



## **Dolby Laboratories Reports FY 2006 Second Quarter Results; Second Quarter Revenue Reaches \$105 Million**

SAN FRANCISCO, Apr 27, 2006 (BUSINESS WIRE) -- Dolby Laboratories, Inc. (NYSE:DLB) today announced the Company's financial results for the second quarter of fiscal 2006.

For the second quarter, Dolby reported total revenue of \$104.7 million, compared to \$85.1 million for the second quarter of fiscal 2005, an increase of 23 percent. Second quarter net income was \$28.0 million, or \$0.25 per diluted share, compared to \$10.3 million, or \$0.10 per diluted share, for the second quarter of fiscal 2005.

In connection with the Company's IPO in February 2005, 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 second quarter of fiscal 2006 did not include any royalty payments to Ray Dolby, while the second quarter of fiscal 2005 included \$4.6 million of royalty payments to Ray Dolby, net of taxes. Pro forma net income, which excludes royalty payments to Ray Dolby, was \$28.0 million, or \$0.25 per diluted share, for the second quarter of fiscal 2006, compared to \$14.9 million, or \$0.14 per diluted share, for the second quarter of fiscal 2005.

Net income for the second quarter of fiscal 2006 also included stock-based compensation charges of \$5.1 million compared to \$5.3 million in the second quarter of fiscal 2005.

"This was a strong quarter for Dolby as we continued to make progress towards our long-term objective of becoming an essential element in the best entertainment technologies available," said Bill Jasper, President and Chief Executive Officer, Dolby Laboratories.

### Guidance

For fiscal 2006, the Company now expects revenue to be between \$350 million and \$365 million. Net income is expected to be between \$65 million and \$72 million. Earnings per diluted share are expected to be in the range of \$0.58 to \$0.64. 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 in February 2005, 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 second quarter of fiscal 2005. Specifically, the Company provides net income and earnings per diluted share excluding royalties paid to Ray Dolby. The Company believes that net income and earnings per diluted share excluding royalties paid to Ray Dolby 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 2:00 p.m. Pacific Daylight 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 questions.

Access to the teleconference will be available over the Internet from <http://investor.dolby.com/medialist.cfm> or by dialing 877-704-5386. International callers can access the conference call at 913-312-1302.

A replay of the call will be available beginning at 5:00 p.m. PDT on April 27, 2006 until 9 p.m. PDT on May 4, 2006, at 888-203-1112 (international callers can access the replay by dialing 719-457-0820) and entering confirmation code 1547944. 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, earnings per diluted share, and stock-based compensation for the fiscal year ending September 29, 2006 and Dolby's expectations concerning its long-term focus on becoming an essential element in the best entertainment 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 Quarterly Report on Form 10-Q for the fiscal quarter ended December 30, 2005 and filed with the SEC on February 8, 2006. 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).

Dolby and the double-D symbol are registered trademarks of Dolby Laboratories. S06/17254 DLB-F

### DOLBY LABORATORIES, INC. CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Quarter Ended		Fiscal Year-to-Date Ended	
	April 1, 2005	March 31, 2006	April 1, 2005	March 31, 2006
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	(unaudited)			
	(in thousands, except per share amounts)			
Revenue:				
Licensing	\$64,717	\$83,183	\$126,908	\$152,165
Product sales	14,807	15,708	31,294	31,712
Production services	5,577	5,833	11,162	11,872
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Total revenue	85,101	104,724	169,364	195,749
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Cost of revenue:				
Cost of licensing	14,062	7,177	30,211	13,778
Cost of product sales (1)	7,472	6,883	16,284	19,564
Cost of production services(1)	2,181	2,338	4,196	5,227
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Total cost of revenue	23,715	16,398	50,691	38,569
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Gross margin	61,386	88,326	118,673	157,180
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Operating expenses:				
Selling, general and administrative (1)	35,610	38,584	68,467	75,121
Research and development (1)	7,740	8,363	16,029	16,305
Settlements	-	-	(2,000)	-
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Total operating expenses	43,350	46,947	82,496	91,426
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Operating income	18,036	41,379	36,177	65,754
Other income, net	751	4,594	1,038	8,293
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Income before provision for income taxes and controlling interest	18,787	45,973	37,215	74,047
Provision for income taxes	8,000	17,652	15,743	28,138
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Income before controlling interest	10,787	28,321	21,472	45,909
Controlling interest in net income	(457)	(342)	(765)	(661)
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Net income	\$10,330	\$27,979	\$20,707	\$45,248
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Basic net income per share	\$0.11	\$0.27	\$0.23	\$0.43
Diluted net income per share	\$0.10	\$0.25	\$0.20	\$0.41
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Shares used in the calculation of basic net income per share	94,806	105,254	90,649	104,774
Shares used in the calculation of diluted net income per share	105,544	111,387	101,573	111,056
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(1) Stock-based compensation included in net income above was classified as follows:

Cost of product sales	\$56	\$196	\$110	\$398
Cost of production services	30	126	56	256
Selling, general and administrative	4,603	4,106	6,790	8,210
Research and development	570	663	1,251	1,336
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Total stock-based compensation	\$5,259	\$5,091	\$8,207	\$10,200
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DOLBY LABORATORIES, INC.  
CONSOLIDATED BALANCE SHEETS

September 30,                      March 31,  
2005    2006

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(unaudited)

(in thousands)

ASSETS

Current assets:		
Cash and cash equivalents	\$372,403	\$450,583
Restricted cash	205	243
Accounts receivable, net	25,221	22,737
Inventories	11,722	13,146
Income tax receivable	8,021	7,843
Deferred income taxes	31,183	33,230
Prepaid expenses and other current assets	5,433	3,919
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Total current assets	454,188	531,701
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Property, plant and equipment, net	76,462	75,037
Intangible assets, net	17,184	16,043
Goodwill	23,865	22,669
Long-term deferred income taxes	6,781	9,208
Other assets	7,797	7,038
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Total assets	\$586,277	\$661,696
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LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$65,126	\$71,779
Income taxes payable	3,054	4,019
Current portion of debt	1,346	1,375
Deferred revenue	3,268	4,558
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Total current liabilities	72,794	81,731
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Long-term debt	12,124	11,437
Other non-current liabilities	21,956	21,686
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Total liabilities	106,874	114,854
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Controlling interest	18,264	18,795
Stockholders' equity:		
Class A common stock	33	36
Class B common stock	71	70
Additional paid-in capital	308,354	304,559
Deferred stock-based compensation	(26,422)	-
Retained earnings	177,369	222,617
Accumulated other comprehensive income	1,734	765
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Total stockholders' equity	461,139	528,047
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Total liabilities and stockholders' equity	\$586,277	\$661,696
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DOLBY LABORATORIES, INC.

RECONCILIATION OF PRO FORMA NET INCOME TO ACTUAL NET INCOME

Fiscal Quarter	Fiscal Year-to-Date
Ended	Ended

	April 1, 2005	March 31, 2006	April 1, 2005	March 31, 2006
(unaudited)				
(in thousands, except per share amounts)				
Net income	\$10,330	\$27,979	\$20,707	\$45,248
Add:				
Royalties payable to Ray Dolby (net of taxes)	4,587	-	11,123	-
Pro forma net income	\$14,917	\$27,979	\$31,830	\$45,248
Basic shares outstanding	94,806	105,254	90,649	104,774
Diluted shares outstanding	105,544	111,387	101,573	111,056
Basic net income per share	\$0.11	\$0.27	\$0.23	\$0.43
Diluted net income per share	\$0.10	\$0.25	\$0.20	\$0.41
Basic pro forma net income per share	\$0.16	\$0.27	\$0.35	\$0.43
Diluted pro forma net income per share	\$0.14	\$0.25	\$0.31	\$0.41

SOURCE: Dolby Laboratories

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