



## INVESTMENT LETTER

### DECODING **DOLBY LABORATORIES, INC.** (NYSE:DLB)



*Our Motto: To write investment letters that are readable,  
without soporific jargon, but with pertinent facts not easily  
obtained in the ordinary course of research.*

March 24, 2010

I have one of those vehicles that you often see lined up outside Petty's Fine Foods in Utica Square in Tulsa. It is a species of **Land Rover** belonging to a car genus called SUV, for Sports Utility Vehicle. I use the car neither for sports nor for any utilitarian purpose, except to drive to and from my office, the St. John Health Club, my condominium, and Utica Square, all destinations close enough for walking.

But I rarely walk, except from my home to Utica Square, and often I drive there. I could walk, and save gas money and wear and tear on my utility vehicle, but why do that when I could sit in my car and listen to my stereo system, with sounds produced by **Dolby Pro Logic**, a technology owned by **Dolby Laboratories, Inc.**?

After all, I am a suppie (senior urban professional) who likes many of the same indulgences as the yuppies (young urban professionals) do. We like big comfortable cars and a good expensive meal once or twice a week, but the difference is that we probably use cash, or at least I do, to pay for these pleasures, whereas a yuppie will pay for such enjoyments with a credit card. Both groups, however, have one thing in common: we pursue the enjoyment of tangibles and intangibles, and listening to **Dolby Pro Logic** is one of those intangibles.

**Dolby Pro Logic** is a matrix surround decoding technology that detects the naturally occurring direction of a sound. **Dolby Pro Logic** delivers the surround sound cues in two channel audio content and transforms the content into five playback channels of full bandwidth surround sound.

I wonder sometimes, as I drive the short distances that comprise my daily routine, whether I turn on the ignition in my SUV because I need the car to get to some place, or whether I turn on the ignition so I can listen to the beautifully crafted **Dolby** presentation of music, music with the important sounds highlighted or dramatized just as a skilled chef emphasizes certain ingredients in a dish prepared to highlight his skills, a dish that restaurants sometimes, surrendering to cliché or soporific jargon, call their signature dish. I cannot answer the question, but I do know, as is true of many people, that I understand the powerful effect music can have on my mood, my discipline, and my energy.

Music, or whatever you want to call the sounds that our ears and our brain either find attractive, compelling, relaxing, seductive, and inspiring or unpleasant, noxious, and tiring, is inescapable. We can close our eyes, but we cannot turn off our ears, especially if you dine out often, as I do.

*The writer experiments with **Chipotle Mexican Grill** (NYSE: CMG). He finds the music loud, but the food tasty. He eats fast, obediently deposits the detritus of his tray into one of the conveniently placed garbage cans, and walks vigorously to the exit,*



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*hoping to quickly get into his Land Rover equipped with Dolby Pro Logic so that he can enjoy classical music and forget the musically punishing experience he has just suffered at Chipotle Mexican Grill.*

The other Saturday, I decided to try the new **Chipotle Mexican Grill** located at 1623 East 15th Street South in Tulsa. My friend insisted that I get out of my **Moo Goo Gai Pan** rut and try a new place to eat. I love the **Moo Goo Gai Pan** dish at P.F. Chang's China Bistro in Utica Square in Tulsa where I frequently dine. I order the dish often, and ask the server to have the kitchen put extra broccoli in the dish. With extra broccoli, the dish is called **Moo Goo Gai Pan Fred**.

For the sake of friendship, in the spirit of compromise, I was willing to try **Chipotle**. I was told that the ingredients at **Chipotle** were fresh and that the meat was organic, that is, the cows and the pigs who gave their lives so that I could enjoy a tasty lunch had been allowed to roam around the fields, not confined in small spaces. These animals had not been injected with hormones to speed their growth and maturity and had not been fed the antibiotics necessary for animals raised in cramped quarters.

I felt as good as I could about eating the meat of animals raised for our benefit, animals subject to an inevitably unpleasant, tough death, a death that I hoped would be mercifully quick. The more I think about animals and meat consumption the more I am inclined to change to a vegan diet, one without meat and animal products, such as milk. My friend, **Dan Burnstein**, is a vegan and he is in excellent health. My problem is that I like a good steak, and I do not want to make promises to myself that I cannot keep.

So I was at least receptive, if not eager, to experience **Chipotle**. We opened the door. I did not notice any food aroma, but I did notice loud, pulsating music, with the strength of the music reinforced by the tall ceilings, and the absence of any kind of carpets or rugs. The tables were aluminum, the chairs were aluminum, and the counters were aluminum. Not surprisingly, with the music cranked up loud, the sound or noise level was overwhelming. The food was tasty but because of the strength and pace of the music it was impossible to eat slowly and to enjoy the food as much as might have been possible had the ambience of the restaurant been more calming, conducive to conversation and contemplation. The music is set to create energy, but more cynically, to speed up the diner's eating pace. **Chipotle** is, after all, a fast-food chain, and it lives or dies with the speed of its table turnover.

The conversation was good and the guacamole (on the ticket guacamole was abbreviated to "guac") may have put me over my daily calorie limit, but it sure tasted fabulous. My conclusion: **Chipotle** could be a rare occasional treat for me if I did take-out, recognizing that the music was too loud for restaurant dining.

After lunch, safe in the sanctuary of my car, with the music on, inspiring, energizing, but calming, I thought about **Dolby** and the powerful brand name it has created for itself.

### BUSINESS SUMMARY **DOLBY LABORATORIES, INC. (NYSE: DLB)**

**Dolby's** business, one could say, is the refinement of music and sound for entertainment purposes.

#### **Our Business**

Dolby is a global organization that generates revenue by licensing our technologies to manufacturers of consumer electronics products and media software vendors and by selling our professional products and related services to entertainment content creators, producers and distributors. We have licensed our technologies to manufacturers in approximately 25 countries, and our licensees



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distribute products incorporating our technologies throughout the world. We sell our products and services in over 85 countries. In fiscal 2007, 2008, and 2009, revenue from outside the United States was 70%, 66% and 65% of our total revenue, respectively.

First, we offer products and services for content creators, such as studios and broadcasters, to encode content in [Dolby's](#) formats.

Second, we license our technology to consumer electronics manufacturers and software vendors so that consumers can enjoy the content that has been encoded in our proprietary formats. In so doing, we develop and deliver innovations directly to consumer electronics manufacturers.

Third, we work directly with standards bodies in an effort to have our formats adopted in their specifications to ensure a common standard across devices and to improve the overall consumer experience. ([Dolby Laboratories](#), Form 10-K filed with the Securities and Exchange Commission on November 19, 2009, For the Fiscal Year Ended September 25, 2009, page 1)

### **Our Technologies and Products**

Our core technologies are signal processing systems that improve basic sound quality or enable surround sound in movie soundtracks, DVDs, Blu-ray Discs, personal computers, digital televisions, mobile devices, video games and satellite and cable broadcasts. Many of our technologies are incorporated into professional products that we manufacture, including cinema sound processors and digital audio encoders and decoders.

We have also expanded our focus on developing and delivering new audio and video technologies that enhance the entertainment experience, including audio technologies for mobile devices and video technologies for digital 3D, digital cinema, and LED backlit LCD televisions. ([Dolby Laboratories](#), Form 10-K filed with the Securities and Exchange Commission on November 19, 2009, For the Fiscal Year Ended September 25, 2009, page 8)

Sounds can be heard through many media, and sounds or music appear in many, many forms, or as the jargon goes, sound can be heard through many “entertainment platforms.”

Humans hear in stereo. We have two ears, each of which collects or receives different sounds because of their placement on opposite sides of our heads. Our brains, however, take the different inputs and combine them into one sound signal, one sound, one sound experience. Our brains process the different inputs, the different cues, and integrate all the different stimuli into one coherent and three-dimensional sound. These cues or stimuli are powerful but are difficult to capture artificially, that is, using manmade instruments or technology to decipher, to disassemble, and then to reassemble sound waves in a musical form that is appealing, that catches the ear, so to speak, of the listener. To disassemble and then to reassemble these sounds is what [Dolby](#) does, and there are multitudes of applications for this work.

Consider online gaming, which happens to be a big opportunity for [Dolby](#).

[Katie Michaels-Johnson](#), of our firm, tells the following story about her online gaming experience.



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### Katie Michaels-Johnson's Story

Two Saturdays ago, I watched my friend Patrick play *Call of Duty: Modern Warfare 2* online. The sound effects of the game are realistic: a grenade going off behind a wall is somewhat muffled; footsteps grow louder and softer as someone approaches. The sound effects are not perfect, but some attempt has been made to match what you are hearing with what you are seeing.

Then Patrick logged onto the chat room part of the game, and the semblance of acoustical reality disappeared. It was like sitting in an airplane cockpit, hearing disembodied voices talking to you from some undefined space in front of and above your head. Bursts of static and harsh echoes distractingly distorted player voices. All of the players were equally loud (that is, though some shouted and others whispered, there was no lessening of sound as an effect of distance) and seemed to be standing, invisible, in front of you (or perhaps, your brain tries to tell you, behind you, since you could not see them) in a big group, no matter if their avatars (in-game personas) stood in front of you or around the corner to your right.

**Dolby Axon**, which incorporates surround sound voice chat, aims to improve an already good sound experience. Games that incorporate **Axon** or users who utilize its online chat rooms hear realistic voice communication that includes sound panning (the changes in sounds as a person moves left to right), distance attenuation (the changes in sounds as a person moves closer to or further from you), and occlusion (the muffling of sounds coming from around corners or behind barriers). No longer can an opposing fighter talk seemingly in your face while his avatar sneaks up behind you; his voice will move with his avatar in relation to you and the game environment, and you will hear the changes in his voice just as you would in real life.

**Axon** is compatible with any stereo headset, so you do not need expensive, specialized equipment to benefit from the technology. Gamers using **Axon** will be able to enjoy improved noise and echo suppression. **Axon** users will be able to enjoy surround sound chat over stereo headsets, speakers and surround sound playback systems, all powered by **Dolby** technologies.

**Dolby** says that its products are innovative and I believe the company is correct, although I would say that innovative is one word that companies use too often. Nevertheless, if a company can be a powerful player in the world of entertainment—a world that changes quickly, deeply affected by advances in computer technology, with these advances enhanced by impressive creativity—than a company is indeed innovative.

**Dolby** products and services help artists and content producers create an enhanced entertainment experience by incorporating our technologies into their content. Our technologies also help maintain the quality of the sound while enabling it to fit within the storage capacity and distribution limitations of a particular recording platform. In the cinema market, moviemakers use our encoding products and services during film post-production to ensure that their movie soundtracks are recorded properly in analog and digital film formats and will play in theatres as they envision. We also provide services for mastering and packaging high-quality video images and sound for the digital cinema business. In the broadcast market, television producers and broadcasters use our professional encoders, decoders and processors to record and transmit both recorded and live television programming with multi-channel sound. (*Dolby Laboratories Form 10-K filed with the Securities and Exchange Commission on November 19, 2009, For the Fiscal Year Ended September 25, 2009, page 2*)



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The vast majority of [Dolby's](#) revenues come from licensing (eighty per cent in fiscal 2009), and consequently [Dolby](#) does little manufacturing. How does this licensing system work?

[Dolby](#) works with semiconductor manufacturers, incorporating software into the manufacturer's semiconductor chip. Manufacturers pay [Dolby](#) a fixed fee for this privilege. Then the semiconductor manufacturer sells its chips to a company such as Microsoft (NASDAQ: MSFT), which will incorporate the chip into its Xbox. For every Xbox sold, [Dolby](#) gets a licensing fee.

On Friday, March 19, 2010, we spoke with [Alex Hughes, Director of Investor Relations for Dolby](#). He told us that [Dolby Digital](#) (or [DD](#)) is the most ubiquitous of the [Dolby](#) technologies and represents the largest portion of [Dolby's](#) licensing revenues.

[Dolby](#) has licensed its technologies to manufacturers in twenty-five countries and in fiscal 2007, 2008, and 2009, revenue from outside the United States was 70%, 66%, and 65% of its total revenue, respectively.

### INVESTMENT THESIS [DOLBY LABORATORIES, INC. \(NYSE: DLB\)](#)

[Dolby Laboratories](#) develops and delivers innovative products and technologies that are used throughout the entertainment industry to produce a more immersive and enjoyable experience. Over the years, [Dolby](#) has introduced innovations that have significantly improved audio entertainment, such as noise reduction for the recording and cinema industries and surround sound for cinema and home entertainment. As a result of these innovations, we believe the [Dolby](#) brand has come to symbolize a superior entertainment experience. (*[Dolby Laboratories Form 10-K, filed with the Securities and Exchange Commission on November 19, 2009, For the Fiscal Year Ended September 25, 2009, page 1](#)*)

Today, [Dolby](#) technologies are standard in a wide range of entertainment platforms. Our technologies are used in virtually all standard definition Digital Versatile Disc, or DVD, players and personal computer DVD playback software, increasingly in digital televisions, set top boxes, portable media devices and in a wide array of consumer electronic products such as gaming systems and audio/video receivers. Movie theatres and broadcasters around the world use [Dolby's](#) products. (*[Dolby Laboratories Form 10-K filed with the Securities and Exchange Commission on November 19, 2009, For the Fiscal Year Ended September 25, 2009, page 42](#)*)

[Dolby](#) is often the explicit or mandated industry standard.

For many types of consumer electronics products, our technologies are included in explicit industry standards, meaning that standards-setting bodies have mandated the inclusion of these technologies in a particular type of product. For example, our [Dolby Digital](#) technology is mandated in all DVD and Blu-ray Disc players, and [Dolby Digital Plus](#) is mandated for secondary track playback through Blu-ray Live. These devices include stand-alone players as well as many gaming consoles, such as the Sony PlayStation 3 and the Xbox 360 and personal computer shipments that incorporate multimedia software with DVD playback, or PC operating systems, such as Vista Home Premium, Vista Ultimate, Windows 7 Home Premium, Windows 7 Ultimate, Windows 7 Professional, Windows 7 Enterprise, and Apple Leopard. (*[Dolby Laboratories Form 10-K filed with the Securities and Exchange Commission on November 19, 2009, For the Fiscal Year Ended September 25, 2009, page 3](#)*)



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*Investment Thesis: Continued*

**Dolby** is often the de facto standard as well as the legally mandated one.

In addition, **Dolby** technologies are de facto industry standards in many consumer electronics products, meaning that although not specifically mandated by a standards board, these technologies are nevertheless widely adopted for a particular type of product. For example, in audio/video receivers, manufacturers incorporate **Dolby Digital** as well as other **Dolby** technologies such as **Pro Logic** decoding even though they are not explicitly mandated. In the broadcast market, even prior to the adoption of high definition terrestrial broadcast standards mandating **Dolby** technologies, many European HD broadcasters began broadcasting in **Dolby Digital** or **Dolby Digital Plus**, leading manufacturers to include these technologies in many of their European television and set top box shipments. (*Dolby Laboratories Form 10-K filed with the Securities and Exchange Commission on November 19, 2009, For the Fiscal Year Ended September 25, 2009, page 3*)

**Dolby** is instrumental in content creation and playback in many forms, and enjoys success in virtually every entertainment arena and in many markets. Because of its success the company has created a “large ecosystem of both content and devices that incorporate its technologies, and consequently, many households have several devices containing **Dolby** technologies.” (*Dolby Laboratories Form 10-K, filed with the Securities and Exchange Commission on November 19, 2009, For the Fiscal Year Ended September 25, 2009, page 42*)

In a typical American household, for example, there may be a flat screen television, or the new XO Panasonic television, or a radio, or a computer, or a game console, or a smart phone or a mobile phone, or any combination of these, with all of these objects or devices using some form of **Dolby** technology.

**Dolby's** financial position is very strong. As of September 25, 2009, the company had forty-seven per cent of its assets in cash or cash equivalents. Its long-term debt is less than one per cent of its assets.

Below, we show the company's balance sheets for the last three fiscal years ending in September. All numbers are in thousands.

PERIOD ENDING	25-Sep-09	26-Sep-08	28-Sep-07
<b>Assets</b>			
Current Assets			
Cash And Cash Equivalents	451,678	394,761	368,467
Short Term Investments	283,808	119,667	231,217
Net Receivables	106,419	119,474	101,851
Inventory	12,975	18,133	14,883
Other Current Assets	45,958	39,834	17,000
<b>Total Current Assets</b>	<b>900,838</b>	<b>691,869</b>	<b>733,418</b>
Long Term Investments	205,938	180,996	73,224
Property Plant and Equipment	92,178	87,915	85,552
Goodwill	261,121	250,356	39,364
Intangible Assets	82,035	83,060	35,389
Accumulated Amortization	-	-	-
Other Assets	15,450	17,050	12,357
Deferred Long Term Asset Charges	23,755	24,900	12,393
<b>Total Assets</b>	<b>1,581,315</b>	<b>1,336,146</b>	<b>991,697</b>
<b>Liabilities</b>			



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Current Liabilities			
Accounts Payable	117,756	161,736	128,119
Short/Current Long Term Debt	1,624	1,593	1,563
Other Current Liabilities	37,204	37,344	13,522
<b>Total Current Liabilities</b>	<b>156,584</b>	<b>200,673</b>	<b>143,204</b>
Long Term Debt	5,825	7,782	9,691
Other Liabilities	31,469	33,414	14,294
Deferred Long Term Liability Charges	24,332	22,926	5,073
Minority Interest	-	22,098	22,279
Negative Goodwill	-	-	-
<b>Total Liabilities</b>	<b>218,210</b>	<b>286,893</b>	<b>194,541</b>
<b>Total Stockholder Equity</b>	<b>1,341,108</b>	<b>1,049,253</b>	<b>797,156</b>
<b>Net Tangible Assets</b>	<b>\$997,952</b>	<b>\$715,837</b>	<b>\$722,403</b>

Music and entertainment are indispensable in any civilized culture. Dolby is instrumental in embellishing and purifying the sounds of music, making demand for its technologies powerful.

This may only be the beginning. Why? The company believes that the following forces could dramatically increase the size of its markets:

We believe we have the opportunity to expand the adoption of our formats for both content and devices because we expect the following factors to increase our potential market:

- The transition from analog to digital broadcast.
- The upgrade to high definition (HD) content.
- The advancement in online and mobile content delivery.

[...] our globally recognized brand will be [an] important strategic asse[t]. (*Dolby Laboratories Form 10-K, filed with the Securities and Exchange Commission on November 19, 2009, For the Fiscal Year Ended September 25, 2009, page 1*)

Hughes noted that the transition from analog to digital broadcast is a favorable trend for Dolby, as Dolby Digital technology is mandated by the United States digital television standards. Every digital television and set-top converter box contains Dolby technology, which means Dolby receives royalties for each set sold. As Europe also transitions to digital broadcasting, a number of European countries have adopted Dolby in their own television standards, and Dolby collects royalties from about eighty per cent of the televisions shipping into Europe, with plans to increase this percentage. The Asia-Pacific region will be next, and Dolby is positioning itself to move into this market, as well.

“Of the 1.4 billion households worldwide, roughly half have switched to digital television,” Hughes told us. “Dolby’s high success rate so far means we’re well-positioned to take that half, too.”

Similar trends define the global transition to high definition (HD) content, as more consumers switch to high-definition Blu-ray Discs and players as well as high definition televisions and HD DVDs. Dolby Digital technology is mandated in all DVD and Blu-ray Discs and players, so each new unit sold means more royalties for the company.

Mobile listening devices, Hughes said, comprise a much smaller share of the audio market, but Dolby Mobile, the company’s mobile audio technology, has seen some success with leading mobile companies, and the company believes this area has the potential to be a good market, with the caveat



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that royalties are lower and harder to extract from the mobile environment than the television and disc player market.

“Looking at a greater digital world, with more and more devices that can play back entertainment—for the last five to ten years we’ve been tied to a physical format (DVD); now we’re seeing a completely portable digital format that can be used on any number of devices: tablet PCs, PCs, phones. It means a lot more units to potentially contain our technology,” said [Hughes](#).

“[Dolby](#) is synonymous with quality. The reality is, with the new forms of content, on phones, etc., the quality isn’t as good as people are used to, and that begs for value proposition, what [Dolby](#) does well, and that’s providing technologies that give the consumer the highest quality experience no matter from where he receives his entertainment,” said [Hughes](#).

[Meredith Bohot](#), whom most of you know, discusses in the box below her experience with video gaming and [Dolby Laboratories](#).

### [Meredith Bohot](#) Answers *Call of Duty: Modern Warfare 2*

I think of the countless hours that my younger brother, [Robbie Bohot](#), spends live-gaming on his [Sony PlayStation 3](#). I am ten years his senior, and although in my late teens I did experience the first stages of the development of the World Wide Web, [Robbie](#) and those of his generation, often referred to as [Generation Y](#) or the [Net Generation](#) (children born between 1982 and 2001, according to *Wikipedia on March 15, 2010*), have grown up in the Digital Age, with technology almost wired into their brains.

In a research study done in 2007 by college professors [Dr. Reynol Junco](#) and [Dr. Jeanna Mastrodicasa](#) for their book entitled, *Connecting to the Net Generation: What Higher Education Professionals Need to Know about Today's Students*, it was found that the [Net Generation](#) spends at least three-and-a-half hours a day online.

I decided to sit with [Robbie](#) this weekend and learn more about the online gaming experience. [Robbie](#) was pleased that I wanted to learn more and agreed to let me sit with him in his room for the complete experience.

*Call of Duty: Modern Warfare 2*, by [Infinity Ward](#), [ActiVision](#), a wildly popular game amongst the online gaming community, was [Robbie's](#) pick for the night. *Modern Warfare 2* is made to be played on either the [Sony PlayStation 3](#) or on the [Xbox 360](#).

As [Robbie](#) popped the [Blu-ray](#) game disc out of its case, I noticed the [Dolby Digital](#) logo on the back of the case. It is preferable to play *Modern Warfare 2* on a high-definition television (HDTV), [Robbie](#) tells me, as it is noted on the back of the case that *Modern Warfare 2* supports high-definition video output.

[Robbie](#) switched on the [PlayStation 3 \(PS3\)](#). The [PS3](#) and the [Xbox 360](#) both connect to the internet in the same way that a personal computer (PC) does. Both game systems are computers that are made specifically to play games, and both game systems require a digital subscriber line (DSL) or cable internet service for online game play. The [PS3](#) has the ability to sync with your cell phone Bluetooth headset or any headset with a microphone, enabling speaking capability during online game play.

When the [PS3](#) is switched on, an e-mail address and password that has been saved within the [PS3](#) system is used to automatically log the player onto the [PlayStation Network](#), which is [PlayStation's](#) virtual online



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### *Meredith's Story: Continued*

gaming community. Robbie then selected *Modern Warfare 2* from the list that appeared on the screen. Once *Modern Warfare 2* had loaded, he then selected Multiplayer mode in order to enter online game play. Robbie

then selected, "Play Online" and "Find Game." A message appeared which stated that the player was being connected to the match-making server. Public Playlists (which are lists of games that anyone that has the *Modern Warfare 2* game disc and is online can join) then appeared and Robbie selected Team DeathMatch. At this point Robbie noted a message at the bottom of the screen which told us that there were 368,447 gamers, that is, people playing *Modern Warfare 2*, logged onto the PlayStation Network at 8:30 p.m. on Saturday, March 13, 2010.

A Team DeathMatch is made up of two teams that consist of six players each. For this particular Team DeathMatch "map" (map is online shooter slang for a level in a game), a setting of a *favela* (Brazilian Portuguese for *slum*) in Rio de Janeiro, Brazil was used. Robbie's team name was Favela Gang and consisted of an armed rebel faction. The opposing team was a British task force.

Intense music began to play as Robbie entered the Team DeathMatch. I imagined this must be part of the Dolby Digital technology. As the map or level finished loading, the music soundtrack stopped and the sounds of war began. Shots blasted from an M1A1 assault rifle, rubble and shattered glass pounded the ground after an explosion on the upper level of a building, and blazes roared from a fire. However, the intense sounds were interrupted when players spoke during the game, which was often.

As I sat with Robbie I told him about a press release from Thursday, March 11, 2010 which described the development of Dolby Axon Surround Sound Voice Technology. The release announced that new tools will soon make it possible for gamers to enjoy Dolby Axon surround voice chat on more of their favorite gaming platforms such as the PlayStation 3 and Xbox 360 Consoles.

Robbie was excited to hear about the new Dolby Axon surround sound voice chat for online gaming. He said, "The Dolby name is synonymous with high quality sound and they are known for their state-of-the-art products."

After watching Robbie play, I noted that online game play can get very competitive and I could see how the virtual online gaming experience can be quite addictive. The more gamers play the virtual online games, the more they want to complete the virtual experience with the most realistic sounds and images possible. A gamer's unquenchable desire for the ultimate virtual gaming experience is great for Dolby Laboratories as this is what Dolby knows how to deliver.

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Clients, officers, shareholders, and employees of the Fredric E. Russell Investment Management Co. have a position a position of 54,575 shares in Dolby Laboratories, Inc., with a first purchase date of November 29, 2007 and with an average weighted cost of \$43.09 per share for a total cost of \$2,351,656.70. The closing price on Tuesday, March 23, 2010 was \$59.36, giving a market value of \$3,239,572.

We may liquidate, decrease, or increase our position in Dolby Laboratories, Inc. at any time, without notice before or after we do so.



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The writer of this report, [Fredric E. Russell](#), lists his academic and professional background as follows: [B.A., Swarthmore College](#), Swarthmore, PA; [M.B.A, and M.A., Washington University](#), St. Louis, MO. He also holds the [CPA certificate](#) and has taught accounting and finance at three universities. He believes his love for writing and his usually correct grammar come from spending four years learning the English language at [Deerfield Academy](#) in Deerfield, MA, and from reading everything well-written he can find.

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[Katie Michaels-Johnson](#) joined the firm in February. She graduated in 2008 with a Bachelor of Arts degree in English and German from the [University of Tulsa](#), where she studied as a [National Merit Scholar](#). She also spent a semester studying literature and philosophy at [Albert-Ludwigs Universität](#) in Freiburg, Germany.

She gets to exercise the writing and editing skills developed as a student at the [University of Tulsa](#) by writing and/or editing procedural manuals, research memoranda, and, of course, contributes, as [Meredith Bohot](#) does, sections to my investment letters.

She grew up in Albuquerque and went to high school there. She lives in Tulsa with her husband [Timothy](#), a law student at [University of Tulsa](#), their two dogs, and a pet rabbit.

While not a video gamer herself, [Katie](#) has logged countless hours watching her husband and his friends play a variety of [console](#) games and is familiar with gaming jargon and the ambience created by gaming sound effects. She tells me that she is not emotionally involved with games when her husband plays and does not have to be [consoled](#) when he loses.

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You may read more about us, find other investment letters, and see the details of our record on our website: [www.fredricerussell.com](http://www.fredricerussell.com).