FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2011-11-07** | Period of Report: **2011-09-30**
SEC Accession No. 0001047469-11-009151

FILER

DTS, INC.

CIK:**1226308**| IRS No.: **770467655** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-50335** | Film No.: **111185093**
SIC: **3651** Household audio & video equipment

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2011

Commission File Number 000-50335

DTS, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**77-0467655**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5220 Las Virgenes Road **Calabasas, California 91302** (Address of principal executive offices and zip code)	**(818) 436-1000** (Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
☐	☒	☐ (Do not check if a smaller reporting company)	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 28, 2011 a total of 16,703,150 shares of the Registrant's Common Stock, $0.0001 par value, were outstanding.

DTS, INC.

FORM 10-Q

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DTS, INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

DTS, INC.

CONSOLIDATED BALANCE SHEETS

	As of September 30, 2011	As of December 31, 2010
	(Unaudited) (Amounts in thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 34,945	$ 41,744
Short-term investments	50,850	54,387
Accounts receivable, net of allowance for doubtful accounts of $334 and $226 at September 30, 2011 and December 31, 2010, respectively	3,342	6,078
Deferred income taxes	5,447	5,551
Prepaid expenses and other current assets	1,640	1,666
Income taxes receivable, net	2,814	2,099
Total current assets	99,038	111,525
Property and equipment, net	33,258	33,638
Intangible assets, net	6,839	7,525
Goodwill	1,257	1,257
Deferred income taxes	11,826	12,192
Long-term investments	2,635	5,313
Other assets	1,643	845
Total assets	$ 156,496	$ 172,295
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,103	$ 774
Accrued expenses	4,350	9,659
Deferred revenue	2,015	5,698
Total current liabilities	7,468	16,131
Other long-term liabilities	8,038	8,596
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock−$0.0001 par value, 5,000 shares authorized at September 30, 2011 and December 31, 2010; no shares issued and outstanding	–	–
Common stock−$0.0001 par value, 70,000 shares authorized at September 30, 2011 and December 31, 2010; 20,503 and 20,325 shares issued at	3	3

September 30, 2011 and December 31, 2010, respectively; 16,703 and 17,325 shares outstanding at September 30, 2011 and December 31, 2010, respectively		
Additional paid-in capital	189,625	180,708
Treasury stock, at cost−3,800 and 3,000 shares at September 30, 2011 and December 31, 2010, respectively	(101,733)	(74,923)
Accumulated other comprehensive income	614	491
Retained earnings	52,481	41,289
Total stockholders' equity	140,990	147,568
Total liabilities and stockholders' equity	$ 156,496	$ 172,295

See accompanying notes to consolidated financial statements.

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DTS, INC.

CONSOLIDATED STATEMENTS OF INCOME

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Unaudited) (Amounts in thousands, except per share amounts)			
Revenue	$20,546	$21,041	$67,910	$60,237
Cost of revenue	217	321	643	1,231
Gross profit	20,329	20,720	67,267	59,006
Operating expenses:				
Selling, general and administrative	12,784	12,238	39,608	36,364
Research and development	3,364	2,842	9,759	8,157
Total operating expenses	16,148	15,080	49,367	44,521
Operating income	4,181	5,640	17,900	14,485
Interest and other income, net	348	32	322	383
Income from continuing operations before income taxes	4,529	5,672	18,222	14,868
Provision for income taxes	1,627	2,255	7,030	5,975
Income from continuing operations	2,902	3,417	11,192	8,893
Income (loss) from discontinued operations, net of tax	–	(9)	–	994
Net income	$ 2,902	$ 3,408	$11,192	$ 9,887
Net income per common share:				
Basic:				
Continuing operations	$ 0.17	$ 0.20	$ 0.65	$ 0.52
Discontinued operations	–	–	–	0.06
Net income	$ 0.17	$ 0.20	$ 0.65	$ 0.58
Diluted:				
Continuing operations	$ 0.17	$ 0.19	$ 0.63	$ 0.50
Discontinued operations	–	–	–	0.06
Net income	$ 0.17	$ 0.19	$ 0.63	$ 0.56
Weighted average shares used to compute net income per common share:				
Basic	16,910	16,897	17,131	17,053
Diluted	17,434	17,655	17,768	17,793

See accompanying notes to consolidated financial statements.

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DTS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine Months Ended September 30, 2011	2010
	(Unaudited) (Amounts in thousands)	
Cash flows from operating activities:		
Net income	$ 11,192	$ 9,887
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,867	3,659
Gain on sale of assets from discontinued operations	–	(2,000)
Stock-based compensation charges	6,756	5,366
Deferred income taxes	470	128
Tax benefits from stock-based awards	76	768
Excess tax benefits from stock-based awards	(30)	(699)
Other	362	59
Changes in operating assets and liabilities:		
Accounts receivable	2,633	(1,199)
Prepaid expenses and other assets	(809)	(136)
Accounts payable, accrued expenses and other liabilities	(4,622)	3,138
Deferred revenue	(4,643)	4,835
Income taxes receivable	(715)	(250)
Net cash provided by operating activities	14,537	23,556
Cash flows from investing activities:		
Purchases of held-to-maturity investments	(36,583)	(42,637)
Purchases of available-for-sale investments	(12,888)	–
Maturities of held-to-maturity investments	55,686	30,877
Sales of available-for-sale investments	–	2,250
Proceeds from the sale of assets from discontinued operations	–	2,000
Purchase of property and equipment	(2,443)	(2,574)
Purchase of intangible assets	(413)	(2,296)
Net cash provided by (used in) investing activities	3,359	(12,380)
Cash flows from financing activities:		
Proceeds from the issuance of common stock under stock-based compensation plans	3,596	8,425
Repurchase and retirement of common stock for restricted stock tax withholdings	(1,511)	(813)
Excess tax benefits from stock-based awards	30	699
Purchase of treasury stock	(26,810)	(28,358)
Net cash used in financing activities	(24,695)	(20,047)
Net decrease in cash and cash equivalents	(6,799)	(8,871)
Cash and cash equivalents, beginning of period	41,744	42,222
Cash and cash equivalents, end of period	$ 34,945	$ 33,351

See accompanying notes to consolidated financial statements.

DTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except per share data)

Note 1−Basis of Presentation

The accompanying unaudited consolidated financial statements of DTS, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, the unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair statement of the Company's financial position at September 30, 2011, and the results of operations and cash flows for the periods presented. All significant intercompany transactions have been eliminated in consolidation. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2011. The information included in this Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, filed on March 3, 2011.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Discontinued Operations

All discussions and amounts in the consolidated financial statements and related notes, except for cash flows, for all periods presented relate to continuing operations only, unless otherwise noted. For additional information, refer to Footnote 11 of the consolidated financial statements, "Discontinued Operations."

Note 2−Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04, "Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." ASU 2011-04 changes the wording used to describe the requirements in generally accepted accounting principles in the United States ("U.S. GAAP") for measuring fair value and for disclosing information about fair value measurements in order to improve consistency in the application and description of fair value between U.S. GAAP and International Financial Reporting Standards ("IFRS"). ASU 2011-04 clarifies how the concepts of highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets and are not relevant when measuring the fair value of financial assets or of liabilities. In addition, ASU 2011-04 expanded the disclosures for the unobservable inputs for Level 3 fair value measurements, requiring quantitative information to be disclosed related to (1) the valuation processes used, (2) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, and (3) use of a nonfinancial asset in a way that differs from the asset's highest and best use. ASU 2011-04

DTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Amounts in thousands, except per share data)

Note 2−Recent Accounting Pronouncements (Continued)

will be effective for the first interim and annual reporting period beginning after December 15, 2011 and early adoption is prohibited. The Company is currently evaluating the future impact of this new accounting update on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income: Presentation of Comprehensive Income." ASU 2011-05 will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU 2011-05 does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. ASU 2011-05 will be effective for the first interim and annual periods beginning after December 15, 2011. The Company believes the adoption of this guidance concerns disclosure only and will not have a material impact on its consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, "Testing Goodwill for Impairment." ASU 2011-08 will allow companies to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. ASU 2011-08 will be effective for annual and interim goodwill impairment tests performed for annual reporting period beginning after December 15, 2011, with early adoption permitted. The Company is currently evaluating this guidance, but does not expect the adoption will have a material impact on its consolidated financial statements.

(Amounts in thousands, except per share data)

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Note 3−Cash and Investments

Cash and investments consist of the following:

	As of September 30, 2011	As of December 31, 2010
Cash and cash equivalents:		
Cash	$ 13,775	$ 14,840
Money market accounts	17,265	17,846
U.S. government and agency securities	3,803	5,553
Municipal securities	102	3,505
Total cash and cash equivalents	$ 34,945	$ 41,744
Short-term investments:		
Available-for-sale securities:		
U.S. government and agency securities	$ 11,396	$ −
Held-to-maturity securities:		
Certificates of deposit	1,743	2,018
Commercial paper	2,573	5,648
U.S. government and agency securities	24,209	34,084
Municipal securities	10,929	12,637
Total short-term investments	$ 50,850	$ 54,387
Long-term investments:		
Available-for-sale securities:		
U.S. government and agency securities	$ 1,492	$ −
Held-to-maturity securities:		
Certificates of deposit	−	104
U.S. government and agency securities	−	5,051
Municipal securities	1,143	158
Total long-term investments	$ 2,635	$ 5,313

The Company had no material gross realized or unrealized holding gains or losses from its investments in securities classified as available-for-sale or held-to-maturity for the periods presented within this quarterly report.

DTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Amounts in thousands, except per share data)

Note 3−Cash and Investments (Continued)

The contractual maturities of investments at September 30, 2011 are as follows:

Available-for-sale securities:	
Due within one year	$ 11,396
Due after one year and through five years	1,492
	12,888
Held-to-maturity securities:	
Due within one year	39,454
Due after one year and through five years	1,143
	40,597
Total investments	$ 53,485

For additional information on investments classified as available-for-sale, refer to Footnote 4 of the consolidated financial statements, "Fair Value Measurements."

Note 4−Fair Value Measurements

During the second quarter of 2011, the Company began purchasing and classifying certain investments in U.S. government and agency securities as available-for-sale, and thus, these securities are required to be measured at fair value on a recurring basis. All other investments are classified as held-to-maturity and reported at amortized cost.

The Company obtained the fair value of its available-for-sale securities, which are not in active markets, from a third-party professional pricing service using quoted market prices for identical or comparable instruments, rather than direct observations of quoted prices in active markets. The Company's professional pricing service gathers observable inputs for all of its fixed income securities from a variety of industry data providers (e.g. large custodial institutions) and other third-party sources. Once the observable inputs are gathered, all data points are considered and the fair value is determined.

The Company validates the quoted market prices provided by its primary pricing service by comparing their assessment of the fair values against the fair values provided by its investment managers. The Company's investment managers use similar techniques to its professional pricing service to derive pricing as described above.

As all significant inputs were observable, derived from observable information in the marketplace or supported by observable levels at which transactions are executed in the marketplace, the Company has classified its available-for-sale securities within Level 2 of the fair value hierarchy as of September 30, 2011.

DTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Amounts in thousands, except per share data)

Note 4−Fair Value Measurements (Continued)

The Company's financial assets, measured at fair value on a recurring basis as of September 30, 2011, were as follows:

		Fair Value Measurements at Reporting Date Using		
Available-for-sale securities	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
U.S. government and agency securities	$12,888	$ −	$ 12,888	$ −

Note 5−Property and Equipment

Property and equipment consist of the following:

	As of September 30, 2011	As of December 31, 2010
Land	$ 6,600	$ 6,600
Building and improvements	21,226	21,057
Machinery and equipment	3,269	2,854
Office furniture and fixtures	5,613	5,045
Leasehold improvements	2,218	1,527
Software	5,887	5,647
	44,813	42,730
Less: Accumulated depreciation	(11,555)	(9,092)
Property and equipment, net	$ 33,258	$ 33,638

Note 6−Commitments and Contingencies

Indemnities, Commitments and Guarantees

In the normal course of business, the Company makes certain indemnities, commitments and guarantees under which the Company may be required to make payments in relation to certain transactions. These indemnities, commitments and guarantees include, among others, intellectual property indemnities to customers in connection with the sale of products and licensing of technologies, indemnities for liabilities associated with the infringement of other parties' technology based upon the Company's products and technologies, guarantees of timely performance of the Company's obligations, and indemnities to the Company's directors and officers to the maximum extent permitted by law. The duration of these indemnities, commitments and guarantees varies, and in certain cases, is indefinite. The majority of these indemnities, commitments and guarantees do not provide for any limitation of the maximum potential future payments that the Company could be obligated to make. The Company

DTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Amounts in thousands, except per share data)

Note 6−Commitments and Contingencies (Continued)

has not recorded a liability for these indemnities, commitments or guarantees in the accompanying consolidated balance sheets, as future payment is currently not probable.

Note 7−Income Taxes

For the three months ended September 30, 2011, the Company recorded an income tax provision of $1,627 on pre-tax income from continuing operations of $4,529. For the nine months ended September 30, 2011, the Company recorded an income tax provision of $7,030 on pre-tax income from continuing operations of $18,222, which resulted in an annualized effective tax rate of 39%. This rate differed from the U.S. statutory rate of 35% primarily due to state income taxes and reserves for U.S. federal and state tax audits, partially offset by the reversal of reserves for U.S. federal and foreign audit issues that have been effectively settled and the effects of foreign operations, as our tax rates on those operations are generally lower than the U.S. statutory rate.

Other long-term liabilities at September 30, 2011 and December 31, 2010, included unrecognized tax benefits of $7,626 and $7,271, respectively, for both domestic and foreign issues. The net increase of $355 was due primarily for uncertainties relating to the Company's transfer pricing with its foreign licensing subsidiary and California income apportionment methodology. The Company believes that its accruals for uncertain tax positions are adequate for all open years, based on the assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter. Inherent uncertainties exist in estimating accruals for uncertain tax positions due to the progress of income tax audits and changes in tax law, both legislated and concluded through the various jurisdictions' tax court systems.

The Company may, from time to time, be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to the Company's financial results. In accordance with the Company's accounting policy, interest expense and penalties related to income taxes are included in income tax expense.

The Company, or one of its subsidiaries, files income tax returns in the U.S. and other foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal income tax examinations by tax authorities for the years prior to 2007. The Internal Revenue Service ("IRS") is examining the Company's 2007 federal income tax return, including certain prior period carryforwards. In addition, the California Franchise Tax Board ("FTB") is conducting a state tax examination for the years 2004 and 2005. The Company disagrees with and has protested certain adjustments proposed by the IRS and FTB, and thus, has filed separate appeals. The timing of the ultimate resolution of these matters cannot be reasonably estimated.

Licensing revenue is recognized gross of withholding taxes that are remitted by the Company's licensees directly to their local tax authorities. For the three months ended September 30, 2011 and 2010, withholding taxes were $1,157 and $1,209, respectively. For the nine months ended September 30, 2011 and 2010, withholding taxes were $3,944 and $3,516, respectively.

DTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Amounts in thousands, except per share data)

Note 8−Stock-Based Compensation

On February 27, 2011, the Compensation Committee of the Board of Directors of the Company approved market stock unit agreements ("MSU Agreements") for the grant of certain performance-based equity awards under the Company's 2003 Stock Plan.

Pursuant to the MSU Agreements, units payable in shares of common stock (the "Units") will vest based on the attainment of certain performance criteria regarding both the Company's total shareholder return and the performance of the Company as measured against the performance of the NASDAQ Composite Total Return Index ("NASDAQ" or "XCMP") over a 3-year performance period. This 3-year performance period began on January 1, 2011 and ends on December 31, 2013, which aligns with the Company's fiscal year. In order for the Units to vest, the Company must first satisfy a vesting threshold, defined as the Company achieving a total shareholder return equal to the greater of (i) 15% adjusted for inflation (using the Consumer Price Index); and (ii) 20% over the performance period.

Assuming this vesting threshold is satisfied, the number of Units that vest will be determined by comparing the Company's performance to the performance of the NASDAQ for the performance period. If the Company's performance is 20% greater than the return for the NASDAQ, then the "baseline" number of Units will vest. If the Company's performance exceeds this baseline level of performance, then a greater number of Units will vest on a 2.5:1 basis for each percentage point that the Company's performance is above 20% greater than the performance of the NASDAQ. The maximum number of Units that may vest is equal to 200% of each individual's baseline number of Units.

If the Company outperforms the NASDAQ by at least 10%, but less than 20%, then the number of baseline Units that vest will be determined by reducing the baseline number for each individual on a 5:1 basis for the first five percentage points that the Company's performance is less than 20% greater than the performance of the NASDAQ and on a 15:1 basis for the next five percentage points that the Company's performance is less than 15% greater than the performance of the NASDAQ, such that if the Company outperforms NASDAQ by 10% or less, the number of Units that vest will be zero.

If a "fundamental transaction" (as defined in the 2003 Stock Plan, as amended) occurs prior to the end of the 3-year performance period, the performance period will end as of the consummation of the fundamental transaction and the pro rata portion of the Units, if any, that vest under the formulae described above will immediately vest, with the remainder of such Units vesting ratably over the remainder of the 3-year period (with accelerated vesting if a grantee is terminated without "cause" or quits with "good reason" after the fundamental transaction).

Since the vesting of these performance-based equity awards is subject to market conditions, these awards were measured on the date of grant using the Monte Carlo simulation model. The Monte Carlo simulation model utilizes multiple input variables that determine the probability of satisfying the market conditions stipulated in the award grant and calculates the fair market value for the performance units granted. The Monte Carlo simulation model also uses stock price volatility and other variables to estimate the probability of satisfying the market conditions and the resulting fair value of the award.

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DTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Amounts in thousands, except per share data)

Note 8−Stock-Based Compensation (Continued)

The Company granted 199 Units on February 27, 2011, which have an aggregate grant-date fair value of $5,287. The aggregate grant-date fair value for these awards shall be recognized as compensation expense on a straight-line basis over the requisite service period, which began on the date of grant and ends on December 31, 2013.

For additional information regarding the Company's Stock-Based Compensation, refer to Footnote 12, "Stock-Based Compensation," of our audited financial statements for the fiscal year ended December 31, 2010 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 3, 2011.

Note 9−Comprehensive Income

At September 30, 2011 and December 31, 2010, accumulated other comprehensive income was comprised mostly of foreign currency translation.

Comprehensive income for the three months ended September 30, 2011 and 2010 was $2,953 and $3,438, respectively. Comprehensive income for the nine months ended September 30, 2011 and 2010 was $11,315 and $9,917, respectively.

Note 10−Geographic Information

The Company's revenue by geographical area, based on the customer's country of domicile, was as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
United States	$ 1,730	$ 2,367	$ 7,480	$ 5,906
International	18,816	18,674	60,430	54,331
Total revenue	$ 20,546	$ 21,041	$ 67,910	$ 60,237

The following table sets forth net long-lived tangible assets by geographic area:

	As of September 30, 2011	As of December 31, 2010
United States	$ 30,949	$ 32,207
International	2,309	1,431
Total long-lived tangible assets, net	$ 33,258	$ 33,638

DTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Amounts in thousands, except per share data)

Note 11−Discontinued Operations

The following table presents expense and tax information for discontinued operations during the three and nine months ended September 30, 2011 and 2010.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Pre-tax income (loss)	$ −	$ (15)	$ −	$ 1,612
Income tax provision (benefit)	−	(6)	−	618
Income (loss) from discontinued operations, net of tax	$ −	$ (9)	$ −	$ 994(1)

(1) This income from discontinued operations resulted primarily from a settlement of contingent purchase price consideration with the buyer of the Company's former digital cinema business.

Note 12−Net Income Per Common Share

Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share is calculated by dividing net income by the sum of the weighted average number of common shares outstanding plus the dilutive effect of unvested restricted stock, outstanding stock options and the employee stock purchase plan ("ESPP") using the "treasury stock" method.

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DTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Amounts in thousands, except per share data)

Note 12−Net Income Per Common Share (Continued)

The following table sets forth the computation of basic and diluted net income per common share:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Basic net income per common share:				
Numerator:				
Income from continuing operations	$ 2,902	$ 3,417	$ 11,192	$ 8,893
Income (loss) from discontinued operations	−	(9)	−	994
Net income	$ 2,902	$ 3,408	$ 11,192	$ 9,887
Denominator:				
Weighted average common shares outstanding	16,910	16,897	17,131	17,053
Continuing operations	$ 0.17	$ 0.20	$ 0.65	$ 0.52
Discontinued operations	−	−	−	0.06
Basic net income per common share	$ 0.17	$ 0.20	$ 0.65	$ 0.58
Diluted net income per common share:				
Numerator:				
Income from continuing operations	$ 2,902	$ 3,417	$ 11,192	$ 8,893
Income (loss) from discontinued operations	−	(9)	−	994
Net income	$ 2,902	$ 3,408	$ 11,192	$ 9,887
Denominator:				
Weighted average shares outstanding	16,910	16,897	17,131	17,053
Effect of dilutive securities:				
Common stock options	442	613	538	602
Restricted stock	81	129	97	119
ESPP	1	16	2	19
Diluted shares outstanding	17,434	17,655	17,768	17,793
Continuing operations	$ 0.17	$ 0.19	$ 0.63	$ 0.50
Discontinued operations	−	−	−	0.06
Diluted net income per common share	$ 0.17	$ 0.19	$ 0.63	$ 0.56

DTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Amounts in thousands, except per share data)

Note 12−Net Income Per Common Share (Continued)

For the three months ended September 30, 2011 and 2010, 612 and 360 shares, respectively, of the Company's stock options and restricted stock were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. For the nine months ended September 30, 2011 and 2010, 371 and 322 shares, respectively, of the Company's stock options and restricted stock were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

Note 13−Common Stock Repurchases

In May 2011, the Company's Board of Directors authorized, subject to certain business and market conditions, the purchase of up to 1,000 shares of the Company's common stock in the open market or in privately negotiated transactions. As of September 30, 2011, the Company has repurchased 800 shares of its common stock, for an aggregate of $26,810, under this authorization.

All shares repurchased under this authorization are accounted for as treasury stock.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements May Prove Inaccurate

This quarterly report on Form 10-Q and the documents incorporated herein by reference contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Words such as "believes," "anticipates," "estimates," "expects," "projections," "may," "potential," "plan," "continue" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this report. All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements, including, but not limited to, statements regarding our future financial performance or position, our business strategy, plans, expectations, and our objectives for future operations, including those relating to our products and services. Although forward-looking statements in this report reflect our good faith judgment, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements contained herein are inherently subject to risks and uncertainties and our actual results and outcomes may be materially different than those expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those discussed under the "Risk Factors" section contained in Part II Item 1A and elsewhere in this report and in other documents we file with the Securities and Exchange Commission, or SEC. We cannot guarantee future results, levels of activity, performance or achievements. You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated financial statements and the notes to those statements included elsewhere in this report. You are urged not to place undue reliance on the forward-looking statements contained in this report, which speak only as of the date of this report. We do not undertake any obligation to revise or update these forward-looking statements to reflect future events or circumstances.

Overview

We are a leading provider of high-quality branded entertainment technologies, which are incorporated into an array of entertainment products by hundreds of licensee customers around the world. Our audio technologies enable the delivery and playback of clear, compelling high-definition audio and are currently used in a variety of product applications, including audio/video receivers, Blu-ray Disc players, DVD based products, personal computers or PCs, car audio products, video game consoles, network capable televisions, digital media players, set-top-boxes or STBs, mobile phones, tablets and home theater systems. In addition, we provide products and services to motion picture studios, radio and television broadcasters, game developers and other content creators to facilitate the inclusion of compelling, realistic DTS-encoded soundtracks in movies, sporting events, television shows and music content. We also provide a suite of audio processing technologies designed to enhance the entertainment experience from products subject to physical limitations, such as TVs, PCs, smartphones and tablets.

We derive revenues from licensing our audio technologies, copyrights, trademarks, and know-how under agreements with substantially all of the major consumer audio electronics manufacturers. Our business model provides for these manufacturers to pay us a per-unit amount for DTS-enabled products that they manufacture.

Generally, we actively engage in intellectual property compliance and enforcement activities focused on identifying third parties who have either incorporated our technologies, copyrights, trademarks or know-how without a license or who have under-reported the amount of royalties owed under license agreements with us. We continue to invest in our compliance and enforcement infrastructure to support the value of our intellectual property to us and our licensees and to improve the long-term realization of revenue from our intellectual property. As a result of these activities, from time to time, we recognize royalty revenues that relate to consumer electronics manufacturing activities from prior periods. These royalty recoveries may cause revenues to be higher than expected during a particular reporting period and may not occur in subsequent periods. While we consider such revenues to be a regular part of our normal operations, we cannot predict such recoveries or the amount or timing of such revenues.

Our cost of revenues consists primarily of amounts paid for products and materials, salaries and related benefits for operations personnel, amortization of acquired intangibles and payments to third parties for copyrighted material.

Our selling, general and administrative expenses consist primarily of salaries and related benefits for personnel engaged in sales and licensee support, as well as costs associated with promotional and other selling and licensing activities. Selling, general and administrative expenses also include professional fees, facility-related expenses and other general corporate expenses, including salaries and related benefits for personnel engaged in corporate administration, finance, human resources, information systems and legal.

Our research and development costs consist primarily of salaries and related benefits for research and development personnel, engineering consulting expenses associated with new product and technology development and quality assurance and testing costs. Research and development costs are expensed as incurred.

Executive Summary

Financial Highlights

Revenues decreased $0.5 million for the three months ended September 30, 2011, compared to the same prior year period. Revenues increased $7.7 million for the nine months ended September 30, 2011, compared to the same prior year period.

Royalty recoveries from intellectual property compliance and enforcement activities decreased $1.1 million and $1.6 million for the three and nine months ended September 30, 2011, respectively, compared to the same prior year periods.

Royalties from Blu-ray product markets increased 21% and 40% for the three and nine months ended September 30, 2011, respectively, compared to the same prior year periods.

Royalties from network connected markets increased 45% and 39% for the three and nine months ended September 30, 2011, respectively, compared to the same prior year periods.

Trends, Opportunities, and Challenges

Historically, our revenue has been primarily dependent upon the DVD based home theater market. The success of DVD based systems and products has fueled a demand for higher quality entertainment in the home, and this demand is extending into the car audio, personal computer, portable electronics, online networked devices, broadcast, video game console, mobile handset and tablet markets, as well. We have seen the acceleration of the market for high-definition televisions drive demand for Blu-ray Disc players and advanced home theater systems. Consumers are more broadly embracing the Blu-ray technology as prices decline and approach DVD pricing, content availability increases and as customers realize the value of the advanced features that Blu-ray provides, such as the ability to connect to the internet and ultimately playback 3-D content.

Because we are a mandatory technology in the Blu-ray Disc standard, our revenue growth from this market is closely tracking the growth in sales of Blu-ray equipped players, game consoles and PCs. Further, we believe that this mandatory position in the Blu-ray Disc standard will give us the ability to extend the reach of a broad array of our technologies in several large markets, such as applications beyond optical media. For example, we have signed agreements with a number of digital media player, network connected digital television and mobile handset manufacturers to incorporate DTS decoders into their products.

One of the largest challenges that we face is the growing consumer trend toward open platform, on-line entertainment consumption and the need to constantly and rapidly evolve our technologies to address the emerging markets. We believe that although the trend has begun, any transition to such open platform, on-line entertainment will take many years. Further, we believe that this trend demands that playback devices be capable of processing content originating in any form, whether disk-based or on-line, which creates a substantial opportunity for our technologies to extend into network connected products that may not have an optical drive. During the transition period, we expect that both optical media and on-line entertainment formats will continue to thrive.

Further, we currently face challenges regarding the impact of the ongoing global economic downturn on consumer buying patterns. While we do not have visibility into the timing or extent of an economic recovery, we continue to remain optimistic that our revenues from both Blu-ray enabled products and our newer markets will continue to grow.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. On an on-going basis, estimates and judgments are evaluated, including those related to revenue recognition, allowance for doubtful accounts, impairment of long-lived assets, stock-based compensation and income taxes. These estimates and judgments are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from these estimates. There has been no material change to our critical accounting policies and estimates from the information provided in our Form 10-K filed on March 3, 2011.

Results of Continuing Operations

Revenues

	2011	2010	$	%
	($ in thousands)			
Three months ended September 30,	$ 20,546	$ 21,041	$ (495)	(2)%
Nine months ended September 30,	$ 67,910	$ 60,237	$ 7,673	13%

Revenues for the three and nine months ended September 30, 2011, compared to the same prior year periods, included decreases of $1.1 million and $1.6 million, respectively, in royalties recovered through intellectual property compliance and enforcement activities, which we characterize as "royalty recoveries." Royalty recoveries may cause revenues to be higher than expected during a particular period and may not occur in subsequent periods. Therefore, unless otherwise noted, the impact of royalty recoveries has been excluded from our revenue discussions in order to provide a more meaningful and comparable analysis.

Excluding royalty recoveries, the increase in revenues for the three months ended September 30, 2011, compared to the same prior year period, was largely attributable to continued growth in Blu-ray related royalties and royalties from network connected markets. Blu-ray related royalties comprised over 30% and 25% of revenue for the three months ended September 30, 2011 and 2010, respectively. In dollar terms, these royalties were up 21% for the three months ended September 30, 2011, compared to the same prior year period. Royalties from network connected markets comprised over 15% and 10% of revenue for the three months ended September 30, 2011 and 2010, respectively. The growth in these markets results from a growing consumer interest in network connected consumer electronic products that access on-line content. Partially offsetting these increases in revenues were continuing declines in DVD related royalties. We remain cautious regarding the outlook for the consumer electronics industry as a whole, and the revenues we derive from that industry, in light of ongoing global economic challenges. However, we expect technology licensing revenues to grow as wider availability of Blu-ray enabled players, PCs and game consoles, coupled with expected aggressive pricing and promotion of these products by retailers and consumer electronics product manufacturers, should result in increasing licensing revenues from the Blu-ray format. In addition, we expect to see continued growth from the network connected markets, as we expand our footprint in terms of both products and geographies served.

The increase in revenues for the nine months ended September 30, 2011, compared to the same prior year period, was largely attributable to continued growth in Blu-ray related royalties, royalties from network connected markets and increases in royalties from the broadcast market. Blu-ray related royalties comprised over 35% and 25% of revenue for the nine months ended September 30, 2011 and 2010, respectively. In dollar terms, these royalties were up 40% for the nine months ended September 30, 2011, compared to the same prior year period. Royalties from network connected markets comprised over 15% and 10% of revenue for the nine months ended September 30, 2011 and 2010, respectively. The growth in these markets results from a growing consumer interest in network connected consumer electronic products that access on-line content. Royalties from the broadcast market increased 44% for the nine months ended September 30, 2011, compared to the same prior year period, due primarily to the recognition of deferred revenue upon the completion of our obligations under a certain agreement. Partially offsetting these increases were continuing declines in DVD related royalties.

Gross Profit

	2011	%	2010	%	Percentage point change in gross profit margin relative to prior period
	($ in thousands)				
Three months ended September 30,	$ 20,329	99%	$ 20,720	98%	1%
Nine months ended September 30,	$ 67,267	99%	$ 59,006	98%	1%

The increase in consolidated gross profit percentage for the three and nine months ended September 30, 2011, compared to the same prior year periods, resulted from the completion of certain amortization.

We expect consolidated gross margins to remain in this range for 2011.

Selling, General and Administrative ("SG&A")

	2011	2010	Change $	Change %
	($ in thousands)			
Three months ended September 30,	$ 12,784	$ 12,238	$ 546	4%
% of Revenue	*62%*	*58%*		
Nine months ended September 30,	$ 39,608	$ 36,364	$ 3,244	9%
% of Revenue	*58%*	*60%*		

The dollar increase in SG&A for the three months ended September 30, 2011, compared to the same prior year period, was primarily due to increased advertising and travel related expenses for tradeshows and related activities. Employee related costs, including expanded operations, increased headcount and stock-based compensation, also increased, but these costs were offset by a change in our estimate for certain incentive compensation costs.

The dollar increase in SG&A for the nine months ended September 30, 2011, compared to the same prior year period, was primarily due to an increase in employee related costs, including expanded operations, increased headcount and stock-based compensation, that was partially offset by the aforementioned change in estimate. Other increases include advertising and travel related expenses for tradeshows and related activities.

We expect SG&A expenses to continue to increase, primarily to support activities such as new technology initiatives, international expansion and intellectual property enforcement.

Research and Development ("R&D")

	2011	2010	Change $	Change %
	($ in thousands)			
Three months ended September 30,	$ 3,364	$ 2,842	$ 522	18%
% of Revenue	*16%*	*14%*		
Nine months ended September 30,	$ 9,759	$ 8,157	$ 1,602	20%
% of Revenue	*14%*	*14%*		

The dollar increase in R&D for the three and nine months ended September 30, 2011, compared to the same prior year periods, was primarily due to an increase in employee related costs, including expanded operations, increased headcount and stock-based compensation, that was partially offset by a change in our estimate for certain incentive compensation costs. Other increases include travel and consultant related expenses to support our growth.

We intend to continue to invest in R&D to support the activities mentioned above, and thus expect to see sequential growth through the remainder of the year.

Interest and Other Income, Net

	2011	2010	Change $	Change %
	($ in thousands)			
Three months ended September 30,	$ 348	$ 32	$ 316	988%
Nine months ended September 30,	$ 322	$ 383	$ (61)	(16)%

The increase in interest and other income, net, for the three months ended September 30, 2011, compared to the same prior year period, was due to a write-off of certain accrued liabilities related to a terminated agreement.

The decrease in interest and other income, net, for the nine months ended September 30, 2011, compared to the same prior year period, was due to the effects of translation for certain foreign subsidiaries to the U.S. dollar or functional currency and lower interest income, partially offset by the aforementioned write-off.

Income Taxes

	2011	2010
	($ in thousands)	
Three months ended September 30,	$ 1,627	$ 2,255
Effective tax rate	*36%*	*40%*
Nine months ended September 30,	$ 7,030	$ 5,975
Effective tax rate	*39%*	*40%*

Our effective tax rate is based upon a projection of annual fiscal year results, and these rates differed from the U.S. statutory rate of 35% primarily due to state income taxes and reserves for U.S. federal and state audits, partially offset by the effects of foreign operations, as our tax rates on those operations are generally lower than the U.S. statutory rate. Our effective tax rate for the three and nine months ended September 30, 2011 was also partially offset by the reversal of reserves for U.S. federal and foreign audit issues that have been effectively settled.

Liquidity and Capital Resources

At September 30, 2011, we had cash, cash equivalents and short-term investments of $85.8 million, compared to $96.1 million at December 31, 2010. At September 30, 2011, $44.1 million of cash, cash equivalents, and short-term investments was held by our foreign subsidiaries. If these funds are needed for our operations in the U.S., they would be subject to U.S. federal and state income taxes, less applicable foreign tax credits. However, our intent is to permanently reinvest funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

Net cash provided by operating activities was $14.5 million and $23.6 million for the nine months ended September 30, 2011 and 2010, respectively. Cash flows from operating activities consisted of net income adjusted for certain non-cash items, including stock-based compensation, depreciation and amortization and the effect of changes in working capital and other operating activities. The operating cash flows during the nine months ended September 30, 2011 and 2010, were largely impacted by income from operations, partially offset by certain non-cash items. The operating cash flows during the nine months ended September 30, 2011, were also impacted by the recognition of deferred revenue and the timing of payment for certain liabilities. The operating cash flows during the nine months ended September 30, 2010, were also impacted by increases in deferred revenue arising primarily from payments for licensing audio technology received in advance of the culmination of the earnings process.

The cash used in investing activities is typically used to purchase office equipment, fixtures, computer hardware and software and engineering and certification equipment, for business and technology acquisitions, for securing patent and trademark protection for our proprietary technologies and brand name and to purchase short-term and long-term investments such as bank certificates of deposit and municipal bonds. Net cash provided by investing activities totaled $3.4 million for the nine months ended September 30, 2011. Net cash used in investing activities totaled $12.4 million for the nine months ended September 30, 2010, respectively. Investing activities for the nine months ended September 30, 2011 and 2010, were primarily impacted by investment maturities and purchases, respectively, partially offset by investment activities.

Net cash used in financing activities totaled $24.7 million and $20.0 million for the nine months ended September 30, 2011 and 2010, respectively, which resulted primarily from the purchase of treasury stock, partially offset by proceeds from the issuance of common stock under stock-based compensation plans.

Common Stock Repurchases

In May 2011, our Board of Directors authorized, subject to certain business and market conditions, the purchase of up to one million shares of our common stock in the open market or in privately negotiated transactions. As of September 30, 2011, we have repurchased 0.8 million shares of our common stock, for an aggregate of $26.8 million, under this authorization.

We believe that our cash, cash equivalents, short-term investments and cash flows from operations will be sufficient to satisfy our working capital and capital expenditure requirements for at least the next twelve months. Changes in our operating plans, including lower than anticipated revenues, increased expenses, acquisition of companies, products or technologies or other events, including those described in "Risk Factors" included elsewhere herein and in other filings, may cause us to seek additional debt or equity financing on an accelerated basis. Financing may not be available on acceptable terms, or at all, particularly given current economic conditions, including lack of confidence in the financial markets and limited availability of capital and demand for debt and equity securities. Our failure to raise capital when needed could negatively impact our growth plans and our financial condition and results of operations. Additional equity financing may be dilutive to the holders of our common stock and debt financing, if available, and may involve significant cash payment obligations and financial or operational covenants that restrict our ability to operate our business.

Contractual obligations

There have been no material changes to our contractual obligations since December 31, 2010, with the exception of the increased obligations associated with our gross unrecognized tax benefits. As of September 30, 2011, our total amount of unrecognized tax benefits was $7.6 million and was considered a long-term obligation. We are currently unable to make reasonably reliable estimates of the periods of cash settlements associated with these obligations.

Recently Issued Accounting Standards

Refer to the discussion at Footnote 2 of the consolidated financial statements, "Recent Accounting Pronouncements."

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss arising from adverse changes in market rates and foreign exchange rates.

Our interest income is sensitive to changes in the general level of U.S. interest rates, particularly since a significant portion of our investments are and will be in short-term and long-term marketable securities, U.S. government securities and corporate bonds. Due to the nature and maturity of our short-term investments, we have concluded that there is no material market risk exposure to our principal at September 30, 2011. The estimated average maturity of our investment portfolio is less than one year. As of September 30, 2011, a one percentage point change in interest rates throughout a one-year period would have an annual effect of approximately $0.9 million on our income before income taxes.

During the nine months ended September 30, 2011, we derived nearly 90% of our revenues from sales outside the United States, and maintain international research, sales, marketing and business development offices. Therefore, our results could be negatively affected by such factors as changes in foreign currency exchange rates, trade protection measures, longer accounts receivable collection patterns and changes in regional or worldwide economic or political conditions. The risks of our international operations are mitigated in part by the extent to which our revenues are denominated in U.S. dollars and, accordingly, we are not exposed to significant foreign currency risk on these items. We do have foreign currency risk on certain revenues and operating expenses such as salaries and overhead costs of our foreign operations and cash maintained by these operations. Revenues denominated in foreign currencies accounted for approximately 6% of total revenues during the nine months ended September 30, 2011. Operating expenses, including cost of sales, of our foreign subsidiaries were approximately $12.8 million for the nine months ended September 30, 2011. Based upon the expenses for the nine months ended September 30, 2011, a 10% or greater change in foreign currency rates throughout a one-year period could have a material impact on our operating income.

Our international business is subject to risks, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions and foreign exchange rate volatility when compared to the United States dollar. Accordingly, our future results could be materially impacted by changes in these or other factors.

We are also affected by exchange rate fluctuations as the financial statements of our foreign subsidiaries are translated into the United States dollar in consolidation. As exchange rates fluctuate, these results, when translated, may vary from expectations and could adversely or positively impact overall profitability. During the nine months ended September 30, 2011, the impact of foreign exchange rate fluctuations related to translation of our foreign subsidiaries' financial statements was immaterial to comprehensive income.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, our chief executive officer and chief financial officer concluded that as of the end of the period covered by this report our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of our business, we actively pursue legal remedies to enforce our intellectual property rights and to stop unauthorized use of our technologies and trademarks.

We are not currently a party to any material legal proceedings. We may, however, become subject to lawsuits from time to time in the course of our business.

Item 1A. Risk Factors

Set forth below, and elsewhere in this report and in other documents we file with the SEC, are risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report and other public statements we make. If any of the following events identified in the risk factors actually occurs, our business, financial condition or results of operations could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

The risk factors described below include certain updates to and supersede the risk factors previously disclosed in Part I, Item 1A of our most recent Annual Report on Form 10-K. The risk factor with the following heading has been added since that Annual Report:

Natural or other disasters could disrupt our business and negatively impact our operating results and financial condition.

Other than the inclusion of this new risk factor, we do not believe that the risk factors below have materially changed the type or magnitude of risks we face in comparison to the disclosure provided in Part I, Item 1A of our most recent Annual Report on Form 10-K.

Risks Related to Our Business

We may not be able to evolve our technologies, products, and services or develop new technology, products, and services that are acceptable to our customers or the changing market.

The market for our technologies, products, and services is characterized by:

- rapid technological change;
- new and improved product introductions;
- changing customer demands;
- evolving industry standards; and
- product obsolescence.

Our future success depends upon our ability to enhance our existing technologies, products, and services and to develop acceptable new technologies, products, and services on a timely basis. The development of enhanced and new technologies, products, and services is a complex and uncertain process requiring high levels of innovation, highly-skilled engineering and development personnel, and the accurate anticipation of technological and market trends. We may not be able to identify, develop, market, or support new or enhanced technologies, products, or services on a timely basis, if at all. Furthermore, our new technologies, products, and services may never gain market acceptance, and we may not be able to respond effectively to evolving consumer demands, technological changes, product announcements by competitors, or emerging industry standards. Any failure to respond to these changes or concerns would likely prevent our technologies, products, and services from gaining market acceptance or maintaining market share and could lead to our technologies, products and services becoming obsolete.

If we fail to protect our intellectual property rights, our ability to compete could be harmed.

Protection of our intellectual property is critical to our success. Copyright, trademark, patent, and trade secret laws and confidentiality and other contractual provisions afford only limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. We face numerous risks in protecting our intellectual property rights, including the following:

- our competitors may produce competitive products or services that do not unlawfully infringe upon our intellectual property rights;
- the laws of foreign countries may not protect our intellectual property rights to the same extent as the laws of the United States, and mechanisms for enforcement of intellectual property rights may be inadequate in foreign countries;
- we may be unable to successfully identify or prosecute unauthorized uses of our technologies;
- efforts to identify and prosecute unauthorized uses of our technologies are time consuming, expensive, and divert resources from the operation of our business;
- our patents may be challenged, found unenforceable or invalidated by our competitors;
- our pending patent applications may not issue, or if issued, may not provide meaningful protection for related products or proprietary rights;
- we may not be able to practice our trade secrets as a result of patent protection afforded a third-party for such product, technique or process; and
- we may not be able to prevent the unauthorized disclosure or use of our technical knowledge or other trade secrets by employees, consultants, and advisors.

As a result, our means of protecting our intellectual property rights and brands may not be adequate. Furthermore, despite our efforts, third parties may violate, or attempt to violate, our intellectual property rights. Enforcement, including infringement claims and lawsuits would likely be expensive to resolve and would require management's time and resources. In addition, we have not sought, and do not intend to seek, patent and other intellectual property protections in all foreign countries. In countries where we do not have such protection, products incorporating our technology may be lawfully produced and sold without a license.

We have limited control over existing and potential customers' and licensees' decisions to include our technologies in their product offerings.

Except for Blu-ray products, where our technology is mandatory, we are dependent upon our customers and licensees−including consumer electronics product manufacturers, semiconductor manufacturers, producers and distributors of content for music, videos, and games−to incorporate our technologies into their products, purchase our products and services, or release their content in our proprietary DTS audio format. Although we have contracts and license agreements with many of these companies, these agreements do not require any minimum purchase commitments, are on a non-exclusive basis, and do not typically require incorporation or use of our technologies, trademarks or services. Furthermore, the decision by a party dominant in the entertainment value chain to provide audio technology at very low or no cost could impact a licensee's decision to use our technology. Our customers, licensees and other manufacturers might not utilize our technologies or services in the future.

If we are unable to maintain a sufficient amount of entertainment content released with DTS audio soundtracks, demand for the technologies, products, and services that we offer to consumer electronics product manufacturers may significantly decline.

We expect to derive a significant percentage of our revenues from the technologies, products, and services that we offer to manufacturers of consumer electronics products. To date, the most significant driver for the use of our technologies in the home theater market has been the release of major movie titles with DTS audio soundtracks. We also believe that demand for our DTS audio technologies in growing markets for multi-channel audio, including cars, personal computers, video game consoles, digital media players and mobile handsets will be based on the number, quality, and popularity of the Blu-ray Disc titles, computer software programs, and video games either released with DTS audio soundtracks or capable of being coded and played in DTS format. Although we have existing relationships with many leading providers of movie, music, computer, and video game content, we generally do not have contracts that require these parties to develop and release content with DTS audio soundtracks. In addition, we may not be successful in maintaining existing relationships or developing relationships with other existing providers or new market entrants that provide content. As a result, we cannot assure you that a significant amount of content in movies, Blu-ray Disc titles, computer software programs, video games, or other entertainment mediums will be released with DTS audio soundtracks. If the amount, variety, and popularity of entertainment content released with DTS audio soundtracks do not increase, consumer electronics products manufacturers that pay us per-unit licensing fees may discontinue offering DTS playback capabilities in the consumer electronics products that they sell.

The online content delivery market could impact our ability to grow.

Movie and music content for the last 15 years has been primarily purchased and consumed via optical media, such as Blu-ray, DVD, and CD. Today, these are still the dominant way consumers purchase and watch or listen to their favorite content. However, the growth of the internet and home computer usage, and a shift to home network and cloud-based content acquisition has occurred, including the recent trend to full movie download and streaming services becoming mainstream with consumers in various parts of the world.

The services that provide movie content from the cloud are not generally governed by international or national standards and are thus free to choose any media format(s) in order to deliver their product and/or service. This freedom of choice on the part of the content provider could limit DTS' ability to grow if such content providers do not incorporate DTS' technologies into their movies.

Our ability to develop proprietary technology in markets in which "open standards" are adopted may be limited, which could adversely affect our ability to generate revenue.

Standards-setting bodies may require the use of so-called "open standards," meaning that the technologies necessary to meet those standards are publicly available free of charge and often on an "open source" basis. These standards are a relatively recent and limited occurrence and have primarily been focused on markets and regions traditionally adverse to the notion of intellectual property ownership and the associated royalties. Examples of such markets and regions would include the personal computer, or PC, market, and the China region. If the concept of "open standards" gains industry momentum in the future, the use of open standards may reduce our opportunity to generate revenue, as open standards technologies are based upon non-proprietary technology platforms in which no one company maintains ownership over the dominant technologies.

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Our business is highly dependent upon the growth in Blu-ray Disc products, and to the extent that consumer adoption of Blu-ray Disc products fails to materialize, our business will be adversely affected.

Past growth in our business has been due in large part to the rapid growth in sales of DVD based products and home theater systems incorporating our technologies. As the markets for DVD based products mature, we are seeing sales of these products declining and growth in our business shifting to Blu-ray Disc based products. While the release and consumer adoption of Blu-ray Disc players continues to ramp up, potentially slow adoption by consumers of Blu-ray Disc players, particularly in the PC market, could adversely affect our business. In addition, if new technologies, including content streaming on direct downloads of content, are developed or deployed that substantially compete with or replace Blu-ray Disc products as a dominant medium for consumer video entertainment, our business, operating results and prospects could be adversely affected.

We may have difficulty managing any growth that we might experience.

As a result of a combination of internal growth and growth through acquisitions, we expect to continue to experience growth in the scope of our operations and the number of our employees. If our growth continues, it may place a significant strain on our management team and on our operational and financial systems, procedures, and controls. Our future success will depend in part upon the ability of our management team to manage any growth effectively. This will require our management to:

- hire and train additional personnel in the United States and internationally;
- implement and improve our operational and financial systems, procedures, and controls;
- maintain our cost structure at an appropriate level based on the revenues we generate;
- manage multiple concurrent development projects; and
- manage operations in multiple time zones with different cultures and languages.

Any failure to successfully manage our growth could distract management's attention, and result in our failure to execute our business plan.

Our business and prospects depend upon the strength of our brand, and if we do not maintain and strengthen our brand, our business will be materially harmed.

Establishing, maintaining and strengthening our "DTS" brand is critical to our success. Our brand identity is key to maintaining and expanding our business and entering new markets. Our success depends in large part upon our reputation for providing high-quality products, services and technologies to the consumer electronics products industry and the entertainment industry. If we fail to promote and maintain our brand successfully, our business and prospects may suffer. Moreover, we believe that the likelihood that our technologies will be adopted in industry standards depends, in part, upon the strength of our brand, because professional organizations and industry participants are more likely to incorporate technologies developed by a well-respected and well-known brand into standards.

Unanticipated changes in our tax provisions or adverse outcomes resulting from examination of our income tax returns could adversely affect our net income.

We are subject to income taxes in both the United States and foreign jurisdictions. Our effective income tax rates have recently been and could in the future be adversely affected by changes in tax laws or interpretations of those tax laws, by changes in the mix of earnings in countries with differing statutory tax rates, or by changes in the valuation of our deferred tax assets and liabilities. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We may come under audit by tax authorities. For instance, the Internal Revenue Service is

examining our 2007 federal income tax return, including certain prior period carryforwards, and the State of California is examining our 2004 and 2005 corporate tax returns. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. Based on the results of an audit or litigation, a material effect on our income tax provision, net income or cash flows in the period or periods for which that determination is made could result. In addition, changes in tax rules may adversely affect our future reported financial results or the way we conduct our business. For example, we consider the operating earnings of our foreign subsidiaries to be invested indefinitely outside the United States. We have not provided for United States federal or foreign withholding taxes that may result on future remittances of undistributed earnings of foreign subsidiaries. Our future reported financial results may be adversely affected if tax or accounting rules regarding unrepatriated earnings change.

Current and future governmental and industry standards may significantly limit our business opportunities.

Technology standards are important in the audio and video industry as they help to assure compatibility across a system or series of products. Generally, standards adoption occurs on either a mandatory basis, requiring a particular technology to be available in a particular product or medium, or an optional basis, meaning that a particular technology may be, but is not required to be, utilized. For example, both our digital multi-channel audio technology and Dolby's have optional status in Blu-ray Disc, while both our two-channel output and Dolby's technologies have been selected as mandatory standards in Blu-ray Disc. However, if either or both of these standards are re-examined or a new standard is developed, we may not be included as mandatory in any such new or revised standard which would cause revenue growth in our consumer business to be significantly lower than expected and could have a material adverse affect on our business.

Various national governments have adopted or are in the process of adopting standards for all digital television broadcasts, including cable, satellite, and terrestrial. In the United States, Dolby's audio technology has been selected as the sole, mandatory audio standard for terrestrial digital television broadcasts. As a result, the audio for all digital terrestrial television broadcasts in the United States must include Dolby's technology and must exclude any other format, including ours. We do not know whether this standard will be reopened or amended. If it is not, our audio technology may never be included in that standard. Certain large and developing markets, such as China, have not fully developed their digital television standards. Our technology may or may not ultimately be included in these standards.

As new technologies and entertainment media emerge, new standards relating to these technologies or media may develop. New standards may also emerge in existing markets that are currently characterized by competing formats, such as the market for personal computers. We may not be successful in our efforts to include our technology in any such standards.

We are dependent upon our management team and technical talent.

Our success depends, in part, upon the continued availability and contributions of our management team and engineering and technical personnel because of the complexity of our products and services. Important factors that could cause the loss of key personnel include:

- our existing employment agreements with the members of our management team allow such persons to terminate their employment with us at any time;

- we do not have employment agreements with a majority of our key engineering and technical personnel;

- significant portions of the equity awards held by the members of our management team are vested; and

- equity awards held by some of our executive officers provide for accelerated vesting in the event of a sale or change of control of our company.

The loss of key personnel or an inability to attract qualified personnel in a timely manner could slow our technology and product development and harm our ability to execute our business plan.

Our technologies and products are complex and may contain errors that could cause us to lose customers, damage our reputation, or incur substantial costs.

Our technologies or products could contain errors that could cause our products or technologies to operate improperly and could cause unintended consequences. If our products or technologies contain errors we, could be required to replace them, and if any such errors cause unintended consequences, we could face claims for product liability. Although we generally attempt to contractually limit our exposure to incidental and consequential damages, as well as provide insurance coverage for such events, if these contract provisions are not enforced or are unenforceable for any reason, if liabilities arise that are not effectively limited, or if our insurance coverage is inadequate to satisfy the liability, we could incur substantial costs in defending and/or settling product liability claims.

We may be sued by third parties for alleged infringement of their proprietary rights, and we may be subject to litigation proceedings that could harm our business.

Companies that participate in the digital audio, digital image processing, consumer electronics, and entertainment industries hold a large number of patents, trademarks, and copyrights, and are frequently involved in litigation based on allegations of patent infringement or other violations of intellectual property rights. Intellectual property disputes frequently involve highly complex and costly scientific matters, and each party generally has the right to seek a trial by jury which adds additional costs and uncertainty. Accordingly, intellectual property disputes, with or without merit, could be costly and time consuming to litigate or settle, and could divert management's attention from executing our business plan. In addition, our technologies and products may not be able to withstand any third-party claims or rights against their use. If we were unable to obtain any necessary license following a determination of infringement or an adverse determination in litigation or in interference or other administrative proceedings, we may need to redesign some of our products to avoid infringing a third party's rights and could be required to temporarily or permanently discontinue licensing our products.

In the past, we have been a party to litigation related to protection and enforcement of our intellectual property, and we may be a party to additional litigation in the future. Litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages (including treble damages under the Clayton Act) and an injunction prohibiting us from licensing our technologies in particular ways or at all. Were an unfavorable ruling to occur, our business and results of operations could be materially harmed. In addition, any protracted litigation could divert management's attention from our day-to-day operations, disrupt our business and cause our operating results to suffer.

We rely on the accuracy of our customers' manufacturing reports for reporting and collecting our revenues, and if these reports are untimely or incorrect, our revenues could be delayed or inaccurately reported.

Most of our revenues are generated from consumer electronics product manufacturers who license and incorporate our technology in their consumer electronics products. Under our existing agreements, these customers pay us per-unit licensing fees based on the number of consumer electronics products manufactured that incorporate our technology. We rely on our customers to accurately report the number of units manufactured in collecting our license fees, preparing our financial reports, projections, budgets, and directing our sales and product development efforts. Most of our license agreements permit us to audit our customers, but audits are generally expensive, time consuming, difficult to manage effectively, dependent in large part upon the cooperation of our licensees and the quality of the records they keep, and could harm our customer relationships. If any of our customer reports understate the number of products they manufacture, we may not collect and recognize revenues to which we are entitled, or may endure significant expense to obtain compliance.

A loss of one or more of our key customers or licensees in any of our markets could adversely affect our business.

From time to time, one or a small number of our customers or licensees may represent a significant percentage of our revenue. For instance, in 2010, two customers accounted for 17% and 15%, respectively, of revenues from our continuing operations. Although we have agreements with many of our customers, these agreements typically do not require any material minimum purchases or minimum royalty fees and do not prohibit customers from purchasing products and services from competitors. A decision by any of our major customers or licensees not to use our technologies, or their failure or inability to pay amounts owed to us in a timely manner, or at all, could have a significant adverse effect on our business.

We face intense competition. Certain of our competitors have greater resources than we do.

The digital audio, consumer electronics and entertainment markets are intensely competitive, subject to rapid change, and significantly affected by new product introductions and other market activities of industry participants. Our principal competitor is Dolby Laboratories, Inc., who competes with us in most of our markets. We also compete with other companies offering digital audio technology incorporated into consumer electronics product and entertainment mediums, including Fraunhofer Institut Integrierte Schaltungen, Koninklijke Philips Electronics N.V. (Philips), Microsoft Corporation, Sony Corporation, Thomson and SRS Labs, Inc.

Certain of our current and potential competitors may enjoy substantial competitive advantages, including:

- greater name recognition;
- a longer operating history;
- more developed distribution channels and deeper relationships with our common customer base;
- a more extensive customer base;
- digital technologies that provide features that ours do not;
- broader product and service offerings;
- greater resources for competitive activities, such as research and development, strategic acquisitions, alliances, joint ventures, sales and marketing, and lobbying industry and government standards;
- more technicians and engineers;
- greater technical support; and

open source or free codecs.

As a result, these current and potential competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, or customer requirements.

In addition to the competitive advantages described above, Dolby also enjoys other unique competitive strengths relative to us. For example, it introduced multi-channel audio technology before we did. It has also achieved mandatory standard status in product categories that we have not, including terrestrial digital television broadcasts in the United States. As a result of these factors, Dolby has a competitive advantage in selling its digital multi-channel audio technology to consumer electronics products manufacturers.

We have a limited operating history in certain new and evolving markets.

Our technologies have only recently been incorporated into certain markets, such as digital media players, televisions, personal computers, digital satellite and cable broadcast products, portable electronics devices and mobile handsets. We do not have the same experience in these markets as in our traditional consumer electronics business, nor do we have as much operating history as companies such as Dolby Laboratories, Inc., SRS Labs, Inc. and BBE Sound, Inc. As a result, the demand for our technologies, products, and services and the income potential of these businesses is unproven. In addition, because our participation in these markets is relatively new and rapidly evolving, we may have limited insight into trends that may emerge and affect our business. We may make errors in predicting and reacting to relevant business trends, which could harm our business. Before investing in our common stock, you should consider the risks, uncertainties, and difficulties frequently encountered by companies in new and rapidly evolving markets such as ours. We may not be able to successfully address any or all of these risks.

Declining retail prices for consumer electronics products could force us to lower the license or other fees we charge our customers.

The market for consumer electronics products is intensely competitive and price sensitive. Retail prices for consumer electronics products that include our DTS audio technologies have decreased significantly and we expect prices to continue to decrease for the foreseeable future. Declining prices for consumer electronics products could create downward pressure on the licensing fees we currently charge our customers who integrate our technologies into the consumer electronics products that they sell and distribute. Most of the consumer electronics products that include our audio technologies also include Dolby's multi-channel audio technology. As a result of pricing pressure, consumer electronics products manufacturers who manufacture products in which our audio technologies are not a mandatory standard could decide to exclude our DTS audio technologies from their products altogether.

Economic downturns could disrupt and materially harm our business.

Negative trends in the general economy could cause a downturn in the market for our technologies, products and services. The recent financial disruption affecting the global financial markets and the concern whether investment banks and other financial institutions will continue operations in the foreseeable future have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets and extreme volatility in credit and equity markets. The recent financial crisis may adversely affect our operating results if it results, for example, in the insolvency of a key licensee or other customer, the inability of our licensees and/or other customers to obtain credit to finance their operations, including to finance the manufacture of products containing our technologies, and delays in reporting and/or payments from our licensees. Tight credit markets could also delay or prevent us from acquiring or making investments in other technologies, products or businesses that could enhance our technical capabilities, complement our current products and services, or expand the breadth of our markets. If we are unable to execute such acquisitions and/or strategic investments, our operating results and business prospects may suffer.

In addition, global economic conditions, including the credit crisis, increased cost of commodities, widespread employee layoffs, actual or threatened military action by the United States and the continued threat of terrorism, have resulted in decreased consumer spending and may continue to negatively impact consumer confidence and spending. Any reduction in consumer confidence or disposable income, in general, may negatively affect the demand for consumer electronics products that incorporate our digital audio technologies.

We cannot predict other negative events that may have adverse effects on the global economy in general and the consumer electronics industry specifically. However, the factors described above and such unforeseen events could negatively affect our revenues and operating results.

Natural or other disasters could disrupt our business and negatively impact our operating results and financial condition.

Natural or other disasters such as earthquakes, hurricanes, tsunamis or other adverse weather and climate conditions, whether occurring in the U.S. or abroad, and the consequences and effects thereof, including energy shortages and public health issues, could disrupt our operations, or the operations of our business partners and customers, or result in economic instability that may negatively impact our operating results and financial condition. Our corporate headquarters and many of our operations are located in California, a seismically active region, potentially exposing us to greater risk of natural disasters. Also, the implications from ongoing events and widespread damage to Japan's infrastructure, consumer confidence and overall economy resulting from the earthquake on March 11, 2011 and the associated tsunami remain unclear. Although we cannot fully assess the financial impact of these ongoing events at this time, we believe that our future operating results could be negatively impacted. In addition, our operating results may be further negatively impacted by, among other things, the rolling electrical blackouts and certain industry wide shutdowns now occurring in Japan as well as the potential of a nuclear reactor disaster occurring at a power plant within Japan.

Our licensing revenue depends in large part upon semiconductor manufacturers incorporating our technologies into integrated circuits, or ICs, for sale to our consumer electronics product licensees and if, for any reason, our technologies are not incorporated in these ICs or fewer ICs are sold that incorporate our technologies, our operating results would be adversely affected.

Our licensing revenue from consumer electronics product manufacturers depends in large part upon the availability of ICs that implement our technologies. IC manufacturers incorporate our technologies into these ICs, which are then incorporated into consumer electronics products. We do not manufacture these ICs, but rather depend upon IC manufacturers to develop, produce and then sell them to licensed consumer electronics product manufacturers. We do not control the IC manufacturers' decisions whether or not to incorporate our technologies into their ICs, and we do not control their product development or commercialization efforts. If these IC manufacturers are unable or unwilling, for any reason, to implement our technologies into their ICs, or if, for any reason, they sell fewer ICs incorporating our technologies, our operating results will be adversely affected.

We may not successfully address problems encountered in connection with any acquisitions.

We expect to consider opportunities to acquire or make investments in other technologies, products, and businesses that could enhance our technical capabilities, complement our current products and services, or expand the breadth of our markets. We have a limited history of acquiring and integrating businesses. Acquisitions and strategic investments involve numerous risks, including:

- problems assimilating the purchased technologies, products, or business operations;

- significant future charges relating to in-process research and development and the amortization of intangible assets;

- significant amount of goodwill that is not amortizable and is subject to annual impairment review;
- problems maintaining uniform standards, procedures, controls, and policies;
- unanticipated costs associated with the acquisition, including accounting and legal charges, capital expenditures, and transaction expenses;
- diversion of management's attention from our core business;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have no or limited prior experience;
- unanticipated or unknown liabilities relating to the acquired businesses;
- the need to integrate accounting, management information, manufacturing, human resources and other administrative systems to permit effective management; and
- potential loss of key employees of acquired organizations.

If we fail to properly evaluate and execute acquisitions and strategic investments, our management team may be distracted from our day-to-day operations, our business may be disrupted, and our operating results may suffer. In addition, if we finance acquisitions by issuing equity or convertible debt securities, our existing stockholders would be diluted. Foreign acquisitions involve unique risks in addition to those mentioned above, including those related to integration of operations across different geographies, cultures and languages, currency risks and risks associated with the particular economic, political and regulatory environment in specific countries. Also, the anticipated benefit of our acquisitions may not materialize, whether because of failure to obtain stockholder approval or otherwise. Future acquisitions could result in potentially dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities or amortization expenses, or write-offs of goodwill, any of which could harm our operating results or financial condition. Future acquisitions may also require us to obtain additional equity or debt financing, which may not be available on favorable terms or at all.

We are subject to additional risks associated with our international operations.

Our licensing headquarters are located in Limerick, Ireland, and we market and sell our products and services outside the United States. We currently have employees located in eight countries, and many of our customers and licensees are located outside the United States. As a key component of our business strategy, we intend to expand our international sales and customer support. During the nine months ended September 30, 2011, nearly 90% of our revenues were derived internationally. We face numerous risks in doing business outside the United States, including:

- unusual or burdensome foreign laws or regulatory requirements or unexpected changes to those laws or requirements;

tariffs, trade protection measures, import or export licensing requirements, trade embargos, and other trade barriers;

difficulties in attracting and retaining qualified personnel and managing foreign operations;

competition from foreign companies;

dependence upon foreign distributors and their sales channels;

longer accounts receivable collection cycles and difficulties in collecting accounts receivable;

less effective and less predictable protection and enforcement of our intellectual property;

- changes in the political or economic condition of a specific country or region, particularly in emerging markets;
- fluctuations in the value of foreign currency versus the U.S. dollar and the cost of currency exchange;
- potentially adverse tax consequences; and
- cultural differences in the conduct of business.

Such factors could cause our future international sales to decline.

Our business practices in international markets are also subject to the requirements of the Foreign Corrupt Practices Act. If any of our employees is found to have violated these requirements, we and our employees could be subject to significant fines, criminal sanctions and other penalties.

Our international revenue is mostly denominated in U.S. dollars. As a result, fluctuations in the value of the U.S. dollar and foreign currencies may make our technology, products, and services more expensive for international customers, which could cause them to decrease their purchases from us. Expenses for our subsidiaries are denominated in their respective local currencies. As a result, if the U.S. dollar weakens against the local currency, the translation of our foreign-currency-denominated expenses will result in higher operating expense without a corresponding increase in revenue. Significant fluctuations in the value of the U.S. dollar and foreign currencies could have a material impact on our consolidated financial statements. The main foreign currencies we encounter in our operations are the Yen, Euro, CAD, RMB, KRW, HKD, TWD, SGD and GBP. We do not currently engage in currency hedging activities to limit the risk of exchange rate fluctuations.

We expect our operating expenses to increase in the future, which may impact profitability.

We expect our operating expenses to increase as we, among other things:

- expand our sales and marketing activities, including the continued development of our international operations;
- adopt a more customer-focused business model which is expected to entail additional hiring;
- acquire businesses or technologies and integrate them into our existing organization;
- increase our research and development efforts to advance our existing technologies, products, and services and develop new technologies, products, and services;
- hire additional personnel, including engineers and other technical staff;
- expand and defend our intellectual property portfolio;
- upgrade our operational and financial systems, procedures, and controls; and

continue to assume the responsibilities of being a public company.

As a result, we will need to grow our revenues and manage our costs in order to positively impact profitability. In addition, we may fail to accurately estimate and assess our increased operating expenses as we grow.

Compliance with changing securities laws, regulations and financial reporting standards will increase our costs and pose challenges for our management team.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Sarbanes-Oxley Act of 2002, and the rules and regulations promulgated thereunder have created uncertainty for public companies and significantly increased the costs and risks associated with operating as a publicly traded company in the United States. Our management team will need to devote significant time and financial resources to comply with both existing and evolving standards for public companies, which will lead to increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities. Furthermore, with such uncertainties, we cannot assure you that our system of internal control will be effective or satisfactory to our independent registered public accounting firm. As a result, our financial reporting may not be timely and/or accurate and we may be issued an adverse or qualified opinion by our independent registered public accounting firm. If reporting delays or errors actually occur, we could be subject to sanctions or investigation by regulatory authorities, such as the SEC, and could adversely affect our financial results or result in a loss of investor confidence in the reliability of our financial information, which could materially and adversely affect the market price of our common stock.

Further, the SEC has passed, promulgated and proposed new rules on a variety of subjects including the requirement that we must file our financial statements with the SEC using the interactive data format eXtensible Business Reporting Language, or XBRL, and the possibility that we would be required to adopt International Financial Reporting Standards, or IFRS. In order to comply with XBRL and IFRS requirements, we may have to add additional accounting staff, engage consultants or change our internal practices, standards and policies which could significantly increase our costs.

We believe that these new and proposed laws and regulations could make it more difficult for us to attract and retain qualified members of our Board of Directors, particularly to serve on our audit committee, and qualified executive officers.

Our licensing of industry standard technologies can be subject to limitations that could adversely affect our business and prospects.

When a standards-setting body adopts our technologies as explicit industry standards, we generally must agree to license such technologies on a fair, reasonable and non-discriminatory basis, which we believe means that we treat similarly situated licensees similarly. In these situations, we may be required to limit the royalty rates we charge for these technologies, which could adversely affect our business. Furthermore, we may have limited control over whom we license such technologies to, and may be unable to restrict many terms of the license. From time to time, we may be subject to claims that our licenses of our industry standard technologies may not conform to the requirements of the standards-setting body. Claimants in such cases could seek to restrict or change our licensing practices or our ability to license our technologies in ways that could injure our reputation and otherwise materially and adversely affect our business, operating results and prospects.

We may experience fluctuations in our operating results.

We have historically experienced moderate seasonality in our business due to our business mix and the nature of our products. Consumer electronics manufacturing activities are generally lowest in the first calendar quarter of each year, and increase progressively throughout the remainder of the year. Manufacturing output is generally strongest in the third and fourth quarters as our technology licensees increase manufacturing to prepare for the holiday buying season. Since recognition of revenues generally lags manufacturing activity by one quarter, our revenues and earnings are generally lowest in the second quarter. The introduction of new products and inclusion of our technologies in new and rapidly growing markets can distort and amplify the seasonality described above. Our revenues may continue to be subject to fluctuations, seasonal or otherwise, in the future. Unanticipated fluctuations, whether due to seasonality, economic downturns, product cycles, or otherwise, could cause us to miss our earnings projections, or could lead to higher than normal variation in short-term earnings, either of which could cause our stock price to decline.

In addition, we actively engage in intellectual property compliance and enforcement activities focused on identifying third parties who have either incorporated our technologies, trademarks, or know-how without a license or who have underreported to us the amount of royalties owed under license agreements with us. As a result of these activities, from time to time, we may recognize royalty revenues that relate to manufacturing activities from prior periods and we may incur expenditures related to enforcement activity. These royalty recoveries and expenditures, as applicable, may cause revenues to be higher than expected, or net profit to be lower than expected, during a particular reporting period and may not recur in future reporting periods. Such fluctuations in our revenues and operating results may cause declines in our stock price.

The licensing of patents constitutes a significant source of our revenue. If we do not replace expiring patents with new patents or proprietary technologies, our revenue could decline.

We hold patents covering much of the technologies that we license to system licensees, and our licensing revenue is tied in large part to the life of those patents. Our right to receive royalties related to our patents terminates with the expiration of the last patent covering the relevant technologies. Accordingly, to the extent that we do not replace licensing revenue from technologies covered by expiring patents with licensing revenue based on new patents and proprietary technologies, our revenue could decline.

Our future capital needs are uncertain and we may need to raise additional funds in the future, and such funds may not be available on acceptable terms or at all.

Our capital requirements will depend upon many factors, including:

- acceptance of, and demand for, our products and technologies;
- the costs of developing new products or technologies;
- the extent to which we invest in new technologies and research and development projects;
- the number and timing of acquisitions and other strategic transactions;
- the costs associated with our expansion, if any; and
- the costs of litigation and enforcement activities to defend our intellectual property.

In the future, we may need to raise additional funds, and such funds may not be available on favorable terms, or at all, particularly given the continuing credit crisis and downturn in the overall global economy. Furthermore, if we issue equity or debt securities to raise additional funds, our existing stockholders may experience dilution, and the new equity or debt securities may have rights, preferences, and privileges senior to those of our existing stockholders. If we cannot raise funds on acceptable terms, or at all, we may not be able to develop or enhance our products and services, execute our business plan, take advantage of future opportunities, or respond to competitive pressures or unanticipated customer requirements. This may materially harm our business, results of operations, and financial condition.

Risks Related to Our Common Stock

Anti-takeover provisions under our charter documents and Delaware law could delay or prevent a change of control and could also limit the market price of our stock.

Our Restated Certificate of Incorporation and Restated Bylaws contain provisions that could delay or prevent a change of control of our company or changes in our Board of Directors that our stockholders might consider favorable. Some of these provisions:

- authorize the issuance of preferred stock which can be created and issued by the Board of Directors without prior stockholder approval, with rights senior to those of the common stock;
- provide for a classified Board of Directors, with each director serving a staggered three-year term;
- prohibit stockholders from filling Board vacancies, calling special stockholder meetings, or taking action by written consent; and
- require advance written notice of stockholder proposals and director nominations.

In addition, we are governed by the provisions of Section 203 of the Delaware General Corporate Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These and other provisions in our Restated Certificate of Incorporation, Restated Bylaws and Delaware law could make it more difficult for stockholders or potential acquirors to obtain control of our Board or initiate actions that are opposed by the then-current Board, and could delay or impede a merger, tender offer, or proxy contest involving our company. Any delay or prevention of a change of control transaction or changes in our Board could cause the market price of our common stock to decline.

We expect that the price of our common stock will fluctuate substantially.

The market price of our common stock is likely to be highly volatile and may fluctuate substantially due to many factors, including:

- actual or anticipated fluctuations in our results of operations;
- market perception of our progress toward announced objectives;
- announcements of technological innovations by us or our competitors or technology standards;
- announcements of significant contracts by us or our competitors;
- changes in our pricing policies or the pricing policies of our competitors;
- developments with respect to intellectual property rights;
- the introduction of new products or product enhancements by us or our competitors;

the commencement of or our involvement in litigation;

resolution of significant litigation in a manner adverse to our business;

our sale or purchase of common stock or other securities in the future;

conditions and trends in technology industries;

changes in market valuation or earnings of our competitors;

the trading volume of our common stock;

announcements of potential acquisitions;

the adoption rate of new products incorporating our or our competitors' technologies, including Blu-ray Disc players;

changes in the estimation of the future size and growth rate of our markets; and

general economic conditions.

In addition, the stock market in general, and the NASDAQ Global Select Market and the market for technology companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Further, the market prices of securities of technology companies have been particularly volatile. These broad market and industry factors may materially harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted against that company. Such litigation, if instituted against us, could result in substantial costs and a diversion of management's attention and resources.

Shares of our common stock are relatively illiquid.

As a result of our relatively small public float, our common stock may be less liquid than the common stock of companies with broader public ownership. Among other things, trading of a relatively small volume of our common shares may have a greater impact on the trading price for our shares than would be the case if our public float were larger.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Stock repurchase activity during the quarter ended September 30, 2011 was as follows:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that May Yet Be Purchased Under the Plan
July 1, 2011 through July 31, 2011	–	–	–	700,000
August 1, 2011 through August 31, 2011	349,451	$ 28.28	348,360	351,640
September 1, 2011 through September 30, 2011	151,640	$ 29.91	151,640	200,000
Total	501,091	$ 28.77(2)	500,000	200,000

Notes:

(1) Consists of (i) shares repurchased in open market transactions pursuant to a Board of Directors authorization for us to repurchase up to one million shares of our common stock in the open market or in privately negotiated transactions, depending upon market conditions and other factors, and (ii) shares repurchased from employees and effectively retired to satisfy statutory withholding requirements upon the vesting of restricted stock.

(2) Represents weighted average price paid per share during the quarter ended September 30, 2011.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit Number	Exhibit Description
31.1	Certification of the Chief Executive Officer under Securities Exchange Act Rules 13a-14(a) or 15d-14(a)
31.2	Certification of the Chief Financial Officer under Securities Exchange Act Rules 13a-14(a) or 15d-14(a)
32.1	Certification of the Chief Executive Officer under Securities Exchange Act Rules 13a-14(b) or 15d-14(b) and 18 U.S.C. 1350*
32.2	Certification of the Chief Financial Officer under Securities Exchange Act Rules 13a-14(b) or 15d-14(b) and 18 U.S.C. 1350*
101.INS	XBRL Instance Document‡
101.SCH	XBRL Taxonomy Extension Schema Document‡
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document‡
101.DEF	XBRL Extension Definition‡
101.LAB	XBRL Taxonomy Extension Label Linkbase Document‡
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document‡

\# Indicates management contract, arrangement or compensatory plan.

* This certification is being furnished solely to accompany this report pursuant to 18 U.S.C. 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

‡ XBRL information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934, and is not subject to liability under those sections, is not part of any registration statement or prospectus to which it relates and is not incorporated or deemed to be incorporated by reference into any registration statement, prospectus or other document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DTS, Inc.

		/s/ JON E. KIRCHNER
Date: November 7, 2011	by:	Jon E. Kirchner *Chairman and Chief Executive Officer* *(Duly Authorized Officer)*
		/s/ MELVIN L. FLANIGAN
Date: November 7, 2011	by:	Melvin L. Flanigan *Executive Vice President, Finance and Chief Financial Officer* *(Principal Financial and Accounting Officer)*

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EXHIBIT INDEX

Exhibit Number	Exhibit Description
31.1	Certification of the Chief Executive Officer under Securities Exchange Act Rules 13a-14(a) or 15d-14(a)
31.2	Certification of the Chief Financial Officer under Securities Exchange Act Rules 13a-14(a) or 15d-14(a)
32.1	Certification of the Chief Executive Officer under Securities Exchange Act Rules 13a-14(b) or 15d-14(b) and 18 U.S.C. 1350*
32.2	Certification of the Chief Financial Officer under Securities Exchange Act Rules 13a-14(b) or 15d-14(b) and 18 U.S.C. 1350*
101.INS	XBRL Instance Document‡
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EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECURITIES ACT RULES 13a-14(a) OR 15d-14(a)

I, Jon E. Kirchner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of DTS, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2011

	/s/ JON E. KIRCHNER
By:	Jon E. Kirchner
	Chairman and Chief Executive Officer

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EXHIBIT 31.1

EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECURITIES ACT RULES 13a-14(a) OR 15d-14(a)

I, Melvin L. Flanigan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of DTS, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2011

	/s/ MELVIN L. FLANIGAN
By:	Melvin L. Flanigan
	Chief Financial Officer

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[EXHIBIT 31.2](#)
[CERTIFICATION PURSUANT TO SECURITIES ACT RULES 13a-14(a) OR 15d-14(a)](#)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO SECURITIES EXCHANGE ACT RULES 13a-14(b) OR 15d-14(b) AND 18 U.S.C. SECTION 1350

In connection with the quarterly report on Form 10-Q of DTS, Inc. (the "Company") for the quarterly period ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jon E. Kirchner, Chairman and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2011

	/s/ JON E. KIRCHNER
By:	Jon E. Kirchner
	Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to DTS, Inc. and will be retained by DTS, Inc. and furnished to the Securities and Exchange Commission upon request.

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EXHIBIT 32.1

EXHIBIT 32.2

CERTIFICATION PURSUANT TO SECURITIES EXCHANGE ACT RULES 13a-14(b) OR 15d-14(b) AND 18 U.S.C. SECTION 1350

In connection with the quarterly report on Form 10-Q of DTS, Inc. (the "Company") for the quarterly period ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Melvin L. Flanigan, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2011

	/s/ MELVIN L. FLANIGAN
By:	Melvin L. Flanigan
	Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to DTS, Inc. and will be retained by DTS, Inc. and furnished to the Securities and Exchange Commission upon request.

CONSOLIDATED STATEMENTS OF INCOME (USD $) In Thousands, except Per Share data	3 Months Ended		9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010	Sep. 30, 2011	Sep. 30, 2010
Revenue	$ 20,546	$ 21,041	$ 67,910	$ 60,237
Cost of revenue	217	321	643	1,231
Gross profit	20,329	20,720	67,267	59,006
Operating expenses:				
Selling, general and administrative	12,784	12,238	39,608	36,364
Research and development	3,364	2,842	9,759	8,157
Total operating expenses	16,148	15,080	49,367	44,521
Operating income	4,181	5,640	17,900	14,485
Interest and other income, net	348	32	322	383
Income from continuing operations before income taxes	4,529	5,672	18,222	14,868
Provision for income taxes	1,627	2,255	7,030	5,975
Income from continuing operations	2,902	3,417	11,192	8,893
Income (loss) from discontinued operations, net of tax		(9)		994
Net income	$ 2,902	$ 3,408	$ 11,192	$ 9,887
Basic:				
Continuing operations (in dollars per share)	$ 0.17	$ 0.20	$ 0.65	$ 0.52
Discontinued operations (in dollars per share)				$ 0.06
Net income (in dollars per share)	$ 0.17	$ 0.20	$ 0.65	$ 0.58
Diluted:				
Continuing operations (in dollars per share)	$ 0.17	$ 0.19	$ 0.63	$ 0.50
Discontinued operations (in dollars per share)				$ 0.06
Net income (in dollars per share)	$ 0.17	$ 0.19	$ 0.63	$ 0.56
Weighted average shares used to compute net income per common share:				
Basic (in shares)	16,910	16,897	17,131	17,053
Diluted (in shares)	17,434	17,655	17,768	17,793

CONSOLIDATED STATEMENTS OF CASH FLOWS (USD $) In Thousands	9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010
Cash flows from operating activities:		
Net income	$ 11,192	$ 9,887
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,867	3,659
Gain on sale of assets from discontinued operations		(2,000)
Stock-based compensation charges	6,756	5,366
Deferred income taxes	470	128
Tax benefits from stock-based awards	76	768
Excess tax benefits from stock-based awards	(30)	(699)
Other	362	59
Changes in operating assets and liabilities:		
Accounts receivable	2,633	(1,199)
Prepaid expenses and other assets	(809)	(136)
Accounts payable, accrued expenses and other liabilities	(4,622)	3,138
Deferred revenue	(4,643)	4,835
Income taxes receivable	(715)	(250)
Net cash provided by operating activities	14,537	23,556
Cash flows from investing activities:		
Purchases of held-to-maturity investments	(36,583)	(42,637)
Purchases of available-for-sale investments	(12,888)	
Maturities of held-to-maturity investments	55,686	30,877
Sales of available-for-sale investments		2,250
Proceeds from the sale of assets from discontinued operations		2,000
Purchase of property and equipment	(2,443)	(2,574)
Purchase of intangible assets	(413)	(2,296)
Net cash provided by (used in) investing activities	3,359	(12,380)
Cash flows from financing activities:		
Proceeds from the issuance of common stock under stock-based compensation plans	3,596	8,425
Repurchase and retirement of common stock for restricted stock tax withholdings	(1,511)	(813)
Excess tax benefits from stock-based awards	30	699
Purchase of treasury stock	(26,810)	(28,358)
Net cash used in financing activities	(24,695)	(20,047)
Net decrease in cash and cash equivalents	(6,799)	(8,871)
Cash and cash equivalents, beginning of period	41,744	42,222
Cash and cash equivalents, end of period	$ 34,945	$ 33,351

CONSOLIDATED BALANCE SHEETS (USD $) In Thousands	Sep. 30, 2011	Dec. 31, 2010
Current assets:		
Cash and cash equivalents	$ 34,945	$ 41,744
Short-term investments	50,850	54,387
Accounts receivable, net of allowance for doubtful accounts of $334 and $226 at September 30, 2011 and December 31, 2010, respectively	3,342	6,078
Deferred income taxes	5,447	5,551
Prepaid expenses and other current assets	1,640	1,666
Income taxes receivable, net	2,814	2,099
Total current assets	99,038	111,525
Property and equipment, net	33,258	33,638
Intangible assets, net	6,839	7,525
Goodwill	1,257	1,257
Deferred income taxes	11,826	12,192
Long-term investments	2,635	5,313
Other assets	1,643	845
Total assets	156,496	172,295
Current liabilities:		
Accounts payable	1,103	774
Accrued expenses	4,350	9,659
Deferred revenue	2,015	5,698
Total current liabilities	7,468	16,131
Other long-term liabilities	8,038	8,596
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock-$0.0001 par value, 5,000 shares authorized at September 30, 2011 and December 31, 2010; no shares issued and outstanding		
Common stock-$0.0001 par value, 70,000 shares authorized at September 30, 2011 and December 31, 2010; 20,503 and 20,325 shares issued at September 30, 2011 and December 31, 2010, respectively; 16,703 and 17,325 shares outstanding at September 30, 2011 and December 31, 2010, respectively	3	3
Additional paid-in capital	189,625	180,708
Treasury stock, at cost-3,800 and 3,000 shares at September 30, 2011 and December 31, 2010, respectively	(101,733)	(74,923)
Accumulated other comprehensive income	614	491
Retained earnings	52,481	41,289
Total stockholders' equity	140,990	147,568
Total liabilities and stockholders' equity	$ 156,496	$ 172,295

Stock-Based Compensation	9 Months Ended Sep. 30, 2011

Stock-Based Compensation

Stock-Based Compensation

Note 8−Stock-Based Compensation

On February 27, 2011, the Compensation Committee of the Board of Directors of the Company approved market stock unit agreements ("MSU Agreements") for the grant of certain performance-based equity awards under the Company's 2003 Stock Plan.

Pursuant to the MSU Agreements, units payable in shares of common stock (the "Units") will vest based on the attainment of certain performance criteria regarding both the Company's total shareholder return and the performance of the Company as measured against the performance of the NASDAQ Composite Total Return Index ("NASDAQ" or "XCMP") over a 3-year performance period. This 3-year performance period began on January 1, 2011 and ends on December 31, 2013, which aligns with the Company's fiscal year. In order for the Units to vest, the Company must first satisfy a vesting threshold, defined as the Company achieving a total shareholder return equal to the greater of (i) 15% adjusted for inflation (using the Consumer Price Index); and (ii) 20% over the performance period.

Assuming this vesting threshold is satisfied, the number of Units that vest will be determined by comparing the Company's performance to the performance of the NASDAQ for the performance period. If the Company's performance is 20% greater than the return for the NASDAQ, then the "baseline" number of Units will vest. If the Company's performance exceeds this baseline level of performance, then a greater number of Units will vest on a 2.5:1 basis for each percentage point that the Company's performance is above 20% greater than the performance of the NASDAQ. The maximum number of Units that may vest is equal to 200% of each individual's baseline number of Units.

If the Company outperforms the NASDAQ by at least 10%, but less than 20%, then the number of baseline Units that vest will be determined by reducing the baseline number for each individual on a 5:1 basis for the first five percentage points that the Company's performance is less than 20% greater than the performance of the NASDAQ and on a 15:1 basis for the next five percentage points that the Company's performance is less than 15% greater than the performance of the NASDAQ, such that if the Company outperforms NASDAQ by 10% or less, the number of Units that vest will be zero.

If a "fundamental transaction" (as defined in the 2003 Stock Plan, as amended) occurs prior to the end of the 3-year performance period, the performance period will end as of the consummation of the fundamental transaction and the pro rata portion of the Units, if any, that vest under the formulae described above will immediately vest, with the remainder of such Units vesting ratably over the remainder of the 3-year period (with accelerated vesting if a grantee is terminated without "cause" or quits with "good reason" after the fundamental transaction).

Since the vesting of these performance-based equity awards is subject to market conditions, these awards were measured on the date of grant using the Monte Carlo simulation model. The Monte Carlo simulation model utilizes multiple input variables that determine the probability of satisfying the market conditions stipulated in the award grant and calculates the fair market value for the performance units granted. The Monte Carlo simulation model also uses stock price volatility and other variables to estimate the probability of satisfying the market conditions and the resulting fair value of the award.

The Company granted 199 Units on February 27, 2011, which have an aggregate grant-date fair value of $5,287. The aggregate grant-date fair value for these awards shall be recognized as compensation expense on a straight-line basis over the requisite service period, which began on the date of grant and ends on December 31, 2013.

For additional information regarding the Company's Stock-Based Compensation, refer to Footnote 12, "Stock-Based Compensation," of our audited financial statements for the fiscal year ended December 31, 2010 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 3, 2011.

Common Stock Repurchases	9 Months Ended Sep. 30, 2011
Common Stock Repurchases	
Common Stock Repurchases	**Note 13−Common Stock Repurchases** In May 2011, the Company's Board of Directors authorized, subject to certain business and market conditions, the purchase of up to 1,000 shares of the Company's common stock in the open market or in privately negotiated transactions. As of September 30, 2011, the Company has repurchased 800 shares of its common stock, for an aggregate of $26,810, under this authorization. All shares repurchased under this authorization are accounted for as treasury stock.

Fair Value Measurements	9 Months Ended Sep. 30, 2011

Fair Value Measurements

Fair Value Measurements

Note 4−Fair Value Measurements

During the second quarter of 2011, the Company began purchasing and classifying certain investments in U.S. government and agency securities as available-for-sale, and thus, these securities are required to be measured at fair value on a recurring basis. All other investments are classified as held-to-maturity and reported at amortized cost.

The Company obtained the fair value of its available-for-sale securities, which are not in active markets, from a third-party professional pricing service using quoted market prices for identical or comparable instruments, rather than direct observations of quoted prices in active markets. The Company's professional pricing service gathers observable inputs for all of its fixed income securities from a variety of industry data providers (e.g. large custodial institutions) and other third-party sources. Once the observable inputs are gathered, all data points are considered and the fair value is determined.

The Company validates the quoted market prices provided by its primary pricing service by comparing their assessment of the fair values against the fair values provided by its investment managers. The Company's investment managers use similar techniques to its professional pricing service to derive pricing as described above.

As all significant inputs were observable, derived from observable information in the marketplace or supported by observable levels at which transactions are executed in the marketplace, the Company has classified its available-for-sale securities within Level 2 of the fair value hierarchy as of September 30, 2011.

The Company's financial assets, measured at fair value on a recurring basis as of September 30, 2011, were as follows:

		Fair Value Measurements at Reporting Date Using		
Available-for-sale securities	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
U.S. government and agency securities	$12,888	$−	$12,888	$−

Geographic Information	9 Months Ended Sep. 30, 2011

Geographic Information

Geographic Information

Note 10−Geographic Information

The Company's revenue by geographical area, based on the customer's country of domicile, was as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
United States	$1,730	$2,367	$7,480	$5,906
International	18,816	18,674	60,430	54,331
Total revenue	$20,546	$21,041	$67,910	$60,237

The following table sets forth net long-lived tangible assets by geographic area:

	As of September 30, 2011	As of December 31, 2010
United States	$30,949	$32,207
International	2,309	1,431
Total long-lived tangible assets, net	$33,258	$33,638

Discontinued Operations	9 Months Ended Sep. 30, 2011

Discontinued Operations

Discontinued Operations

Note 11−Discontinued Operations

The following table presents expense and tax information for discontinued operations during the three and nine months ended September 30, 2011 and 2010.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		
	2011	2010	2011	2010	
Pre-tax income (loss)	$−	$(15)	$−	$1,612	
Income tax provision (benefit)	−	(6)	−	618	
Income (loss) from discontinued operations, net of tax	$−	$(9)	$−	$994	(1)

(1) This income from discontinued operations resulted primarily from a settlement of contingent purchase price consideration with the buyer of the Company's former digital cinema business.

Comprehensive Income	9 Months Ended Sep. 30, 2011
Comprehensive Income	
Comprehensive Income	**Note 9−Comprehensive Income** At September 30, 2011 and December 31, 2010, accumulated other comprehensive income was comprised mostly of foreign currency translation. Comprehensive income for the three months ended September 30, 2011 and 2010 was $2,953 and $3,438, respectively. Comprehensive income for the nine months ended September 30, 2011 and 2010 was $11,315 and $9,917, respectively.

Recent Accounting Pronouncements	9 Months Ended Sep. 30, 2011
Recent Accounting Pronouncements	
Recent Accounting Pronouncements	**Note 2−Recent Accounting Pronouncements** In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04, "Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." ASU 2011-04 changes the wording used to describe the requirements in generally accepted accounting principles in the United States ("U.S. GAAP") for measuring fair value and for disclosing information about fair value measurements in order to improve consistency in the application and description of fair value between U.S. GAAP and International Financial Reporting Standards ("IFRS"). ASU 2011-04 clarifies how the concepts of highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets and are not relevant when measuring the fair value of financial assets or of liabilities. In addition, ASU 2011-04 expanded the disclosures for the unobservable inputs for Level 3 fair value measurements, requiring quantitative information to be disclosed related to (1) the valuation processes used, (2) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, and (3) use of a nonfinancial asset in a way that differs from the asset's highest and best use. ASU 2011-04 will be effective for the first interim and annual reporting period beginning after December 15, 2011 and early adoption is prohibited. The Company is currently evaluating the future impact of this new accounting update on its consolidated financial statements. In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income: Presentation of Comprehensive Income." ASU 2011-05 will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU 2011-05 does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. ASU 2011-05 will be effective for the first interim and annual periods beginning after December 15, 2011. The Company believes the adoption of this guidance concerns disclosure only and will not have a material impact on its consolidated financial statements. In September 2011, the FASB issued ASU 2011-08, "Testing Goodwill for Impairment." ASU 2011-08 will allow companies to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. ASU 2011-08 will be effective for annual and interim goodwill impairment tests performed for annual reporting period beginning after December 15, 2011, with early adoption permitted. The Company is currently evaluating this guidance, but does not expect the adoption will have a material impact on its consolidated financial statements.

Property and Equipment

9 Months Ended
Sep. 30, 2011

Property and Equipment

Property and Equipment

Note 5−Property and Equipment

Property and equipment consist of the following:

	As of September 30, 2011	As of December 31, 2010
Land	$6,600	$6,600
Building and improvements	21,226	21,057
Machinery and equipment	3,269	2,854
Office furniture and fixtures	5,613	5,045
Leasehold improvements	2,218	1,527
Software	5,887	5,647
	44,813	42,730
Less: Accumulated depreciation	(11,555)	(9,092)
Property and equipment, net	$33,258	$33,638

Commitments and Contingencies	9 Months Ended Sep. 30, 2011
Commitments and Contingencies	
Commitments and Contingencies	**Note 6−Commitments and Contingencies** **Indemnities, Commitments and Guarantees** In the normal course of business, the Company makes certain indemnities, commitments and guarantees under which the Company may be required to make payments in relation to certain transactions. These indemnities, commitments and guarantees include, among others, intellectual property indemnities to customers in connection with the sale of products and licensing of technologies, indemnities for liabilities associated with the infringement of other parties' technology based upon the Company's products and technologies, guarantees of timely performance of the Company's obligations, and indemnities to the Company's directors and officers to the maximum extent permitted by law. The duration of these indemnities, commitments and guarantees varies, and in certain cases, is indefinite. The majority of these indemnities, commitments and guarantees do not provide for any limitation of the maximum potential future payments that the Company could be obligated to make. The Company has not recorded a liability for these indemnities, commitments or guarantees in the accompanying consolidated balance sheets, as future payment is currently not probable.

Document and Entity Information	9 Months Ended Sep. 30, 2011	Oct. 28, 2011
Document and Entity Information		
Entity Registrant Name	DTS, INC.	
Entity Central Index Key	0001226308	
Document Type	10-Q	
Document Period End Date	Sep. 30, 2011	
Amendment Flag	false	
Current Fiscal Year End Date	--12-31	
Entity Current Reporting Status	Yes	
Entity Filer Category	Accelerated Filer	
Entity Common Stock, Shares Outstanding		16,703,150
Document Fiscal Year Focus	2011	
Document Fiscal Period Focus	Q3	

Income Taxes	9 Months Ended Sep. 30, 2011
Income Taxes	
Income Taxes	**Note 7−Income Taxes** For the three months ended September 30, 2011, the Company recorded an income tax provision of $1,627 on pre-tax income from continuing operations of $4,529. For the nine months ended September 30, 2011, the Company recorded an income tax provision of $7,030 on pre-tax income from continuing operations of $18,222, which resulted in an annualized effective tax rate of 39%. This rate differed from the U.S. statutory rate of 35% primarily due to state income taxes and reserves for U.S. federal and state tax audits, partially offset by the reversal of reserves for U.S. federal and foreign audit issues that have been effectively settled and the effects of foreign operations, as our tax rates on those operations are generally lower than the U.S. statutory rate. Other long-term liabilities at September 30, 2011 and December 31, 2010, included unrecognized tax benefits of $7,626 and $7,271, respectively, for both domestic and foreign issues. The net increase of $355 was due primarily for uncertainties relating to the Company's transfer pricing with its foreign licensing subsidiary and California income apportionment methodology. The Company believes that its accruals for uncertain tax positions are adequate for all open years, based on the assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter. Inherent uncertainties exist in estimating accruals for uncertain tax positions due to the progress of income tax audits and changes in tax law, both legislated and concluded through the various jurisdictions' tax court systems. The Company may, from time to time, be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to the Company's financial results. In accordance with the Company's accounting policy, interest expense and penalties related to income taxes are included in income tax expense. The Company, or one of its subsidiaries, files income tax returns in the U.S. and other foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal income tax examinations by tax authorities for the years prior to 2007. The Internal Revenue Service ("IRS") is examining the Company's 2007 federal income tax return, including certain prior period carryforwards. In addition, the California Franchise Tax Board ("FTB") is conducting a state tax examination for the years 2004 and 2005. The Company disagrees with and has protested certain adjustments proposed by the IRS and FTB, and thus, has filed separate appeals. The timing of the ultimate resolution of these matters cannot be reasonably estimated. Licensing revenue is recognized gross of withholding taxes that are remitted by the Company's licensees directly to their local tax authorities. For the three months ended September 30, 2011 and 2010, withholding taxes were $1,157 and $1,209, respectively. For the nine months ended September 30, 2011 and 2010, withholding taxes were $3,944 and $3,516, respectively.

Basis of Presentation	9 Months Ended Sep. 30, 2011

Basis of Presentation

Basis of Presentation

Note 1−Basis of Presentation

The accompanying unaudited consolidated financial statements of DTS, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, the unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair statement of the Company's financial position at September 30, 2011, and the results of operations and cash flows for the periods presented. All significant intercompany transactions have been eliminated in consolidation. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2011. The information included in this Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, filed on March 3, 2011.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Discontinued Operations

All discussions and amounts in the consolidated financial statements and related notes, except for cash flows, for all periods presented relate to continuing operations only, unless otherwise noted. For additional information, refer to Footnote 11 of the consolidated financial statements, "Discontinued Operations."

Cash and Investments

Cash and Investments	9 Months Ended Sep. 30, 2011

Cash and Investments

Note 3−Cash and Investments

Cash and investments consist of the following:

	As of September 30, 2011	As of December 31, 2010
Cash and cash equivalents:		
Cash	**$13,775**	$14,840
Money market accounts	**17,265**	17,846
U.S. government and agency securities	**3,803**	5,553
Municipal securities	**102**	3,505
Total cash and cash equivalents	**$34,945**	$41,744
Short-term investments:		
Available-for-sale securities:		
U.S. government and agency securities	**$11,396**	$−
Held-to-maturity securities:		
Certificates of deposit	**1,743**	2,018
Commercial paper	**2,573**	5,648
U.S. government and agency securities	**24,209**	34,084
Municipal securities	**10,929**	12,637
Total short-term investments	**$50,850**	$54,387
Long-term investments:		
Available-for-sale securities:		
U.S. government and agency securities	**$1,492**	$−
Held-to-maturity securities:		
Certificates of deposit	−	104
U.S. government and agency securities	−	5,051
Municipal securities	**1,143**	158
Total long-term investments	**$2,635**	$5,313

The Company had no material gross realized or unrealized holding gains or losses from its investments in securities classified as available-for-sale or held-to-maturity for the periods presented within this quarterly report.

The contractual maturities of investments at September 30, 2011 are as follows:

Available-for-sale securities:	
Due within one year	$11,396
Due after one year and through five years	1,492
	12,888
Held-to-maturity securities:	
Due within one year	39,454
Due after one year and through five years	1,143
	40,597
Total investments	$53,485

For additional information on investments classified as available-for-sale, refer to Footnote 4 of the consolidated financial statements, "Fair Value Measurements."

Net Income Per Common Share	9 Months Ended Sep. 30, 2011
Net Income Per Common Share	
Net Income Per Common Share	

Note 12−Net Income Per Common Share

Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share is calculated by dividing net income by the sum of the weighted average number of common shares outstanding plus the dilutive effect of unvested restricted stock, outstanding stock options and the employee stock purchase plan ("ESPP") using the "treasury stock" method.

The following table sets forth the computation of basic and diluted net income per common share:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Basic net income per common share:				
Numerator:				
Income from continuing operations	$2,902	$3,417	$11,192	$8,893
Income (loss) from discontinued operations	−	(9)	−	994
Net income	$2,902	$3,408	$11,192	$9,887
Denominator:				
Weighted average common shares outstanding	16,910	16,897	17,131	17,053
Continuing operations	$0.17	$0.20	$0.65	$0.52
Discontinued operations	−	−	−	0.06
Basic net income per common share	$0.17	$0.20	$0.65	$0.58
Diluted net income per common share:				
Numerator:				
Income from continuing operations	$2,902	$3,417	$11,192	$8,893
Income (loss) from discontinued operations	−	(9)	−	994
Net income	$2,902	$3,408	$11,192	$9,887
Denominator:				

Weighted average shares outstanding	16,910	16,897	17,131	17,053
Effect of dilutive securities:				
Common stock options	442	613	538	602
Restricted stock	81	129	97	119
ESPP	1	16	2	19
Diluted shares outstanding	17,434	17,655	17,768	17,793
Continuing operations	$0.17	$0.19	$0.63	$0.50
Discontinued operations	–	–	–	0.06
Diluted net income per common share	$0.17	$0.19	$0.63	$0.56

For the three months ended September 30, 2011 and 2010, 612 and 360 shares, respectively, of the Company's stock options and restricted stock were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. For the nine months ended September 30, 2011 and 2010, 371 and 322 shares, respectively, of the Company's stock options and restricted stock were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

CONSOLIDATED BALANCE SHEETS (Parenthetical) (USD $) In Thousands, except Per Share data	Sep. 30, 2011	Dec. 31, 2010
CONSOLIDATED BALANCE SHEETS		
Accounts receivable, allowance for doubtful accounts (in dollars)	$ 334	$ 226
Preferred stock, par value (in dollars per share)	$ 0.0001	$ 0.0001
Preferred stock, shares authorized	5,000	5,000
Preferred stock, shares issued	0	0
Preferred stock, shares outstanding	0	0
Common stock, par value (in dollars per share)	$ 0.0001	$ 0.0001
Common stock, shares authorized	70,000	70,000
Common stock, shares issued	20,503	20,325
Common stock, shares outstanding	16,703	17,325
Treasury stock, shares	3,800	3,000