



October 23, 2014

Dolby Laboratories Reports Fourth Quarter and Fiscal Year 2014 Financial Results

Declares quarterly dividend, increases size of stock repurchase authorization

SAN FRANCISCO--(BUSINESS WIRE)-- Dolby Laboratories, Inc. (NYSE:DLB) today announced the Company's financial results for the fourth quarter and fiscal year that ended September 26, 2014. For the fourth quarter, Dolby reported total revenue of \$227.0 million, compared to \$216.7 million for the fourth quarter of fiscal year 2013. For fiscal 2014, Dolby reported total revenue of \$960.2 million, compared to \$909.7 million for fiscal year 2013.

Fourth quarter GAAP net income was \$45.9 million, or \$0.44 per diluted share, compared to \$45.8 million, or \$0.44 per diluted share, for the fourth quarter of fiscal 2013. On a non-GAAP basis, fourth quarter net income was \$60.8 million, or \$0.58 per diluted share, compared to \$58.8 million, or \$0.57 per diluted share, for the fourth quarter of fiscal 2013.

Fiscal 2014 GAAP net income was \$206.1 million, or \$1.99 per diluted share, compared to \$189.3 million, or \$1.84 per diluted share, for fiscal 2013. On a non-GAAP basis, fiscal 2014 net income was \$267.4 million, or \$2.58 per diluted share, compared to \$250.1 million, or \$2.43 per diluted share, for fiscal 2013. Dolby's non-GAAP measures are described and reconciled to the corresponding GAAP measures at the end of this release.

"Fourth quarter revenues were better than expected, and we delivered top-line growth for the year," said Kevin Yeaman, President and CEO, Dolby Laboratories. "Our broadcast business continues to outperform globally. I'm also excited we are bringing the amazing Dolby Atmos experience to the home and mobile devices."

Dividend

The Company announced that its Board of Directors has approved a quarterly dividend program for its stockholders. The first dividend payment of \$0.10 per share of Class A and Class B Common Stock will be paid on November 20, 2014, to stockholders of record as of the close of business on November 3, 2014.

Stock Repurchase Program

The Company announced that its Board of Directors has approved increasing the size of its stock repurchase program by an additional \$200 million, bringing the amount available for future repurchases of the Company's Class A Common Stock to \$260 million. Stock repurchases under this program may be made through open market transactions, negotiated purchases, or otherwise, at times and in such amounts as the Company considers appropriate.

Financial Outlook

Guidance for Q1 and fiscal year 2015 includes the financial impact of Dolby's proposed acquisition of Doremi Labs, which is expected to close by early November 2014. The financial impact of Dolby's proposed acquisition of Doremi Labs is expected to add about \$35 million to \$50 million of revenue and about \$20 million of operating expenses in fiscal year 2015.

Q1 2015

Dolby estimates that total revenue will range from \$235 million to \$245 million. Gross margin percentages are projected to range between approximately 88 percent and 89 percent on a GAAP basis and between 89 percent and 90 percent on a non-GAAP basis.

Dolby anticipates that operating expenses will be between approximately \$159 million and \$164 million on a GAAP basis and between \$140 million and \$145 million on a non-GAAP basis.

Dolby expects diluted earnings per share to be between \$0.35 and \$0.40 on a GAAP basis and between \$0.51 and \$0.55 on a non-GAAP basis.

The Company estimates that its fiscal Q1 2015 effective tax rate will be between approximately 24 percent and 26 percent on both a GAAP and non-GAAP basis.

Fiscal Year 2015

Dolby anticipates that total revenue will range from \$970 million to \$1 billion.

Dolby anticipates that operating expenses will be between approximately \$661 million and \$671 million on a GAAP basis and between \$585 million and \$595 million on a non-GAAP basis.

The Company's Conference Call Information

Members of Dolby management will lead a conference call open to all interested parties to discuss Q4 and year-end fiscal 2014 financial results for Dolby Laboratories at 2:00 p.m. PT (5:00 p.m. ET) on Thursday, October 23, 2014. Access to the teleconference will be available over the Internet from <http://investor.dolby.com/events.cfm> or by dialing 1-888-471-3842. International callers can access the conference call at 1-719-457-2714.

A replay of the call will be available from 5:00 p.m. PT on Thursday, October 23, 2014, until 9:00 p.m. PT on Thursday, October 30, 2014, by dialing 1-877-870-5176 (international callers can access the replay by dialing 1-858-384-5517) and entering the confirmation code 9228338. 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/events.cfm>.

Forward-Looking Statements

Certain statements in this press release, including, but not limited to, statements relating to Dolby's expected financial results for Q1 2015 and fiscal 2015, 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 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; 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 in the entertainment industry; 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 nearly 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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DOLBY LABORATORIES, INC. CONSOLIDATED STATEMENTS OF OPERATIONS *(in thousands, except per share amounts)*

| | Fiscal Quarter Ended | | Fiscal Year Ended | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 26, 2014 | September 27, 2013 | September 26, 2014 | September 27, 2013 |
| Revenue: | <i>(unaudited)</i> | | <i>(unaudited)</i> | |
| Licensing | \$ 208,943 | \$ 191,043 | \$ 878,844 | \$ 807,081 |
| Products | 13,581 | 19,998 | 59,219 | 80,603 |
| Services | 4,433 | 5,611 | 22,113 | 21,990 |
| Total revenue | 226,957 | 216,652 | 960,176 | 909,674 |
| Cost of revenue: | | | | |
| Cost of licensing | (1,318) | 3,314 | 10,814 | 16,856 |
| Cost of products | 10,191 | 16,306 | 45,132 | 64,270 |
| Cost of services | 3,547 | 3,871 | 14,230 | 15,593 |
| Total cost of revenue | 12,420 | 23,491 | 70,176 | 96,719 |
| Gross margin | 214,537 | 193,161 | 890,000 | 812,955 |
| Operating expenses: | | | | |
| Research and development | 47,081 | 41,447 | 183,128 | 168,746 |
| Sales and marketing | 63,838 | 56,024 | 252,647 | 231,103 |
| General and administrative | 45,534 | 38,646 | 178,104 | 161,970 |
| Restructuring charges/(credits) | (210) | (56) | 2,403 | 5,874 |
| Total operating expenses | 156,243 | 136,061 | 616,282 | 567,693 |
| Operating income | 58,294 | 57,100 | 273,718 | 245,262 |
| Other income/expense: | | | | |
| Interest income | 811 | 785 | 3,344 | 3,848 |
| Interest expense | 639 | (71) | 183 | (575) |
| Other income/(expense), net | 918 | 1,054 | (1,146) | 2,111 |
| Total other income/expense | 2,368 | 1,768 | 2,381 | 5,384 |
| Income before income taxes | 60,662 | 58,868 | 276,099 | 250,646 |
| Provision for income taxes | (14,300) | (12,784) | (67,379) | (60,344) |
| Net income including controlling interest | 46,362 | 46,084 | 208,720 | 190,302 |
| Less: net (income) attributable to controlling interest | (421) | (289) | (2,617) | (1,031) |
| Net income attributable to Dolby Laboratories, Inc. | \$ 45,941 | \$ 45,795 | \$ 206,103 | \$ 189,271 |
| Net Income Per Share: | | | | |
| Basic | \$ 0.45 | \$ 0.45 | \$ 2.02 | \$ 1.86 |
| Diluted | \$ 0.44 | \$ 0.44 | \$ 1.99 | \$ 1.84 |
| Weighted-Average Shares Outstanding: | | | | |
| Basic | 102,211 | 101,768 | 102,151 | 101,879 |
| Diluted | 104,116 | 102,976 | 103,632 | 102,788 |

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

| | September 26, 2014 | September 27, 2013 |
|---|-------------------------------|-------------------------------|
| | <i>(unaudited)</i> | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 568,472 | \$ 454,397 |
| Restricted cash | 2,142 | 3,175 |
| Short-term investments | 231,208 | 140,267 |
| Accounts receivable | 86,168 | 97,460 |
| Inventories | 8,536 | 10,093 |
| Deferred taxes | 86,445 | 84,238 |
| Prepaid expenses and other current assets | 22,880 | 28,949 |
| Total current assets | <u>1,005,851</u> | <u>818,579</u> |
| Long-term investments | 296,335 | 306,338 |
| Property, plant and equipment, net | 289,755 | 242,917 |
| Intangible assets, net | 63,700 | 41,315 |
| Goodwill | 277,574 | 279,724 |
| Deferred taxes | 41,746 | 37,434 |
| Other non-current assets | 9,051 | 11,638 |
| Total assets | <u>\$ 1,984,012</u> | <u>\$ 1,737,945</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|----------------------------|----------------------------|
| Current liabilities: | | |
| Accounts payable | \$ 15,898 | \$ 10,695 |
| Accrued liabilities | 158,376 | 137,795 |
| Income taxes payable | 2,600 | 3,394 |
| Deferred revenue | 12,496 | 20,931 |
| Total current liabilities | <u>189,370</u> | <u>172,815</u> |
| Long-term deferred revenue | 19,279 | 19,663 |
| Other non-current liabilities | 43,715 | 45,441 |
| Total liabilities | <u>252,364</u> | <u>237,919</u> |
| Stockholders' equity: | | |
| Class A common stock | 51 | 47 |
| Class B common stock | 52 | 55 |
| Additional paid-in capital | 46,415 | 18,812 |
| Retained earnings | 1,660,485 | 1,454,382 |
| Accumulated other comprehensive income | 3,014 | 7,814 |
| Total stockholders' equity - Dolby Laboratories, Inc. | <u>1,710,017</u> | <u>1,481,110</u> |
| Controlling interest | 21,631 | 18,916 |
| Total stockholders' equity | <u>1,731,648</u> | <u>1,500,026</u> |
| Total liabilities and stockholders' equity | <u>\$ 1,984,012</u> | <u>\$ 1,737,945</u> |

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

| | Fiscal Quarter Ended | | Fiscal Year Ended | |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | September 26, 2014 | September 27, 2013 | September 26, 2014 | September 27, 2013 |
| | <i>(unaudited)</i> | | <i>(unaudited)</i> | |
| Operating activities: | | | | |
| Net income including controlling interest | \$ 46,362 | \$ 46,084 | \$ 208,720 | \$ 190,302 |

| | | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 14,287 | 13,630 | 53,278 | 53,245 |
| Stock-based compensation | 16,907 | 14,396 | 65,680 | 64,328 |
| Amortization of premium on investments | 2,342 | 2,133 | 9,398 | 10,234 |
| Excess tax benefit from exercise of stock options | (577) | 146 | (2,434) | (475) |
| Provision for doubtful accounts | 494 | (85) | 1,119 | (174) |
| Deferred income taxes | 3,240 | (6,669) | (6,696) | (19,642) |
| Other non-cash items affecting net income | (634) | (226) | 1,821 | (1,026) |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | 8,584 | (22,810) | 10,165 | (53,639) |
| Inventories | 1,164 | 3,530 | 3,818 | 9,166 |
| Prepaid expenses and other assets | 1,447 | (3,150) | (354) | 5,731 |
| Accounts payable and other liabilities | 16,681 | 22,730 | 33,714 | 21,890 |
| Income taxes, net | (10,879) | 5,478 | 951 | 2,314 |
| Deferred revenue | (778) | (1,731) | (8,734) | (1,076) |
| Other non-current liabilities | 529 | (6,400) | 691 | (4,677) |
| Net cash provided by operating activities | 99,169 | 67,056 | 371,137 | 276,501 |
| Investing activities: | | | | |
| Purchase of investments | (85,932) | (68,682) | (389,282) | (485,370) |
| Proceeds from sales of investment securities | 19,262 | 14,630 | 159,559 | 548,739 |
| Proceeds from maturities of investment securities | 31,457 | 50,904 | 137,059 | 143,754 |
| Purchases of property, plant and equipment | (51,186) | (8,910) | (88,308) | (26,711) |
| Purchases of intangible assets | (18,000) | — | (37,950) | (4,050) |
| Proceeds from sale of property, plant and equipment and assets held for sale | — | 127 | 3,355 | 503 |
| Payment related to prior business combination | (6,708) | — | (6,708) | — |
| Change in restricted cash | 1,192 | 117 | 1,033 | (1,840) |
| Net cash provided by/(used in) investing activities | (109,915) | (11,814) | (221,242) | 175,025 |
| Financing activities: | | | | |
| Payments on debt | — | (79) | — | (79) |
| Proceeds from issuance of common stock | 9,226 | 2,342 | 33,373 | 15,958 |
| Repurchase of common stock | (15,070) | (8,103) | (56,028) | (82,245) |
| Payment of cash dividend | — | — | — | (408,206) |
| Distribution to controlling interest | — | — | — | (5,039) |
| Excess tax benefit from the exercise of stock options | 577 | (146) | 2,434 | 475 |
| Shares repurchased for tax withholdings on vesting of restricted stock | (4,430) | (3,119) | (13,651) | (8,828) |
| Net cash used in financing activities | (9,697) | (9,105) | (33,872) | (487,964) |
| Effect of foreign exchange rate changes on cash and cash equivalents | (1,182) | (301) | (1,948) | (1,765) |
| Net increase/(decrease) in cash and cash equivalents | (21,625) | 45,836 | 114,075 | (38,203) |
| Cash and cash equivalents at beginning of period | 590,097 | 408,561 | 454,397 | 492,600 |
| Cash and cash equivalents at end of period | \$ 568,472 | \$ 454,397 | \$ 568,472 | \$ 454,397 |

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

The following tables present the Company's GAAP financial measures reconciled to the non-GAAP financial measures included in this release for the fourth quarter of fiscal 2014 and 2013 and fiscal 2014 and 2013:

| Net income: | Fiscal Quarter Ended | | Fiscal Year Ended | |
|-----------------|----------------------|--------------------|--------------------|--------------------|
| | September 26, 2014 | September 27, 2013 | September 26, 2014 | September 27, 2013 |
| GAAP net income | \$ 45.9 | \$ 45.8 | \$ 206.1 | \$ 189.3 |

| | | | | |
|--------------------------------------|---------|---------|----------|----------|
| Stock-based compensation | 16.9 | 14.4 | 65.7 | 62.4 |
| RSU dividend equivalent | 0.7 | 1.0 | 3.0 | 4.2 |
| Amortization of acquired intangibles | 2.8 | 3.2 | 11.3 | 13.2 |
| Restructuring charges, net | (0.2) | — | 2.4 | 5.9 |
| Income tax adjustments | (5.3) | (5.6) | (21.1) | (24.9) |
| Non-GAAP net income | \$ 60.8 | \$ 58.8 | \$ 267.4 | \$ 250.1 |

Diluted earnings per share:

| | Fiscal Quarter Ended | | Fiscal Year Ended | |
|--------------------------------------|----------------------|--------------------|--------------------|--------------------|
| | September 26, 2014 | September 27, 2013 | September 26, 2014 | September 27, 2013 |
| GAAP diluted earnings per share | \$ 0.44 | \$ 0.44 | \$ 1.99 | \$ 1.84 |
| Stock-based compensation | 0.16 | 0.14 | 0.62 | 0.61 |
| RSU dividend equivalent | 0.01 | 0.01 | 0.04 | 0.04 |
| Amortization of acquired intangibles | 0.03 | 0.03 | 0.11 | 0.12 |
| Restructuring charges, net | — | — | 0.02 | 0.06 |
| Income tax adjustments | (0.06) | (0.05) | (0.20) | (0.24) |
| Non-GAAP diluted earnings per share | \$ 0.58 | \$ 0.57 | \$ 2.58 | \$ 2.43 |

| | | | | |
|---|-----|-----|-----|-----|
| Shares used in computing diluted earnings per share (in millions) | 104 | 103 | 104 | 103 |
|---|-----|-----|-----|-----|

The following tables present a reconciliation between GAAP and non-GAAP versions of the estimated financial amounts for the first quarter of fiscal 2015 and fiscal year 2015 included in this release:

Gross margin:

| | Q1 2015 |
|---|-----------|
| GAAP gross margin (low - high end of range) | 88% - 89% |
| Stock-based compensation | 0.2 % |
| Amortization of acquired intangibles | 0.8 % |
| Non-GAAP gross margin (low - high end of range) | 89% - 90% |

Operating expenses:

| | Q1 2015 | Fiscal 2015 |
|---|---------------|---------------|
| GAAP operating expenses (low - high end of range) | \$159 - \$164 | \$661 - \$671 |
| Stock-based compensation | (17.0) | (70.0) |
| RSU dividend equivalent | (1.0) | (3.0) |
| Amortization of acquired intangibles | (1.0) | (3.0) |
| Non-GAAP operating expenses (low - high end of range) | \$140 - \$145 | \$585 - \$595 |

Diluted earnings per share:

| | Q1 2015 | |
|--------------------------------------|---------|---------|
| | Low | High |
| GAAP diluted earnings per share | \$ 0.35 | \$ 0.40 |
| Stock-based compensation | 0.17 | 0.17 |
| RSU dividend equivalent | 0.01 | 0.01 |
| Amortization of acquired intangibles | 0.02 | 0.02 |
| Income tax adjustments | (0.04) | (0.05) |
| Non-GAAP diluted earnings per share | \$ 0.51 | \$ 0.55 |

| | | |
|---|-----|-----|
| Shares used in computing diluted earnings per share (in millions) | 104 | 104 |
|---|-----|-----|

Dolby Laboratories

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