



Dolby Laboratories Reports FY 2006 Third Quarter Results; Third Quarter Revenue Increases 18 Percent Year-over-Year

SAN FRANCISCO, Aug 02, 2006 (BUSINESS WIRE) -- Dolby Laboratories, Inc. (NYSE:DLB) today announced the Company's financial results for the third quarter of fiscal 2006.

For the third quarter, Dolby reported total revenue of \$93.7 million, compared to \$79.7 million for the third quarter of fiscal 2005, an increase of 18 percent. Third quarter net income was \$19.1 million, or \$0.17 per diluted share, compared to \$14.8 million, or \$0.13 per diluted share, for the third quarter of fiscal 2005.

Net income for the third quarter included stock-based compensation charges of \$4.7 million compared to \$3.2 million in the third quarter of fiscal 2005.

"We continued to make progress extending our technology and brand globally," said Bill Jasper, President and Chief Executive Officer of Dolby. "In the third quarter, broadcasters in China, Europe, Japan, Korea and the US chose Dolby(R) technologies to broadcast the highly anticipated FIFA World Cup games and Dolby Digital was selected by the first HD channel in China to offer 100 percent of its programming in surround sound."

Guidance

For fiscal 2006, the Company now expects revenue to be in the range of \$370 million to \$375 million. Net income is expected to be in the range of \$74 million to \$77 million. Earnings per diluted share are expected to be in the range of \$0.66 to \$0.69. While under FAS 123R 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 \$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 contribution 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, members of Dolby management 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 800-289-0494. International callers can access the conference call at 913-981-5520.

A replay of the call will be available beginning at 5:00 p.m. PDT on August 2, 2006 until 9 p.m. PDT on August 9, 2006, at 888-203-1112 (international callers can access the replay by dialing 719-457-0820) and entering confirmation code 9645591. An archived version of the teleconference will also be available on Dolby's 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 and Dolby's expectations concerning extensions of its technology and brand 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 accuracy of calculation of royalties due to its licensors; 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 and 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 (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. S06/17429 DLB-F

DOLBY LABORATORIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Quarter Ended		Fiscal Year-to-Date Ended	
	July 1, 2005	June 30, 2006	July 1, 2005	June 30, 2006
	(unaudited)			
	(in thousands, except per share amounts)			
Revenue:				
Licensing	\$ 60,775	\$ 69,138	\$ 187,683	\$ 221,303
Product sales	13,486	18,862	44,780	50,574
Production services	5,418	5,650	16,580	17,522
Total revenue	79,679	93,650	249,043	289,399
Cost of revenue:				
Cost of licensing	5,156	6,008	35,367	19,786
Cost of product sales (1)	6,754	10,190	23,038	29,754
Cost of production services (1)	2,246	2,686	6,442	7,913
Total cost of revenue	14,156	18,884	64,847	57,453
Gross margin	65,523	74,766	184,196	231,946
Operating expenses:				
Selling, general and administrative (1)	33,372	38,477	101,839	113,598
Research and development (1)	6,885	9,108	22,914	25,413
Settlements	-	-	(2,000)	-

Total operating expenses	40,257	47,585	122,753	139,011
Operating income	25,266	27,181	61,443	92,935
Other income, net	2,062	4,020	3,100	12,313
Income before provision for income taxes and controlling interest	27,328	31,201	64,543	105,248
Provision for income taxes	12,332	11,778	28,075	39,916
Income before controlling interest	14,996	19,423	36,468	65,332
Controlling interest in net income	(218)	(339)	(983)	(1,000)
Net income	\$ 14,778	\$ 19,084	\$ 35,485	\$ 64,332
Basic net income per share	\$ 0.14	\$ 0.18	\$ 0.37	\$ 0.61
Diluted net income per share	\$ 0.13	\$ 0.17	\$ 0.34	\$ 0.58
Basic shares outstanding	103,410	106,238	94,796	105,262
Diluted shares outstanding	112,750	111,983	104,954	111,446

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

Cost of product sales	\$ 56	\$ 201	\$ 166	\$ 599
Cost of production services	27	129	83	385
Selling, general and administrative	2,674	3,731	9,464	11,941
Research and development	471	679	1,722	2,015
Total stock-based compensation	\$ 3,228	\$ 4,740	\$ 11,435	\$ 14,940

DOLBY LABORATORIES, INC.

CONSOLIDATED BALANCE SHEETS

September 30, 2005 June 30, 2006

(unaudited)

(in thousands)

ASSETS

Current assets:

Cash and cash equivalents	\$	372,403	\$	373,421
Short-term investments		-		74,176
Restricted cash		205		208
Accounts receivable, net		25,221		23,597
Inventories		11,722		11,957
Income tax receivable		8,021		13,865
Deferred income taxes		31,183		36,425
Prepaid expenses and other current assets		5,433		4,834

Total current assets		454,188		538,483
Property, plant and equipment, net		76,462		76,801
Intangible assets, net		17,184		15,512
Goodwill		23,865		23,188
Long-term investments		-		23,767
Long-term deferred income taxes		6,781		8,790
Other assets		7,797		7,319

Total assets	\$	586,277	\$	693,860
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued liabilities	\$	65,126	\$	71,764
Income taxes payable		3,054		4,026
Current portion of debt		1,346		1,416
Deferred revenue		3,268		5,701

Total current liabilities		72,794		82,907
Long-term debt		12,124		11,270
Other non-current liabilities		21,956		19,121

Total liabilities		106,874		113,298
Controlling interest		18,264		19,761
Stockholders' equity:				
Class A common stock		33		37
Class B common stock		71		70
Additional paid-in capital		308,354		315,327
Deferred stock-based compensation		(26,422)		-
Retained earnings		177,369		241,701
Accumulated other comprehensive income		1,734		3,666

Total stockholders' equity		461,139		560,801

Total liabilities and stockholders' equity	\$	586,277	\$	693,860
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DOLBY LABORATORIES, INC.

RECONCILIATION OF PRO FORMA NET INCOME TO ACTUAL NET INCOME

Fiscal Quarter Ended		Fiscal Year-to-Date Ended	
July 1, 2005	June 30, 2006	July 1, 2005	June 30, 2006

(unaudited)

(in thousands, except per share amounts)

Net income	\$	14,778	\$	19,084	\$	35,485	\$	64,332
Add:								
Royalties payable to Ray Dolby (net of taxes)		-		-		11,123		-

Pro forma net income	\$	14,778	\$	19,084	\$	46,608	\$	64,332
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Basic shares outstanding		103,410		106,238		94,796		105,262
Diluted shares outstanding		112,750		111,983		104,954		111,446

Basic net income per share	\$	0.14	\$	0.18	\$	0.37	\$	0.61
Diluted net income per share	\$	0.13	\$	0.17	\$	0.34	\$	0.58

Basic pro forma net income per share	\$	0.14	\$	0.18	\$	0.49	\$	0.61
Diluted pro forma net income per share	\$	0.13	\$	0.17	\$	0.44	\$	0.58

SOURCE: Dolby Laboratories, Inc.

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