of the first quarter of fiscal year 2019.

Certain statements in this communication, including, but not limited to, statements relating to the impact of ASC 606 on Dolby and Dolby's financial outlook, Dolby's expected financial results for fiscal 2018 under ASC 606 and Dolby's guidance for fiscal year 2019 under ASC 606, 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 Broadcast, PC, Consumer Electronics, Mobile, Cinema, and Other 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® devices and the rate of consumer adoption of Windows 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; the impact of tax reform; the impact of changes in revenue recognition standards; timing of revenue recognition under licensing agreements and other contractual arrangements; 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; Dolby's ability to increase its revenue streams and to expand its business generally, and to expand its business beyond audio technologies to other technologies; 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 annual 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.

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

The following tables present a reconciliation between GAAP and non-GAAP versions of the estimated financial amounts for the first quarter of fiscal 2019 and fiscal year 2019 included in this release:

Gross margin:	**Q1 2019**	**Fiscal 2019**
GAAP gross margin	87%	87%
Stock-based compensation	0.20%	0.20%
Amortization of acquisition-related intangibles	0.80%	0.80%
Non-GAAP gross margin	88%	88%

Operating expenses:	**Q1 2019**	**Fiscal 2019**
GAAP operating expenses (low - high end of range)	$188 - $192	$785 - $795
Stock-based compensation	-19	-77
Amortization of acquisition-related intangibles	-1	-3
Non-GAAP operating expenses (low - high end of range)	$168 - $172	$705 - $715

Diluted earnings per share:	**Q1 2019**	
	Low	High
GAAP diluted earnings per share	$0.49	$0.55
Stock-based compensation	0.18	0.18
Amortization of acquisition-related intangibles	0.02	0.02
Income tax adjustments	-0.04	-0.04
Non-GAAP diluted earnings per share	$0.65	$0.71
Shares used in computing diluted earnings per share	107	107