



Dolby Laboratories Reports FY 2005 Fourth Quarter and Year-End Results; Fourth Quarter Revenue Grows 15% Year-Over-Year

SAN FRANCISCO, Nov 17, 2005 (BUSINESS WIRE) -- Dolby Laboratories (NYSE:DLB) today announced the Company's financial results for the fourth quarter and fiscal year ended September 30, 2005.

For the fourth quarter, Dolby reported total revenue of \$78.9 million, compared to \$68.9 million for the fourth quarter of fiscal 2004, an increase of 15%. Fourth quarter net income was \$16.8 million, or \$0.15 per diluted share, compared to \$3.3 million, or \$0.03 per diluted share, for the fourth quarter of fiscal 2004.

Per share calculations are based on 110.5 million diluted shares in the fourth quarter of fiscal 2005 compared with 96.8 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 fourth quarter 2005 includes a foreign exchange gain of approximately \$1.4 million. This gain is primarily the result of an increase in US dollars held in Dolby's UK branch, and is reflected under "Other Income." For the foreseeable future, the Company intends to hold the majority of its cash generated at its UK office in the local currency and therefore does not expect to incur significant foreign exchange gains or losses.

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 fourth quarter of fiscal 2005 did not include any royalty payments to Ray Dolby, while the fourth quarter of fiscal 2004 included \$6.3 million of royalty payments to Ray Dolby, net of taxes. Pro forma net income, which excludes royalty payments to Ray Dolby, was \$16.8 million, or \$0.15 per diluted share, for the fourth quarter of fiscal 2005, compared to \$9.6 million, or \$0.10 per diluted share, for the fourth quarter of fiscal 2004.

Net income for the fourth quarter of fiscal 2005 also included stock-based compensation charges of \$2.7 million, compared to \$2.4 million for the fourth quarter of fiscal 2004.

Fiscal Year 2005

For fiscal year 2005, Dolby reported total revenue of \$328 million, compared to \$289 million for fiscal year 2004. Net income for the same period was \$52.3 million, or \$0.50 per diluted share, compared to \$39.8 million, or \$0.43 per diluted share, for fiscal 2004. The Company had 104.2 million diluted shares outstanding for the full year fiscal 2005, compared with 92.8 million diluted shares for the full year fiscal 2004.

Net income also included \$11.1 million in now-discontinued royalty payments to Ray Dolby, net of taxes, for fiscal year 2005, and \$23.5 million in royalty payments to Ray Dolby, net of taxes, for fiscal year 2004. Pro forma net income, which excludes these royalty payments, net of taxes, was \$63.4 million, or \$0.61 per diluted share, for the 2005 fiscal year, compared to \$63.3 million, or \$0.68 per diluted share, for fiscal 2004.

Net income also included \$14.2 million of stock-based compensation charges for fiscal year 2005, compared with a \$6.8 million charge for fiscal 2004.

"I am very proud of the hard work and dedication that the Dolby team showed this year. As a new public company, we achieved record revenue in fiscal 2005," said Bill Jasper, President and Chief Executive Officer. "In the fourth quarter, we continued to lay the groundwork for the Company's future. We expanded our technology and brand into the digital cinema arena; we further extended into new and growing consumer markets; and we broadened our management team with the addition of Kevin Yeaman as our new Chief Financial Officer."

Guidance

For fiscal 2006, revenue is currently expected to be \$335 million to \$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 \$0.46 to \$0.56. While under FAS 123R, stock based compensation may vary based on factors such as stock price or volatility, Dolby currently expects stock

compensation 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 beginning of fiscal 2004. 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 2 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 and annual results, provide annual guidance, 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 5 p.m. PST on November 17, 2005 until 9 p.m. PST on November 24, 2005, at 888-203-1112 (international callers can access the replay by dialing 719-457-0820) and entering confirmation code 1605481. An archived version of the teleconference will also be available on Dolby Laboratories' website, 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 for the fiscal year ending September 29, 2006, 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 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 That Could Affect Future Results" in its Quarterly Report on Form 10-Q for the quarter ended July 1, 2005 and filed with the SEC on August 11, 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.

Dolby and the double-D symbol are registered trademarks of Dolby Laboratories. S05/16836

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Financial Schedules Attached

DOLBY LABORATORIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	Sept. 24, 2004	Sept. 30, 2005	Sept. 24, 2004	Sept. 30, 2005
	(unaudited)			
	(in thousands, except per share amounts)			
Revenue:				
Licensing	\$49,161	\$ 58,615	\$211,395	\$246,298
Product sales	14,848	15,241	57,981	60,021
Production services	4,868	5,068	19,665	21,648
Total revenue	68,877	78,924	289,041	327,967
Cost of revenue:				
Cost of licensing	12,511	5,191	53,838	40,558
Cost of product sales (1)	7,608	8,143	30,043	31,181
Cost of production services (1)	2,171	2,037	7,624	8,479
Total cost of revenue	22,290	15,371	91,505	80,218
Gross margin	46,587	63,553	197,536	247,749
Operating expenses:				
Selling, general and administrative (1)	31,881	33,316	106,456	135,155
Research and development (1)	6,659	7,618	23,479	30,532
Settlements	-	-	(2,000)	(2,000)
In-process research and development	198	-	1,738	-
Total operating expenses	38,738	40,934	129,673	163,687
Operating income	7,849	22,619	67,863	84,062
Other income (expense), net	(521)	4,056	229	7,156
Income before provision for income taxes and controlling interest	7,328	26,675	68,092	91,218
Provision for income taxes	3,980	9,255	27,321	37,330
Income before controlling interest	3,348	17,420	40,771	53,888
Controlling interest in net income	(79)	(612)	(929)	(1,595)
Net income	\$ 3,269	\$ 16,808	\$ 39,842	\$ 52,293

Basic net income per share	\$ 0.04	\$ 0.16	\$ 0.47	\$ 0.54
Diluted net income per share	\$ 0.03	\$ 0.15	\$ 0.43	\$ 0.50

Shares used in the calculation of basic net income per share	86,072	103,655	85,556	96,969
Shares used in the calculation of diluted net income per share	96,812	110,499	92,783	104,220

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

Cost of product sales	\$ 52	\$ 56	\$ 104	\$ 222
Cost of production services	18	20	36	103
Selling, general and administrative	1,895	2,245	5,843	11,709
Research and development	405	428	810	2,150
Total stock-based compensation	\$ 2,370	\$ 2,749	\$ 6,793	\$ 14,184

DOLBY LABORATORIES, INC.

CONSOLIDATED BALANCE SHEETS

	Sept. 24, 2004	Sept. 30, 2005
		(unaudited)
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 78,711	\$ 372,403
Restricted cash	-	205
Accounts receivable, net	18,257	25,221
Accounts receivable from related parties	1,927	-
Inventories	7,163	11,722
Income tax receivable	4,246	8,021
Deferred income taxes	30,813	31,183
Prepaid expenses and other current assets	3,640	5,433
Total current assets	144,757	454,188
Property, plant and equipment, net	72,333	76,462
Intangible assets, net	6,778	17,184
Goodwill	22,030	23,865
Long-term deferred income taxes	6,669	6,781

Other assets	9,299	7,797

Total assets	\$ 261,866	\$ 586,277

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 56,540	\$ 65,126
Accounts payable and accrued royalties due to related parties	291	-
Income taxes payable	3,793	3,054
Current portion of debt	1,290	1,346
Deferred revenue	2,562	3,268

Total current liabilities	64,476	72,794
Long-term debt	13,580	12,124
Other non-current liabilities	23,283	21,956

Total liabilities	101,339	106,874
Controlling interest	17,200	18,264
Stockholders' equity:		
Class A common stock	-	33
Class B common stock	87	71
Additional paid-in capital	48,731	308,354
Deferred stock-based compensation	(33,728)	(26,422)
Retained earnings	125,076	177,369
Accumulated other comprehensive income	3,161	1,734

Total stockholders' equity	\$ 143,327	\$ 461,139

Total liabilities and stockholders' equity	\$ 261,866	\$ 586,277

DOLBY LABORATORIES, INC.

RECONCILIATION OF PRO FORMA NET INCOME TO ACTUAL NET INCOME

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	Sept. 24, 2004	Sept. 30, 2005	Sept. 24, 2004	Sept. 30, 2005

(unaudited)				
(in thousands, except per share amounts)				
Net income	\$ 3,269	\$ 16,808	\$ 39,842	\$ 52,293
Add:				
Royalties payable to Ray Dolby (net of taxes)	6,322	-	23,502	11,123

Pro forma net income	\$ 9,591	\$ 16,808	\$ 63,344	\$ 63,416

Basic shares outstanding	86,072	103,655	85,556	96,969

Diluted shares outstanding	96,812	110,499	92,783	104,220

Basic net income per share	\$ 0.04	\$ 0.16	\$ 0.47	\$ 0.54
Diluted net income per share	\$ 0.03	\$ 0.15	\$ 0.43	\$ 0.50

Basic pro forma net income per share	\$ 0.11	\$ 0.16	\$ 0.74	\$ 0.65
Diluted pro forma net income per share	\$ 0.10	\$ 0.15	\$ 0.68	\$ 0.61

SOURCE: Dolby Laboratories

Dolby Laboratories
Paula Dunn, 415-645-5000 (Media Contact)
news@dolby.com
Alex Hughes, 415-645-4572 (Investor Relations)
investor@dolby.com

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