



Dolby Laboratories Reports FY 2007 Second Quarter Results

Second Quarter Net Income Tops \$39 Million on Revenue of \$129 Million

SAN FRANCISCO, May 02, 2007 (BUSINESS WIRE) -- Dolby Laboratories, Inc. (NYSE:DLB) today announced the Company's financial results for the second quarter of fiscal year 2007.

For the second quarter, Dolby reported total revenue of \$129.0 million, compared to \$104.7 million for the second quarter of fiscal 2006, an increase of 23 percent. Second quarter net income was \$39.1 million, or \$0.34 per diluted share, compared to \$28.0 million, or \$0.25 per diluted share, for the second quarter of fiscal 2006.

Net income for the second quarter of fiscal 2007 reflected stock-based compensation expense of \$4.8 million compared to \$5.1 million in the second quarter of fiscal 2006.

In the first quarter of fiscal 2007 earnings call, Dolby disclosed that it expected to resolve certain contractual matters with an existing licensee. In the second quarter of fiscal 2007, the Company resolved these contractual matters and recognized revenue of \$7.7 million related to prior quarters.

"We have made great progress extending Dolby technologies into newer markets, such as digital television. We continue to work closely with content producers and consumer electronics manufacturers to promote the creation and playback of an immersive digital experience through Dolby technologies, whether in DVD, broadcast, personal computer, gaming, digital cinema, or portable devices," said Bill Jasper, President and Chief Executive Officer, Dolby Laboratories.

Guidance

For fiscal 2007, Dolby now expects revenue to be \$435 million to \$450 million. Net income is now expected to be \$110 million to \$115 million. Consequently, earnings per diluted share are now expected to be approximately \$0.95 to \$1.00. While stock-based compensation expense may vary based on factors such as stock price or volatility, Dolby continues to expect stock-based compensation expense for the full year to be between \$20 million and \$22 million.

The Company's Conference Call Information

Members of Dolby management will lead a conference call open to all interested parties to discuss Dolby's second quarter fiscal 2007 financial results at 2:00 p.m. PT/5:00 p.m. ET, Wednesday, May 2, 2007.

Access to the teleconference will be available over the Internet from <http://investor.dolby.com/medialist.cfm> or by dialing 866-293-8970. International callers can access the conference call at 913-312-1230.

A replay of the call will be available beginning at 5:00 p.m. PT on May 2, 2007 until 9 p.m. PT on May 9, 2007 at 888-203-1112 (international callers can access the replay by dialing 719-457-0820) using confirmation code 7297634. An archived version of the teleconference will also be available on www.dolby.com.

Forward Looking Statements

Certain statements in this press release, including statements relating to Dolby's expectations regarding revenue, net income, earnings per diluted share, and stock-based compensation expense for the fiscal year ending September 28, 2007 and Dolby's expectations concerning extending its technologies into newer markets and continuing to work with content producers and consumer electronics manufacturers to promote the creation and playback of an immersive digital experience through Dolby technologies, and the benefits, including long-term growth opportunities, 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 the markets in which Dolby operates, including the DVD, broadcast, personal computer, gaming or portable device markets, and trends relating to the development of additional and newer markets for Dolby technologies; pricing pressures; the timing of Dolby's receipt of royalty reports and/or payments from its licensees; 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 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, by acquiring businesses or technologies; 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 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 develops and delivers products and technologies that make the entertainment experience more realistic and immersive. For more than 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. For more information about Dolby Laboratories or Dolby(R) technologies, please visit www.dolby.com.

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DOLBY LABORATORIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Quarter Ended		Fiscal Year-to-Date Ended	
	March 31, 2006	March 30, 2007	March 31, 2006	March 30, 2007

	(unaudited)			
	(in thousands, except per share amounts)			
Revenue:				
Licensing	\$ 83,183	\$106,642	\$152,165	\$189,017
Product sales	15,708	15,469	31,712	30,679
Services	5,833	6,899	11,872	13,756

Total revenue	104,724	129,010	195,749	233,452

Cost of revenue:				
Cost of licensing	7,177	10,149	13,778	17,809
Cost of product sales (1)	6,883	7,714	19,564	16,400
Cost of services (1)	2,338	2,824	5,227	5,507

Total cost of revenue	16,398	20,687	38,569	39,716

Gross margin	88,326	108,323	157,180	193,736

Operating expenses:				
Selling, general and administrative (1)	38,584	42,525	75,121	79,836
Research and development (1)	8,363	10,960	16,305	19,796
Gain on settlements	-	(1,500)	-	(1,500)

Total operating expenses	46,947	51,985	91,426	98,132

Operating income	41,379	56,338	65,754	95,604
Other income, net	4,594	5,932	8,293	11,359

Income before provision for				

income taxes and controlling interest	45,973	62,270	74,047	106,963
Provision for income taxes	17,652	22,776	28,138	37,228
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Income before controlling interest	28,321	39,494	45,909	69,735
Controlling interest in net income	(342)	(399)	(661)	(747)
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Net income	\$ 27,979	\$ 39,095	\$ 45,248	\$ 68,988
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Basic earnings per share	\$ 0.27	\$ 0.36	\$ 0.43	\$ 0.64
Diluted earnings per share	\$ 0.25	\$ 0.34	\$ 0.41	\$ 0.61
Weighted-average shares outstanding (basic)	105,254	109,055	104,774	108,501
Weighted-average shares outstanding (diluted)	111,387	113,412	111,056	113,165

(1) Stock-based compensation included above was classified as follows:

Cost of product sales	\$ 196	\$ 192	\$ 398	\$ 410
Cost of services	126	31	256	68
Selling, general and administrative	4,106	3,762	8,210	7,621
Research and development	663	772	1,336	1,519

DOLBY LABORATORIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

September 29, 2006 March 30, 2007

(unaudited)
(in thousands)

ASSETS

Current assets:

Cash and cash equivalents	\$363,537	\$337,401
Short-term investments	122,162	194,992
Accounts receivable, net	23,550	30,889
Inventories	11,104	13,212
Income tax receivable	1,371	14,770
Deferred income taxes	44,568	45,860
Prepaid expenses and other current assets	6,340	13,067
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Total current assets	572,632	650,191
Property, plant and equipment, net	76,995	79,696
Intangible assets, net	14,954	14,625
Goodwill	23,188	24,524
Long-term investments	32,909	72,275
Long-term deferred income taxes	11,100	9,323
Other assets	7,510	8,668
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Total assets	\$739,288	\$859,302
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued liabilities	\$ 79,336	\$ 89,613
Income taxes payable	5,719	6,491
Current portion of debt	1,441	1,506
Deferred revenue	6,358	10,350
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Total current liabilities	92,854	107,960
Long-term debt	10,893	10,351
Long-term deferred revenue	4,562	5,305
Other non-current liabilities	16,780	17,289
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Total liabilities	125,089	140,905
Controlling interest	19,911	21,201
Stockholders' equity:		
Class A common stock	37	40
Class B common stock	70	69
Additional paid-in capital	323,449	352,740
Retained earnings	266,918	335,906
Accumulated other comprehensive income	3,814	8,441
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Total stockholders' equity	594,288	697,196
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Total liabilities and stockholders' equity	\$739,288	\$859,302
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SOURCE: Dolby Laboratories, Inc.

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