



## **Dolby Laboratories Reports FY 2006 First Quarter Results; First Quarter Revenue Reaches \$91 Million**

SAN FRANCISCO, Jan 26, 2006 (BUSINESS WIRE) -- Dolby Laboratories, Inc. (NYSE:DLB) today announced the Company's financial results for the first quarter of fiscal year 2006.

For the first quarter, Dolby reported total revenue of \$91.0 million, compared to \$84.3 million for the first quarter of fiscal 2005, an increase of 8 percent. First quarter net income was \$17.3 million, or \$0.16 per diluted share, compared to \$10.4 million, or \$0.11 per diluted share, for the first quarter of fiscal 2005.

Per-share calculations are based on 110.2 million diluted shares in the first quarter of fiscal 2006 compared with 97.8 million diluted shares in the comparable year-ago quarter. The increase in shares is principally attributable to the shares sold by the Company in its February 2005 initial public offering (IPO).

Net income for the first quarter 2006 includes a \$6.4 million charge for the funding and installation of digital cinema equipment related to the release of Walt Disney's Chicken Little in digital 3D, of which \$5.7 million is reflected in Cost of Products Sales and \$0.7 million is reflected in Cost of Production Services.

In connection with the Company's IPO, Ray Dolby contributed to the Company all of his intellectual property rights related to the Company's business, which he had previously licensed to the Company in exchange for royalty payments. As a result of the contribution, the Company's royalty payments to Ray Dolby terminated in February 2005. Consequently, net income for the first quarter of fiscal 2006 did not include any royalty payments to Ray Dolby, while the first quarter of fiscal 2005 included \$6.5 million of royalty payments to Ray Dolby, net of taxes. Pro forma net income, which excludes royalty payments to Ray Dolby, was \$17.3 million, or \$0.16 per diluted share, for the first quarter of fiscal 2006, compared to \$16.9 million, or \$0.17 per diluted share, for the first quarter of fiscal 2005.

Net income for the first quarter of fiscal 2006 also included stock-based compensation charges of \$5.1 million compared to \$2.9 million in the first quarter of fiscal 2005.

"I am very pleased with Dolby's performance this quarter, as our strategy to leverage our technology, brand and strong industry position into new markets is paying off," said Bill Jasper, President and Chief Executive Officer, Dolby Laboratories.

### **Guidance**

For fiscal 2006, revenue is currently expected to be between \$335 million and \$360 million. Net income is expected to be between \$53 million and \$65 million. Earnings per diluted share are expected to be in the range of \$0.47 to \$0.58. Fiscal 2006 diluted number of shares is expected to be between 112 million and 113 million. While under FAS 123R stock-based compensation expense may vary based on factors such as stock price or volatility, Dolby currently expects stock-based compensation expense for the full year to be between \$19 million and \$21 million.

### **Pro Forma Information**

Prior to the Company's IPO, Ray Dolby retained ownership of the intellectual property he created related to the Company's business and licensed those rights to the Company in exchange for royalty payments. In connection with the Company's IPO, Ray Dolby contributed to the Company all of these intellectual property rights. The pro forma financial information included in this release gives effect to the asset contribution as though such transactions had been completed prior to the first quarter of fiscal 2005. Specifically, the Company provides net income and EPS excluding royalties paid to Ray Dolby. The Company believes these are important metrics as they represent profitability exclusive of the charges that have now been eliminated. The Company uses these metrics internally to measure its performance and believes these metrics may be meaningful for investors in analyzing the Company's results of operations. A reconciliation of the Company's actual results to these additional metrics is included in this release.

### **The Company's Conference Call Information**

Today, beginning at 1:30 p.m. Pacific Standard Time, Bill Jasper, President and Chief Executive Officer, Marty Jaffe, Executive Vice President, Business Affairs, and Kevin Yeaman, Chief Financial Officer, will lead a conference call open to all interested

parties to discuss the quarterly results and answer analysts' and portfolio managers' questions.

Access to the teleconference will be available over the Internet from <http://investor.dolby.com/medialist.cfm> or by dialing 800-565-5442. International callers can access the conference call at 913-312-1298.

A replay of the call will be available beginning at 4:30 p.m. PST on January 26, 2006 until 5 p.m. PST on February 3, 2006 at 888-203-1112 (international callers can access the replay by dialing 719-457-0820) and entering confirmation code 9223734. An archived version of the teleconference will also be available on Dolby Laboratories' website, [www.dolby.com](http://www.dolby.com).

#### Forward-Looking Statements

Certain statements in this press release, including statements relating to Dolby's expectations regarding revenue, net income, diluted number of shares, earnings per diluted share, and stock-based compensation for the fiscal year ending September 29, 2006 and Dolby's strategy and expectations regarding expansion into new markets and consumer technologies and the benefits that may be derived therefrom 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 DVD markets; pricing pressures; the development of the markets for PCs, broadcast, gaming, automotive, and AAC-based music device products that incorporate Dolby's technologies; the timing of Dolby's receipt of royalty reports and/or payments from its licensees; Dolby's ability to develop, maintain, and strengthen relationships with industry participants; 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 Dolby's ability to successfully penetrate this market; and other risks detailed in Dolby's Securities and Exchange Commission filings and reports, including the risks identified under the section captioned "Risk Factors" in its Annual Report on Form 10-K for the fiscal year ended September 30, 2005 and filed with the SEC on December 20, 2005. 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) develops and delivers products and technologies that make the entertainment experience more realistic and immersive. For four decades, Dolby has been at the forefront of defining high-quality audio and surround sound in cinema, broadcast, home audio systems, cars, DVDs, headphones, games, televisions, and personal computers. Based in San Francisco with European headquarters in England, the Company has entertainment industry liaison offices in New York and Los Angeles, and licensing liaison offices in London, Shanghai, Beijing, Hong Kong and Tokyo. For more information about Dolby Laboratories or Dolby technologies, please visit [www.dolby.com](http://www.dolby.com).

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DOLBY LABORATORIES, INC.

#### CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Quarter Ended	
	December 31, 2004	December 30, 2005
	(unaudited)	
	(in thousands, except per share amounts)	
Revenue:		
Licensing	\$ 62,191	\$ 68,982
Product sales	16,487	16,004
Production services	5,585	6,039
Total revenue	84,263	91,025
Cost of revenue:		
Cost of licensing	16,149	6,601
Cost of product sales (1)	8,812	12,681
Cost of production services (1)	2,015	2,889
Total cost of revenue	26,976	22,171

Gross margin		57,287		68,854
Operating expenses:				
Selling, general and administrative (1)		32,857		36,537
Research and development (1)		8,289		7,942
Settlements		(2,000)		-
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Total operating expenses		39,146		44,479
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Operating income		18,141		24,375
Other income, net		287		3,699
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Income before provision for income taxes and controlling interest		18,428		28,074
Provision for income taxes		7,743		10,486
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Income before controlling interest		10,685		17,588
Controlling interest in net income		(308)		(319)
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Net income	\$	10,377	\$	17,269
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Basic net income per share	\$	0.12	\$	0.17
Diluted net income per share	\$	0.11	\$	0.16
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Shares used in the calculation of basic net income per share		86,788		104,295
Shares used in the calculation of diluted net income per share		97,819		110,190
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(1) Stock-based compensation included in net income above was classified as follows:				
Cost of product sales	\$	54	\$	202
Cost of production services		26		130
Selling, general and administrative		2,187		4,104
Research and development		681		673
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Total stock-based compensation	\$	2,948	\$	5,109
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DOLBY LABORATORIES, INC.  
CONSOLIDATED BALANCE SHEETS

September 30, 2005    December 30, 2005

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(unaudited)

(in thousands)

ASSETS

Current assets:				
Cash and cash equivalents	\$	372,403	\$	404,502
Restricted cash		205		185
Accounts receivable, net		25,221		30,381
Inventories		11,722		10,409
Income tax receivable		8,021		1,244
Deferred income taxes		31,183		33,238

Prepaid expenses and other current assets	5,433	3,336
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Total current assets	454,188	483,295
Property, plant and equipment, net	76,462	75,258
Intangible assets, net	17,184	16,576
Goodwill	23,865	23,245
Long-term deferred income taxes	6,781	7,282
Other assets	7,797	8,115
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Total assets	\$ 586,277	\$ 613,771
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LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 65,126	\$ 65,487
Income taxes payable	3,054	1,579
Current portion of debt	1,346	1,352
Deferred revenue	3,268	5,121
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Total current liabilities	72,794	73,539
Long-term debt	12,124	11,679
Other non-current liabilities	21,956	22,390
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Total liabilities	106,874	107,608
Controlling interest	18,264	18,144
Stockholders' equity:		
Class A common stock	33	34
Class B common stock	71	71
Additional paid-in capital	308,354	293,174
Deferred stock-based compensation	(26,422)	-
Retained earnings	177,369	194,638
Accumulated other comprehensive income	1,734	102
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Total stockholders' equity	461,139	488,019
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Total liabilities and stockholders' equity	\$ 586,277	\$ 613,771
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DOLBY LABORATORIES, INC.  
RECONCILIATION OF PRO FORMA NET INCOME TO ACTUAL NET INCOME

Fiscal Quarter Ended

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December 31, 2004    December 30, 2005  
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(unaudited)  
(in thousands, except per  
share amounts)

Net income	\$	10,377	\$	17,269
Add:				
Royalties payable to Ray Dolby (net of taxes)		6,536		-
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Pro forma net income	\$	16,913	\$	17,269
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Basic shares outstanding		86,788		104,295
Diluted shares outstanding		97,819		110,190
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Basic net income per share	\$	0.12	\$	0.17
Diluted net income per share	\$	0.11	\$	0.16
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Basic pro forma net income per share	\$	0.19	\$	0.17
Diluted pro forma net income per share	\$	0.17	\$	0.16
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SOURCE: Dolby Laboratories, Inc.

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