



Dolby Laboratories Reports FY 2006 Fourth Quarter and Year-End Results

Fiscal 2006 Revenue Grows 19 Percent Year-Over-Year

SAN FRANCISCO, Nov 09, 2006 (BUSINESS WIRE) -- Dolby Laboratories, Inc. (NYSE:DLB) today announced the Company's financial results for the fourth quarter and fiscal year ended September 29, 2006.

For the fourth quarter, Dolby reported total revenue of \$102.1 million, compared to \$78.9 million for the fourth quarter of fiscal 2005, an increase of 29 percent. Fourth quarter net income was \$25.2 million, or \$0.22 per diluted share, compared to \$16.8 million, or \$0.15 per diluted share, for the fourth quarter of fiscal 2005.

For fiscal year 2006, Dolby reported total revenue of \$391.5 million, compared to \$328.0 million for fiscal year 2005. Net income for fiscal year 2006 was \$89.5 million, or \$0.80 per diluted share, compared to \$52.3 million, or \$0.50 per diluted share, for fiscal year 2005.

Net income for the fourth quarter of fiscal 2006 reflected stock-based compensation expense of \$4.2 million compared to \$2.7 million for the fourth quarter of fiscal 2005. Net income for fiscal 2006 reflected \$19.1 million of stock-based compensation expense, compared with \$14.2 million for fiscal 2005.

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 fiscal 2006 did not include any royalty payments to Ray Dolby, while net income for fiscal 2005 reflected \$11.1 million of royalty payments to Ray Dolby, net of taxes. Pro forma net income, which excludes these royalty payments, was \$89.5 million, or \$0.80 per diluted share, for the 2006 fiscal year, compared to \$63.4 million, or \$0.61 per diluted share, for fiscal 2005.

In its third quarter fiscal 2006 report on Form 10-Q, Dolby disclosed that approximately \$10 million in royalties were expected from two existing licensees and that the Company would not recognize this estimated revenue until resolution of certain contractual matters with the licensees. In the fourth quarter of fiscal 2006, the Company resolved the contractual matters with one of the licensees and recognized revenue of \$6.7 million related to prior quarters.

"We saw good growth for our core technologies in fiscal 2006, and we now go into fiscal 2007 focused on extending these technologies across additional markets, driving the adoption of newer Dolby technologies, and capitalizing on the Dolby brand, reputation, and business model to generate additional long-term growth opportunities," said Bill Jasper, President and Chief Executive Officer of Dolby.

Guidance

For fiscal 2007, revenue is currently expected to be \$420 million to \$450 million. Net income is expected to be \$95 million to \$105 million. Earnings per diluted share are expected to be \$0.83 to \$0.92. 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 \$20 million to \$22 million.

Pro Forma Information

Prior to the Company's IPO in February of 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 beginning of fiscal 2005. Specifically, the Company provides net income and earnings per diluted share 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

Members of Dolby management will lead a conference call open to all interested parties to discuss Dolby Laboratories' fourth quarter and fiscal 2006 financial results at 2:00 p.m. PT/5:00 p.m. ET, Thursday, November 9, 2006.

Access to the teleconference will be available over the Internet from <http://investor.dolby.com/medialist.cfm> or by dialing 800-289-0493. International callers can access the conference call at 913-981-5510.

A replay of the call will be available beginning at 5:00 p.m. PT on November 9, 2006 until 9 p.m. PT on November 16, 2006, at 888-203-1112 (international callers can access the replay by dialing 719-457-0820) and entering confirmation code 5722471. 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 expense for the fiscal year ending September 28, 2007 and Dolby's expectations concerning extending its technologies into additional markets and driving the adoption of newer Dolby(R) 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 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; 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; 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.

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DOLBY LABORATORIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Quarter Ended		Fiscal Year Ended	
	September 30, 2005	September 29, 2006	September 30, 2005	September 29, 2006
	(unaudited)			
	(in thousands, except per share amounts)			
Revenue:				
Licensing	\$ 58,615	\$ 80,360	\$246,298	\$301,663
Product sales	15,241	14,839	60,021	65,413
Production services	5,068	6,944	21,648	24,466
Total revenue	78,924	102,143	327,967	391,542
Cost of revenue:				
Cost of licensing	5,191	7,101	40,558	26,887

Cost of product sales (1)	8,143	8,733	31,181	38,487
Cost of production services (1)	2,037	2,755	8,479	10,668
Total cost of revenue	15,371	18,589	80,218	76,042
Gross margin	63,553	83,554	247,749	315,500
Selling, general and administrative (1)	33,316	40,567	135,155	154,165
Research and development (1)	7,618	9,964	30,532	35,377
Gain on settlements	-	(3,625)	(2,000)	(3,625)
Total operating expenses	40,934	46,906	163,687	185,917
Operating income	22,619	36,648	84,062	129,583
Other income, net	4,056	4,741	7,156	17,054
Income before provision for income taxes and controlling interest	26,675	41,389	91,218	146,637
Provision for income taxes	9,255	15,917	37,330	55,833
Income before controlling interest	17,420	25,472	53,888	90,804
Controlling interest in net income	(612)	(255)	(1,595)	(1,255)
Net income	\$ 16,808	\$ 25,217	\$ 52,293	\$ 89,549
Basic earnings per share	\$ 0.16	\$ 0.24	\$ 0.54	\$ 0.85
Diluted earnings per share	\$ 0.15	\$ 0.22	\$ 0.50	\$ 0.80
Basic shares outstanding	103,655	106,964	96,969	105,688
Diluted shares outstanding	110,499	112,150	104,220	111,658
(1) Stock-based compensation included in net income above was as follows:				
Cost of product sales	\$ 56	\$ 201	\$ 222	\$ 800
Cost of production services	20	128	103	513
Selling, general and administrative	2,245	3,146	11,709	15,087
Research and development	428	723	2,150	2,738
Total stock-based compensation	\$ 2,749	\$ 4,198	\$ 14,184	\$ 19,138

DOLBY LABORATORIES, INC.
CONSOLIDATED BALANCE SHEETS

September September
30, 2005 29, 2006

(unaudited)
(in thousands)

ASSETS

Current assets:

Cash and cash equivalents	\$372,403	\$412,487
Short-term investments	-	73,212
Restricted cash	205	210
Accounts receivable, net	25,221	23,550
Inventories	11,722	11,104
Income tax receivable	8,021	8,956
Deferred income taxes	31,183	44,568
Prepaid expenses and other current assets	5,433	6,130

Total current assets 454,188 580,217

Property, plant and equipment, net	76,462	76,995
Intangible assets, net	17,184	14,954
Goodwill	23,865	23,188
Long-term investments	-	32,909
Long-term deferred income taxes	6,781	11,100
Other assets	7,797	7,510

Total assets \$586,277 \$746,873
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued liabilities	\$ 65,126	\$ 79,336
Income taxes payable	3,054	13,304
Current portion of debt	1,346	1,441
Deferred revenue	3,268	6,358

Total current liabilities 72,794 100,439

Long-term debt	12,124	10,893
Other non-current liabilities	21,956	21,342

Total liabilities 106,874 132,674

Controlling interest 18,264 19,911

Stockholders' equity:

Class A common stock	33	37
Class B common stock	71	70
Additional paid-in capital	308,354	323,449
Deferred stock-based compensation	(26,422)	-
Retained earnings	177,369	266,918
Accumulated other comprehensive income	1,734	3,814

Total stockholders' equity 461,139 594,288

Total liabilities and stockholders' equity \$586,277 \$746,873
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DOLBY LABORATORIES, INC.

RECONCILIATION OF PRO FORMA NET INCOME TO ACTUAL NET INCOME

Fiscal Quarter
Ended

Fiscal Year Ended

September September September September
30, 2005 29, 2006 30, 2005 29, 2006

(unaudited)
(in thousands, except per share
amounts)

Net income \$ 16,808 \$ 25,217 \$ 52,293 \$ 89,549
Add:

Royalties payable to Ray
Dolby (net of taxes) - - 11,123 -

Pro forma net income \$ 16,808 \$ 25,217 \$ 63,416 \$ 89,549
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Basic shares outstanding 103,655 106,964 96,969 105,688
Diluted shares outstanding 110,499 112,150 104,220 111,658

Basic net income per share \$ 0.16 \$ 0.24 \$ 0.54 \$ 0.85
Diluted net income per share \$ 0.15 \$ 0.22 \$ 0.50 \$ 0.80

Basic pro forma net income per
share \$ 0.16 \$ 0.24 \$ 0.65 \$ 0.85
Diluted pro forma net income
per share \$ 0.15 \$ 0.22 \$ 0.61 \$ 0.80

SOURCE: Dolby Laboratories, Inc.

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