



Dolby Laboratories Reports Record Revenue for Second Quarter of Fiscal 2005; Company Issues Full-Year Guidance

SAN FRANCISCO, May 05, 2005 (BUSINESS WIRE) -- In its first earnings report as a public company, Dolby Laboratories (NYSE:DLB) today announced the Company's financial results for the second quarter of fiscal 2005 ended April 1, 2005. For the second quarter, Dolby reported total revenue of \$85.1 million, the highest quarterly revenue in its 40-year history, compared to \$78.7 million for the second quarter of fiscal 2004. Second-quarter net income was \$10.3 million, or \$0.10 per diluted share compared to \$12.4 million, or \$0.14 per diluted share for the second quarter of fiscal 2004. Per-share calculations are based on 105.5 million diluted shares in the second quarter of fiscal 2005 compared with 91.0 million diluted shares in the comparable year-ago quarter as a result of the Company's IPO in February 2005.

"We are very pleased with this quarter's results. Revenue was at a record quarterly level, driven by continued growth in licensees' sales of DVD-related products," said Bill Jasper, Dolby Laboratories' President and Chief Executive Officer. "During the second quarter we continued to make significant investments in our infrastructure to support anticipated growth and to meet the needs of being a public company. We also remain focused on the future through research and development as we strive to bring new high-quality entertainment technologies to the market."

On a pro forma basis, second-quarter net income was \$14.9 million, or \$0.14 per diluted share, compared to \$18.5 million, or \$0.20 per diluted share last year. Pro forma results exclude the effect of royalties payable to the Company's founder for the use of intellectual property rights under licensing agreements, which discontinued as of February 2005. These amounts were \$7.7 million and \$10.0 million in the second quarter of fiscal 2005 and 2004, respectively.

The second-quarter 2005 results included the Company's continued investment in its infrastructure, research and development, and stock-based compensation expense. Stock-based compensation expense was \$5.3 million, compared to \$2.1 million for the second quarter of fiscal 2004.

Operating highlights during the quarter include:

- Raised \$247 million in initial public offering on the New York Stock Exchange effective on February 16, 2005.
- Company founder and Chairman Ray Dolby contributed intellectual property rights to the Company, eliminating future royalty obligations.
- Debuted Dolby(R) Digital Cinema system at ShoWest in Las Vegas.
- All films nominated for 2004 Oscars(R) in the Sound Editing and Sound Mixing categories incorporated Dolby Digital or Dolby Digital Surround EX(TM) technology.

Business Outlook

For fiscal 2005, revenue is expected to be in the range of \$335 million to \$350 million, compared to \$289 million in fiscal 2004. Net income for fiscal 2005 is expected to be between \$49 million and \$55 million, compared to \$39.8 million in fiscal 2004. Pro forma net income for fiscal 2005 is expected to be between \$60 million and \$67 million, compared to pro forma net income of \$63.3 million in fiscal 2004. Earnings per diluted share for the full fiscal year 2005 are expected to be in the range of \$0.45 to \$0.51 and, on a pro forma basis, \$0.55 to \$0.62. This compares to \$0.43 per diluted share and \$0.68 per diluted share, pro forma, in fiscal 2004. Stock-based compensation expense for the full year is expected to be between \$14 million and \$15 million. EPS is estimated on a diluted share count of 108 million shares.

As noted in its prospectus, the Company's operating results may fluctuate due to a number of factors outside of the Company's control. Because the Company does not manufacture or sell the products that drive the licensing business, there is limited ability to control the timing of revenue on a quarterly basis. As a result, the business is managed over the long-term, focusing on year-over-year growth. Therefore, the Company's policy is to provide guidance for the full year.

Pro Forma Information

Throughout the Company's history, 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. The Company provides this information because it believes the pro forma presentation more accurately reflects the Company's financial position going forward. A reconciliation of the Company's actual results to its pro forma results is included in this release.

Conference Call Information

Today, beginning at 2:00 p.m. PDT, Bill Jasper, President and CEO, and Marty Jaffe, Executive Vice President Business and Finance, will lead a conference call open to all interested parties to discuss the quarterly results and answer analysts' and portfolio managers' questions.

Access to the teleconference is available over the Internet from <http://investor.dolby.com/medialist.cfm> or by dialing 800-810-0924 (international callers can access the call by dialing 913-981-4900).

A replay of the call will be available until May 13 by dialing 888-203-1112 (international callers can access the replay by dialing 719-457-0820) and entering confirmation code number 8477436. An archived version of the teleconference will also be available on www.dolby.com.

About Dolby Laboratories

Dolby Laboratories (NYSE: DLB) develops and delivers products and technologies that make the entertainment experience more realistic and immersive. For nearly 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.

Certain statements in this press release, including statements relating to Dolby's expectations regarding revenue and earnings per share for the fiscal year ending September 30, 2005, its expectations regarding future growth and its expectations regarding bringing entertainment technologies to the market in the future 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. These risks and uncertainties include, without limitation, the following: risks associated with Dolby's ability to maintain and strengthen the Dolby brand; the growth in sales by consumer electronics products manufacturers of 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 and deliver innovative technologies in response to changes in the entertainment industry; risks associated with Dolby's ability to have its products and technologies adopted as industry standards; Dolby's ability to enforce its intellectual property rights; Dolby's ability to develop, maintain and strengthen relationships with industry participants; Dolby's ability to have semiconductor manufacturers incorporate Dolby's technologies into their ICs; the growth of markets for surround sound technologies; competition risks; pricing pressures; 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 operating Dolby's business internationally; risks associated with licensing certain of Dolby's technologies in patent pools; Dolby's ability to develop proprietary technology in markets in which open standards are adopted; risks associated with the health of the motion picture industry generally; the growth of the market for digital cinema; Dolby's ability to expand our business into non-sound technologies; and other risks detailed in Dolby's Securities and Exchange Commission filings and reports, including, its registration statement on Form S-1, as amended, filed in connection with its initial public offering. Dolby disclaims any obligation to update information contained in these forward-looking statements whether as a result of new information, future events or otherwise.

Dolby and the double-D symbol are registered trademarks of Dolby Laboratories. Surround EX is a trademark of Dolby Laboratories. S05/16289. DLB-F

DOLBY LABORATORIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
March 26, 2004	April 1, 2005	March 26, 2004	April 1, 2005

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

Revenue:

Licensing	\$58,948	\$64,717	\$106,747	\$126,908
Product sales	14,386	14,807	27,778	31,294
Production services	5,357	5,577	9,589	11,162

Total revenue	78,691	85,101	144,114	169,364
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Cost of revenue:

Cost of licensing	15,105	14,062	27,886	30,211
Cost of product sales(1)	7,717	7,472	14,613	16,284
Cost of production services(1)	1,931	2,181	3,518	4,196

Total cost of revenue	24,753	23,715	46,017	50,691
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Gross margin	53,938	61,386	98,097	118,673
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Operating expenses:

Selling, general and administrative(1)	26,301	35,610	46,393	68,467
Research and development(1)	5,700	7,740	10,634	16,029
Settlements	-	-	-	(2,000)
In-process research and development	1,540	-	1,540	-

Total operating expenses	33,541	43,350	58,567	82,496
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Operating income	20,397	18,036	39,530	36,177
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Other income, net	156	751	380	1,038
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Income before provision for income taxes and controlling interest

	20,553	18,787	39,910	37,215
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Provision for income taxes	8,124	8,000	14,949	15,743
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Income before controlling interest

	12,429	10,787	24,961	21,472
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Controlling interest in net income	(70)	(457)	(356)	(765)
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Net income	\$12,359	\$10,330	\$24,605	\$20,707
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Basic net income per share	\$0.14	\$0.11	\$0.29	\$0.23
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Diluted net income per share	\$0.14	\$0.10	\$0.27	\$0.20
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Shares used in the calculation of basic net income per share	85,432	94,806	85,221	90,649
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Shares used in the calculation of diluted net income per share	90,986	105,544	90,770	101,573
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(1) Stock-based compensation was classified as follows:

Cost of product sales	\$-	\$56	\$-	\$110
Cost of production services	-	30	-	56
Selling, general and administrative	2,130	4,603	2,134	6,790

Research and development	-	570	-	1,251

Total stock-based compensation	\$2,130	\$5,259	\$2,134	\$8,207
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DOLBY LABORATORIES, INC.
PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS

Pro Forma

	Fiscal Quarter Ended		Fiscal Year-To-Date Ended	
	March 26, 2004	April 1, 2005	March 26, 2004	April 1, 2005
	(unaudited)			
	(in thousands, except per share amounts)			
Revenue:				
Licensing	\$58,948	\$64,717	\$106,747	\$126,908
Product sales	14,386	14,807	27,778	31,294
Production services	5,357	5,577	9,589	11,162

Total revenue	78,691	85,101	144,114	169,364
Cost of revenue:				
Cost of licensing	5,917	6,789	10,585	12,787
Cost of product sales (1)	6,946	7,088	13,085	14,998
Cost of production services (1)	1,931	2,181	3,518	4,196

Total cost of revenue	14,794	16,058	27,188	31,981
Gross margin	63,897	69,043	116,926	137,383
Operating expenses:				
Selling, general and administrative (1)	26,301	35,610	46,393	68,467
Research and development(1)	5,700	7,740	10,634	16,029
Settlements	-	-	-	(2,000)
In-process research and development	1,540	-	1,540	-

Total operating expenses	33,541	43,350	58,567	82,496
Operating income	30,356	25,693	58,359	54,887
Other income, net	156	751	380	1,038

Income before provision for income taxes and controlling interest	30,512	26,444	58,739	55,925
Provision for income taxes	11,992	11,070	22,235	23,330

Income before controlling interest	18,520	15,374	36,504	32,595
Controlling interest in net income	(70)	(457)	(356)	(765)

Net income	\$18,450	\$14,917	\$36,148	\$31,830

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Basic net income per share	\$0.22	\$0.16	\$0.42	\$0.35
Diluted net income per share	\$0.20	\$0.14	\$0.40	\$0.31
Shares used in the calculation of basic net income per share	85,432	94,806	85,221	90,649
Shares used in the calculation of diluted net income per share	90,986	105,544	90,770	101,573

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

Cost of product sales	\$-	\$56	\$-	\$110
Cost of production services	-	30	-	56
Selling, general and administrative	2,130	4,603	2,134	6,790
Research and development	-	570	-	1,251
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Total stock-based compensation	\$2,130	\$5,259	\$2,134	\$8,207
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DOLBY LABORATORIES, INC.
CONSOLIDATED BALANCE SHEETS

Sept. 24, April 1,
2004 2005

(unaudited)
(in thousands)

ASSETS

Current assets:

Cash and cash equivalents	\$78,711	\$350,650
Accounts receivable, net	18,257	18,824
Accounts receivable from related parties	1,927	225
Inventories	7,163	8,195
Income tax receivable	4,246	145
Deferred income taxes	30,813	34,593
Prepaid expenses and other current assets	3,640	3,038
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Total current assets	144,757	415,670
Property, plant and equipment, net	72,333	78,028
Intangible assets, net	6,778	18,109
Goodwill	22,030	23,200
Long-term deferred income taxes	6,669	6,812
Other assets	9,299	8,122
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Total assets	\$261,866	\$549,941
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued liabilities	\$56,540	\$62,392
Accounts payable and accrued royalties due to related parties	291	7,688

Income taxes payable	3,793	2,348
Current portion of debt	1,290	1,347
Deferred revenue	2,562	2,544
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Total current liabilities	64,476	76,319
Long-term debt	13,580	13,131
Other non-current liabilities	23,283	23,723
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Total liabilities	101,339	113,173
Controlling interest	17,200	18,257
Stockholders' equity:		
Class A common stock	-	32
Class B common stock	87	71
Additional paid-in capital	48,731	300,963
Deferred stock-based compensation	(33,728)	(32,745)
Retained earnings	125,076	145,783
Accumulated other comprehensive income	3,161	4,407
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Total stockholders' equity	143,327	418,511
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Total liabilities and stockholders' equity	\$261,866	\$549,941
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DOLBY LABORATORIES, INC.
RECONCILIATION OF PRO FORMA STATEMENTS OF OPERATIONS

Fiscal Quarter Ended
April 1, 2005

	Actual	Effect of Related Party Royalty Agreements	Pro Forma

	(unaudited)		
	(in thousands, except per share amounts)		
Revenue:			
Licensing	\$64,717	\$-	\$64,717
Product sales	14,807	-	14,807
Production services	5,577	-	5,577

Total revenue	85,101	-	85,101
Cost of revenue:			
Cost of licensing	14,062	(7,273)	6,789
Cost of product sales	7,472	(384)	7,088
Cost of production services	2,181	-	2,181

Total cost of revenue	23,715	(7,657)	16,058
Gross margin	61,386	7,657	69,043
Operating expenses:			
Selling, general and administrative	35,610	-	35,610
Research and development	7,740	-	7,740
Settlements	-	-	-

Total operating expenses	43,350	-	43,350

Operating income	18,036	7,657	25,693
Other income, net	751	-	751

Income before provision for income taxes and controlling interest	18,787	7,657	26,444
Provision for income taxes	8,000	3,070	11,070

Income before controlling interest	10,787	4,587	15,374
Controlling interest in net income	(457)	-	(457)

Net income	\$10,330	\$4,587	\$14,917
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Basic net income per share	\$0.11	\$0.05	\$0.16
Diluted net income per share	\$0.10	\$0.04	\$0.14
Shares used in the calculation of basic net income per share	94,806		94,806
Shares used in the calculation of diluted net income per share	105,544		105,544

Fiscal Year-To-Date Ended
April 1, 2005

Actual	Effect of Related Party Royalty Agreements	Pro Forma

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

Revenue:			
Licensing	\$126,908	\$-	\$126,908
Product sales	31,294	-	31,294
Production services	11,162	-	11,162

Total revenue	169,364	-	169,364
Cost of revenue:			
Cost of licensing	30,211	(17,424)	12,787
Cost of product sales	16,284	(1,286)	14,998
Cost of production services	4,196	-	4,196

Total cost of revenue	50,691	(18,710)	31,981
Gross margin	118,673	18,710	137,383
Operating expenses:			
Selling, general and administrative	68,467	-	68,467
Research and development	16,029	-	16,029
Settlements	(2,000)	-	(2,000)

Total operating expenses	82,496	-	82,496

Operating income	36,177	18,710	54,887
Other income, net	1,038	-	1,038

Income before provision for income taxes and controlling interest	37,215	18,710	55,925

Provision for income taxes	15,743	7,587	23,330
Income before controlling interest	21,472	11,123	32,595
Controlling interest in net income	(765)	-	(765)
Net income	\$20,707	\$11,123	\$31,830
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Basic net income per share	\$0.23	\$0.12	\$0.35
Diluted net income per share	\$0.20	\$0.11	\$0.31
Shares used in the calculation of basic net income per share	90,649		90,649
Shares used in the calculation of diluted net income per share	101,573		101,573

DOLBY LABORATORIES, INC.
RECONCILIATION OF PRO FORMA STATEMENTS OF OPERATIONS

Fiscal Quarter Ended March 26, 2004

	Actual	Effect of Related Party Royalty Agreements	Pro Forma

(unaudited)			
(in thousands, except per share amounts)			
Revenue:			
Licensing	\$ 58,948	\$ -	\$ 58,948
Product sales	14,386	-	14,386
Production services	5,357	-	5,357

Total revenue	78,691	-	78,691
Cost of revenue:			
Cost of licensing	15,105	(9,188)	5,917
Cost of product sales	7,717	(771)	6,946
Cost of production services	1,931	-	1,931

Total cost of revenue	24,753	(9,959)	14,794
Gross margin	53,938	9,959	63,897
Operating expenses:			
Selling, general and administrative	26,301	-	26,301
Research and development	5,700	-	5,700
Settlements	-	-	-
In-process research and development	1,540	-	1,540

Total operating expenses	33,541	-	33,541
Operating income	20,397	9,959	30,356
Other income, net	156	-	156

Income before provision for income taxes and controlling interest	20,553	9,959	30,512

Provision for income taxes	8,124	3,868	11,992
Income before controlling interest	12,429	6,091	18,520
Controlling interest in net income	(70)	-	(70)
Net income	\$ 12,359	\$ 6,091	\$ 18,450

Basic net income per share	\$ 0.14	\$ 0.08	\$ 0.22
Diluted net income per share	\$ 0.14	\$ 0.06	\$ 0.20
Shares used in the calculation of basic net income per share	85,432		85,432
Shares used in the calculation of diluted net income per share	90,986		90,986

Fiscal Year-To-Date Ended
March 26, 2004

	Actual	Effect of Related Party Royalty Agreements	Pro Forma
Revenue:			
Licensing	\$106,747	\$-	\$106,747
Product sales	27,778	-	27,778
Production services	9,589	-	9,589
Total revenue	144,114	-	144,114
Cost of revenue:			
Cost of licensing	27,886	(17,301)	10,585
Cost of product sales	14,613	(1,528)	13,085
Cost of production services	3,518	-	3,518
Total cost of revenue	46,017	(18,829)	27,188
Gross margin	98,097	18,829	116,926
Operating expenses:			
Selling, general and administrative	46,393	-	46,393
Research and development	10,634	-	10,634
Settlements	-	-	-
In-process research and development	1,540	-	1,540
Total operating expenses	58,567	-	58,567
Operating income	39,530	18,829	58,359
Other income, net	380	-	380
Income before provision for income taxes and controlling interest	39,910	18,829	58,739
Provision for income taxes	14,949	7,286	22,235
Income before controlling interest	24,961	11,543	36,504
Controlling interest in net income	(356)	-	(356)
Net income	\$24,605	\$11,543	\$36,148

Basic net income per share	\$0.29	\$0.13	\$0.42
Diluted net income per share	\$0.27	\$0.13	\$0.40
Shares used in the calculation of basic net income per share	85,221		85,221
Shares used in the calculation of diluted net income per share	90,770		90,770

SOURCE: Dolby Laboratories

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