

# FOR IMMEDIATE RELEASE

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## **Investor Relations Contact**

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# **QSound Labs Reports Fourth Quarter and Year End Results for 2006**

**Calgary, Alberta, March 8, 2007 -** QSound Labs, Inc. (NASDAQ: QSND), a leading developer of audio and voice software solutions, today reported financial results for the fourth quarter of FY2006. For the three months ended December 31, 2006, the consolidated revenues were \$543,000 as compared to \$403,000 for the same quarter in FY2005. The net loss for the fourth quarter, computed in accordance with US generally accepted accounting principles ("GAAP") was \$(499,000) or \$(0.05) per share as compared to \$(556,000) or \$(0.06) per share for the same period in FY2005.

Consolidated revenues for the year ended December 31, 2006 were \$1,989,000 compared to \$1,543,000 for the same period in FY2005. GAAP net loss for the year was \$(1,682,000) or \$(0.18) per share as compared to \$(2,632,000) or \$(0.31) per share in FY2005. Included in operating expenses for the year ended December 31, 2006 is \$461,000 (2005 - \$652,000) of non cash items, namely stock based compensation, impairment charges and debt discount accretion expenses, none of which management believes relate to continuing operations.

As the Company continued in 2006 to make progress in marketing its microQ technology to the mobile device market, revenues increased thus narrowing the loss for 2006 to \$1.7 million compared to \$2.6 million in 2005. Licensing revenues increased by 60% (\$636,000) in 2006, due primarily to new license agreements for microQ. Product sales, primarily iQfx downloads from the RealNetworks web site, declined by 39% (\$190,000). Moving to a more royalty and license fee derived revenue stream has resulted in an increase in gross margin from 81% in 2004 to 88% in 2005 and 98% in 2006.

Working capital at December 31, 2006 increased to \$2.3 million from \$1.5 at December 31, 2005. This was due to an increase in cash resulting from the Convertible Note financing and the exercise of warrants by a strategic partner during 2006.

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## **QSound Labs, Inc.**

Head Office & Technical Research Facility: #400, 3115 - 12th Street NE Calgary, Alberta, Canada T2E 7J2 Tel: +1-403-291-2492 • Fax: +1-403-250-1521 • Email: info@qsound.com www.qsound.com Working capital at December 31, 2006 increased to \$2.3 million from \$1.5 at December 31, 2005. This was due to an increase in cash resulting from the Convertible Note financing and the exercise of warrants by a strategic partner during 2006.

## 2007 Outlook

"The fourth quarter of 2006 produced tangible evidence of the progress that the Company has made in penetrating the mobile device market," stated David Gallagher, President and CEO of QSound Labs. "Highlights include:

- Completion of the first phase of the ARM partnership, wherein the engineering teams of both companies co-operated to produce optimized libraries of the microQ product suite. The marketing for this new product line will commence in the first quarter of 2007.
- First shipments of high volume feature phones by a QSound platform licensee occurred at the end of 2006 with the introduction by LG Mobile of the Infineon based EDGE mobile phones. Currently, seven models have been released with the expectation of more to come in 2007.
- UTStarcom has now shipped 5 PHS mobile phone models into the China market using microQ technology.
- Panasonic shipped the 705P with SoftBank in Japan and has plans to release the 706P in the first quarter of 2007.
- The increased participation with Partner programs with companies such as Marvell, Access and Trolltech will heighten the awareness of the microQ technology and build on the current market momentum.
- New platforms, now available, from HiSilicon and Broadcom, represent further opportunity for handset design wins in 2007.
- Qualcomm continues to offer QSound technology for its advanced multimedia platforms.
- The partnership announcement with ST Micro creates a springboard for increased license activity in the consumer electronic market in 2007, in particular digital TV.
- Prima TV has announced that their 1080p LCD TV models shipped in 2007 will incorporate our QSurround HD technology.

For 2007, our goal continues to be the marketing of microQ to mobile device platform providers and to build upon our new relationships within the consumer electronics market."

## **QSound Labs, Inc. - Forward-Looking Statements**

This release contains forward-looking statements concerning, among other things, expectation in 2007 of increased shipments of mobile devices using microQ, increased license activity in the consumer electronics market, and start of marketing of ARM optimized microQ libraries. Investors are cautioned that such forward-looking statements involve risk and uncertainties, which could cause actual results, performance or achievements of QSound, or industry results to differ materially from those reflected in the forward-looking statements. Such risks and uncertainties include, but are not limited to, risks associated with loss of relationships with companies that do business with QSound as partners and licensees, successful distribution of QSound enabled products by licensees, QSound's ability to carry out its business strategy and marketing plans, dependence on intellectual property, rapid technological change, competition, general economic and business conditions, continued growth of multimedia usage in the mobile devices market and other risks detailed from time to time in QSound's periodic reports filed with the Securities and Exchange Commission. Forward-looking statements are based on the current expectations, projections and opinions of QSound's management, and QSound undertakes no obligation to publicly release the results of any revisions to such forward-looking statements which may be made, for example to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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# Consolidated

# **Balance sheets**

December 31, 2006 and 2005

(Expressed in United States dollars under United States GAAP)

	2006		2005
	(unaudited)		
ASSETS			
Current assets		•	
Cash and cash equivalents \$	2,316,476	\$	1,222,729
Accounts receivable (net) and accrued revenue	316,298		401,524
Note receivable	6,000		82,648
Inventory	19,422		40,438
Deposits and prepaid expenses	60,933		76,146
	2,719,129		1,823,485
Note receivable	55,325		-
Property and equipment	348,280		670,635
Deferred development costs	253,147		271,879
Intangible assets	98,351		155,445
\$	3,474,232	\$	2,921,444
LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities Accounts payable and accrued liabilities Deferred revenue \$	268,439 45,572	\$	285,786 45,011
	314,011		330,797
Convertible note	84,949		
	398,960		330,797
Shareholders' equity			
Share capital	47,411,000		46,181,113
Warrants	1,027,114		903,738
Contributed surplus	2,854,038		2,041,001
Deficit	(48,216,880)		(46,535,205)
	3,075,272		2,590,647
\$	3,474,232	\$	2,921,444

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# **Consolidated** Statements of Operations and Deficit

For the periods ended December 31, 2006 and 2005

(Expressed in United States dollars under United States GAAP)

		For the three		For the three		For the year		For the year
		months ended December 31.		months ended December 31,		ended December 31,		ended December 31,
		2006		2005		2006		2005
		(unaudited)		(unaudited)		(unaudited)		2005
REVENUE		(unauditeu)		(unaudited)		(unauditeu)		
Royalties, license and engineering								
fees	\$	473,591	\$	297,918	\$	1,692,669	\$	1,056,509
Product sales	Ψ	69,814	Ψ	105,097	Ψ	296,361	Ψ	486,731
		00,011		100,007		200,001		100,701
		543,405		403,015		1,989,030		1,543,240
Cost of product sales		27,200		97,486		40,088		179,781
		· · · ·		· · · · ·		· · · · ·		· · · · ·
		516,205		305,529		1,948,942		1,363,459
EXPENSES								
Marketing		385,994		208,364		1,157,573		999,875
Operations		31,149		64,168		136,386		216,409
Product engineering		190,080		318,644		819,277		1,032,921
Administration		252,237		265,208		971,571		882,722
Foreign exchange loss (gain)		25,348		(501)		25,912		2,832
Amortization		74,833		83,605		311,201		360,898
Impairment of property and				(				
equipment		41,952		(46,594)		167,809		89,754
Impairment of intangible assets		-		(18,821)				428,453
		1,001,593		874,073		3,589,729		4,013,864
Loss before other items		(485,388)		(568,544)		(1,640,787)		(2,650,405)
OTHER ITEMS								
Interest income		29,688		15,742		85,686		56,700
interest income		29,000		13,742		00,000		50,700
Interest on convertible debt		(20,795)		_		(61,336)		-
Accretion expense		(4,205)		_		(12,752)		_
Other		( ,		1,319		(1,637)		(163)
						<b>x</b>		
		4,688		17,061		9,961		56,537
Loss before taxes		(480,700)		(551,483)		(1,630,826)		(2,593,868)
Foreign withholding tax		(18,418)		(4,611)		(1,030,020) (50,849)		(2,000,000)
		(10,110)		(1,011)		(00,010)		(07,711)
Net loss for the period		(499,118)		(556,094)		(1,681,675)		(2,631,579)
Deficit, beginning of period		(47,717,762)		(45,979,111)		(46,535,205)		(43,903,626)
- energian ing or portou		(11,11,102)		(10,010,111)		(10,000,200)		(10,000,020)

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# **Consolidated** Statements of Cash Flows

For the years ended December 31, 2006 and 2005

(Expressed in United States dollars under United States GAAP)

(Expressed in United States do	llar	s under Unite	αε	tates GAAP)		
		For the three		For the three	For the year	For the year
		months ended		months ended	ended	ended
		December 31,		December 31,	December 31,	December 31,
		2006		2005	2006	2005
		(unaudited)		(unaudited)	(unaudited)	
Cash provided by (used in):						
OPERATIONS						
Loss for the period	\$	(499,118)	\$	(556,094)	\$ (1,681,675)	\$ (2,631,579)
Items not requiring cash:						
Amortization		74,833		83,605	311,201	360,898
Stock based compensation		64,476		36,979	380,614	134,793
Impairment of property and equipment		41,952		(19,304)	167,809	89,754
Impairment of intangible assets		_		(18,821)	-	428,453
Accretion expense		4,205		_	12,752	_
Other		22,766		-	(4,022)	-
Changes in non-cash working capital						
balances		240,379		347,989	104,669	(57,747)
		(50,507)		(125,646)	(708,652)	(1,675,428)
FINANCING						
Issuance of common shares, net		76,101		111,295	857,883	165,008
Proceeds from convertible debt				· _	1,000,000	· _
		76,101		111,295	1,857,883	165,008
INVESTMENTS						
Note receivable		-		(82,648)	26,442	(82,648)
Purchase of property and equipment		(16,346)		(53,457)	(42,426)	(188,890)
Deferred development costs				(271,879)	(39,500)	(271,879)
Purchase of intangible assets		(554)		(12,172)		(50,977)
		(16,900)		(420,156)	 (55,484)	(594,394)
Increase (decrease) in cash and cash equivalents		8,694		(434,507)	1,093,747	(2,104,814)
Cash and cash equivalents, beginning of period		2,307,782		1,657,236	1,222,729	3,327,543
period		2,307,702		1,007,200	 1,222,729	 5,527,545
Cash and cash equivalents, end of period	\$	2,316,476	\$	1,222,729	\$ 2,316,476	\$ 1,222,729

Notice to Reader:

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