DTS, INC.

FORM 10-Q
(Quarterly Report)

Filed 08/10/09 for the Period Ending 06/30/09

Address	5220 LAS VIRGENES ROAD CALABASAS, CA 91302
Telephone	818 436-1000
CIK	0001226308
Symbol	DTSI
SIC Code	3651 - Household Audio and Video Equipment
Industry	Audio & Video Equipment
Sector	Consumer Cyclical
Fiscal Year	12/31

http://www.edgar-online.com
© Copyright 2010, EDGAR Online, Inc. All Rights Reserved.
Distribution and use of this document restricted under EDGAR Online, Inc. Terms of Use.

Use these links to rapidly review the document
TABLE OF CONTENTS

Table of Contents

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 June 30, 2009

Commission File Number 000-50335

DTS, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**77-0467655** (I.R.S. Employer Identification No.)
5171 Clareton Drive Agoura Hills, California 91301 (Address of principal executive offices and zip code)	**(818) 706-3525** (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 ☐ (Do not check if a smaller reporting company) 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 July 31, 2009 a total of 17,481,596 shares of the Registrant's Common Stock, $0.0001 par value, were outstanding.

DTS, INC.
FORM 10-Q

TABLE OF CONTENTS

PART I	FINANCIAL INFORMATION	1
Item 1.	Financial Statements (unaudited):	1
	Consolidated Balance Sheets	1
	Consolidated Statements of Operations	2
	Consolidated Statements of Cash Flows	3
	Notes to Consolidated Financial Statements	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	22
Item 4.	Controls and Procedures	23
PART II.	OTHER INFORMATION	24
Item 1.	Legal Proceedings	24
Item 1A.	Risk Factors	24
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	39
Item 3.	Defaults Upon Senior Securities	39
Item 4.	Submission of Matters to a Vote of Security Holders	39
Item 5.	Other Information	40
Item 6.	Exhibits	40
SIGNATURES		41

DTS, INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

DTS, INC.

CONSOLIDATED BALANCE SHEETS

	As of December 31, 2008	As of June 30, 2009
	(Unaudited) (Amounts in thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,658	$ 38,200
Short-term investments	42,365	40,392
Accounts receivable, net of allowance for doubtful accounts of $64 and $229 at December 31, 2008 and June 30, 2009, respectively	8,835	7,260
Deferred income taxes	4,644	4,623
Prepaid expenses and other current assets	1,410	1,714
Income taxes receivable, net	2,467	2,419
Total current assets	85,379	94,608
Property and equipment, net	23,778	30,004
Intangible assets, net	7,557	6,991
Goodwill	972	748
Deferred income taxes	13,145	13,247
Long-term investments	6,347	6,422
Other assets	500	624
Total assets	$ 137,678	$ 152,644
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,448	$ 9,314
Accrued expenses and other liabilities	7,158	5,447
Total current liabilities	8,606	14,761
Other long-term liabilities	3,783	5,128
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock—$0.0001 par value, 5,000 shares authorized at December 31, 2008 and June 30, 2009; no shares issued and outstanding	—	—
Common stock—$0.0001 par value, 70,000 shares authorized at December 31, 2008 and June 30, 2009; 19,290 and 19,483 shares issued at December 31, 2008 and June 30, 2009, respectively; 17,290 and 17,483 shares outstanding at December 31, 2008 and June 30, 2009, respectively	2	2
Additional paid-in capital	151,894	155,588
Treasury stock, at cost—2,000 shares at December 31, 2008 and June 30, 2009	(41,608)	(41,608)
Accumulated other comprehensive income	355	310
Retained earnings	14,646	18,463
Total stockholders' equity	125,289	132,755
Total liabilities and stockholders' equity	$ 137,678	$ 152,644

See accompanying notes to consolidated financial statements.

DTS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2009	2008	2009
	(Unaudited) (Amounts in thousands, except per share amounts)			
Revenue	$12,829	$24,165	$28,039	$41,427
Cost of revenue	314	449	608	894
Gross profit	12,515	23,716	27,431	40,533
Operating expenses:				
Selling, general and administrative	8,726	16,067	17,523	28,855
Research and development	1,876	2,380	3,639	4,563
Total operating expenses	10,602	18,447	21,162	33,418
Income from operations	1,913	5,269	6,269	7,115
Interest and other income, net	388	718	1,267	862
Income from continuing operations before income taxes	2,301	5,987	7,536	7,977
Provision for income taxes	927	2,361	2,911	4,161
Income from continuing operations	1,374	3,626	4,625	3,816
Income from discontinued operations, net of tax	3,639	4	1,705	1
Net income	$ 5,013	$ 3,630	$ 6,330	$ 3,817
Net income per common share:				
Basic:				
Continuing operations	$ 0.08	$ 0.21	$ 0.26	$ 0.22
Discontinued operations	0.20	—	0.10	—
Net income	$ 0.28	$ 0.21	$ 0.36	$ 0.22
Diluted:				
Continuing operations	$ 0.07	$ 0.21	$ 0.25	$ 0.22
Discontinued operations	0.20	—	0.10	—
Net income	$ 0.27	$ 0.21	$ 0.35	$ 0.22
Weighted average shares used to compute net income per common share:				
Basic	17,714	17,123	17,620	17,096
Diluted	18,358	17,683	18,209	17,504

See accompanying notes to consolidated financial statements.

DTS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30,	
	2008	2009
	(Unaudited) (Amounts in thousands)	
Cash flows from operating activities:		
Net income	$ 6,330	$ 3,817
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,338	1,820
Adjustment to carrying value of assets held for sale	(4,963)	—
Loss on sale of assets held for sale	2,099	—
Stock-based compensation charges	2,499	2,909
Deferred income taxes	(1,840)	(81)
Tax benefits from stock-based awards	36	90
Excess tax benefits from stock-based awards	(18)	(221)
Other	(3)	146
Changes in operating assets and liabilities:		
Accounts receivable	5,607	1,257
Prepaid expenses and other assets	(518)	17
Accounts payable, accrued expenses and other liabilities	(2,584)	5,193
Income taxes receivable	245	48
Net cash provided by operating activities	8,228	14,995
Cash flows from investing activities:		
Purchases of investments:		
Held-to-maturity	(29,383)	(25,452)
Available for sale	(12,925)	—
Maturities of held-to-maturity investments	20,050	24,400
Sales of available for sale investments	20,925	2,950
Proceeds from the sale of assets held for sale, net	10,300	—
Cash paid for business and technology acquisitions, net	(226)	(27)
Purchase of property and equipment	(1,315)	(5,048)
Payment for patents and trademarks in process	(401)	(192)
Net cash provided by (used in) investing activities	7,025	(3,369)
Cash flows from financing activities:		
Proceeds from the issuance of common stock under stock-based compensation plans	6,312	959
Repurchase and retirement of common stock for restricted stock award withholdings	(513)	(264)
Excess tax benefits from stock-based awards	18	221
Net cash provided by financing activities	5,817	916
Net change in cash and cash equivalents of discontinued operations	333	—
Net increase in cash and cash equivalents	21,403	12,542
Cash and cash equivalents, beginning of period	35,523	25,658
Cash and cash equivalents, end of period	$ 56,926	$ 38,200

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 June 30, 2009, 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 six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2009. 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, 2008, filed on March 6, 2009.

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.

In January 2007, the Company combined its cinema and digital images businesses into a single business known as "DTS Digital Cinema." In February 2007, the Company's Board of Directors approved a plan to sell DTS Digital Cinema to enable the Company to focus exclusively on licensing branded entertainment technology to the large and evolving audio, game console, personal computer, portable, broadcast, and other markets. During the second quarter of 2008, the Company sold its cinema and digital images businesses in two separate transactions. For additional information, refer to Footnote 10 of the consolidated financial statements, "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.

The Company has evaluated subsequent events through August 10, 2009, the date that the consolidated financial statements were issued. All subsequent events requiring recognition or disclosure as of June 30, 2009, have been incorporated into the consolidated financial statements presented herein. For additional information, refer to Footnote 5 of the consolidated financial statements, "Business Combination."

Note 2—Recent Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board ("FASB") issued Staff Position ("FSP") FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP 107-1 and APB 28-1"). FSP 107-1 and APB 28-1 amends Statement of Financial Accounting Standard ("SFAS") No. 107, "Disclosures About Fair Value of Financial Instruments," to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as

DTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Amounts in thousands, except per share data)

Note 2—Recent Accounting Pronouncements (Continued)

well as in annual financial statements. FSP 107-1 and APB 28-1 also amends Accounting Principles Board ("APB") Opinion No. 28, "Interim Financial Reporting," to require those disclosures in summarized financial information at interim reporting periods. FSP 107-1 and APB 28-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. FSP 107-1 and APB 28-1 does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, FSP 107-1 and APB 28-1 requires comparative disclosures only for periods ending after initial adoption. The adoption of FSP 107-1 and APB 28-1, during second quarter 2009, did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP 157-4"). FSP 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157, "Fair Value Measurements," when the volume and level of activity for the asset or liability have significantly decreased. FSP 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. FSP 157-4 does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, FSP 157-4 requires comparative disclosures only for periods ending after initial adoption. The adoption of FSP 157-4, during second quarter 2009, did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" ("FSP 115-2 and 124-2"). FSP 115-2 and 124-2 amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP 115-2 and 124-2 does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP 115-2 and 124-2 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. FSP 115-2 and 124-2 does not require disclosures for earlier periods presented for comparative purposes at initial adoption. The adoption of FSP 115-2 and 124-2, during second quarter 2009, did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" ("FSP 141(R)-1"). FSP 141R-1 amends the provisions in SFAS No. 141(R), "Business Combinations," for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. FSP 141(R)-1 eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria in SFAS No. 141(R) and carries forward most of the provisions in SFAS No. 141 for acquired contingencies. FSP 141(R)-1 is effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The impact of the Company's adoption of

DTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Amounts in thousands, except per share data)

Note 2—Recent Accounting Pronouncements (Continued)

FSP 141(R)-1 will depend upon the nature, terms and magnitude of acquired contingencies associated with future business combinations, if any.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events." SFAS No. 165 was issued in order to establish principles and requirements for reviewing and reporting subsequent events and requires disclosure of the date through which subsequent events are evaluated and whether the date corresponds with the time at which the financial statements were available for issue (as defined) or were issued. SFAS No. 165 is effective for interim reporting periods ending after June 15, 2009. The adoption of SFAS No. 165 did not have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, "The *FASB Accounting Standards Codification* and the Hierarchy of Generally Accepted Accounting Principles." This standard replaces SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principle," and establishes only two levels of U.S. generally accepted accounting principles ("GAAP"), authoritative and nonauthoritative. The FASB Accounting Standards Codification (the "Codification") will become the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission ("SEC"), which are sources of authoritative GAAP for SEC registrants. All other nongrandfathered, non-SEC accounting literature not included in the Codification will become nonauthoritative. This standard is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. The Company will begin to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP in the third quarter of 2009. As the Codification was not intended to change or alter existing GAAP, it will not have a material impact on the Company's consolidated financial statements.

Note 3—Fair Value Measurements

As of June 30, 2009, the Company held certain financial assets that are required to be measured at fair value on a recurring basis. These financial assets included the Company's auction rate security instruments, which are classified as available-for-sale investments. The auction rate securities held at June 30, 2009 are tax-exempt municipal bonds issued by governmental entities located within the United States that are insured and have a AAA rating.

Liquidity for these auction rate security instruments is typically provided by a Dutch auction process that resets the applicable interest rate at pre-determined intervals, usually every 7, 28, or 35 days. Historically, auction rate security instruments would also be purchased or sold at these pre-determined intervals, creating a liquid market. Investment earnings paid during a given period are based upon the reset interest rate determined during the prior auction. For each unsuccessful auction, the interest rate moves to a maximum rate defined for each security, which is generally higher than short-term interest indices. To date, the Company has collected all interest receivable on its auction rate security instruments when due.

On October 24, 2008, the Company accepted an offer from UBS AG ("UBS") to liquidate its auction rate securities held in UBS accounts on February 13, 2008. The terms or rights of the UBS offer were publicly filed in a prospectus, dated October 7, 2008. As of June 30, 2009, the Company

DTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Amounts in thousands, except per share data)

Note 3—Fair Value Measurements (Continued)

owned $2,250 par value of these securities. From January 2, 2009 and ending January 4, 2011, the Company has the right, but not the obligation, to sell, at par, these auction rate securities to UBS, and such a transaction would be initiated by UBS. Prior to January 4, 2011, the Company will continue to earn and receive all interest that is payable for these auction rate securities. Furthermore, prior to January 4, 2011, UBS, at its sole discretion, may sell, or otherwise dispose of, and/or enter orders in the auctions process with respect to these securities on the Company's behalf so long as it receives par value for the auction rate securities sold. UBS has also agreed to use its best efforts to facilitate issuer redemptions and/or to resolve the liquidity concerns of holders of their auction rate securities through restructurings and other means. In addition, UBS has agreed to provide "no net cost" loans to holders of the illiquid securities that are subject to bank repurchase, thereby providing the Company with short-term liquidity on its auction rate securities portfolio at no additional cost. As a result of this arrangement with UBS, the Company believes that it has Level 2 inputs within the SFAS No. 157 fair value hierarchy as of June 30, 2009, and par value or cost is a reasonable approximation of fair value.

Due to the Company's belief that it may take until January 2011 to liquidate the remaining securities, its auction rate security instruments have been classified as long-term investments on the consolidated balance sheet as of June 30, 2009.

Any future fluctuation in fair value related to these securities that the Company deems to be temporary, including any recoveries of previous write-downs, will be recorded to accumulated other comprehensive income. If the Company determines that any future valuation adjustment is other than temporary, it will record a charge to earnings.

The Company's financial assets measured at fair value on a recurring basis subject to the disclosure requirements of SFAS No. 157 were as follows:

		Fair Value Measurements at Reporting Date Using		
Description	As of June 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Auction Rate Securities	$2,250	$ —	$ 2,250	$ —

DTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Amounts in thousands, except per share data)

Note 4—Property and Equipment, Net

Property and equipment consist of the following:

	As of December 31, 2008	As of June 30, 2009
Land(1)	$ 6,600	$ 6,600
Building and improvements(1)	10,704	17,207
Machinery and equipment	1,796	1,776
Office furniture and fixtures	4,841	5,202
Leasehold improvements	3,554	3,657
Software	5,184	5,412
	32,679	39,854
Less: Accumulated depreciation	(8,901)	(9,850)
Property and equipment, net	$ 23,778	$ 30,004

(1) This property includes an approximately 89,000 square foot building, which shall be used as the Company's new corporate headquarters later in 2009. Therefore, the Company has not begun to recognize depreciation expense for the building or the related improvements.

Note 5—Business Combination

On December 31, 2008, the Company and its wholly-owned subsidiaries, DTS Washington LLC and DTS (BVI) Limited, entered into an Asset Purchase Agreement (the "Agreement") with Neural Audio Corporation (the "Seller") and its stockholders providing for the sale of substantially all of the Seller's assets used in the conduct of its audio technology business to the Company and certain patents and patent applications owned by such stockholders (the "Acquired Assets") and the assumption by the Company of certain liabilities of the Seller. The sale was consummated the same day. Pursuant to the terms of the Agreement, the Company paid cash consideration of approximately $7,500 at closing and could pay up to an additional $7,500 in additional cash consideration over the next five years based on performance of certain of the Acquired Assets. The Agreement contains customary representations, warranties and covenants.

On July 21, 2009, the Company and its wholly-owned subsidiaries, DTS Washington LLC and DTS (BVI) Limited, entered into a Settlement Agreement (the "Settlement Agreement") with the Seller and its stockholders providing that $450 be paid to the Company, as the working capital conveyed to the Company was less than the threshold required by the Agreement. As this Settlement Agreement provided additional evidence about conditions that existed prior to June 30, 2009, the $450 settlement was a recognized subsequent event on the consolidated balance sheet at June 30, 2009, and goodwill was reduced accordingly.

DTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Amounts in thousands, except per share data)

Note 5—Business Combination (Continued)

The estimated total purchase price for the acquisition of the Acquired Assets and the assumption by the Company of certain liabilities of the Seller is as follows:

Cash	$7,050
Estimated direct acquisition costs	219
Total estimated purchase price	$7,269

The estimated purchase price decreased by $423 during the first six months of 2009 as a result of the aforementioned Settlement Agreement, net of additional direct acquisition costs.

This acquisition was accounted for as a purchase business combination in conformity with SFAS No. 141. Under the purchase method of accounting, the total estimated purchase price is allocated to the acquired business' net tangible and intangible assets based on their estimated fair value as of the date of completion of the acquisition. Based on the estimated purchase price and the preliminary valuation, the preliminary purchase price allocation, which is subject to change based on the Company's final analysis, is as follows:

Accounts receivable	$ 127
Prepaid assets	5
Tangible assets	180
Other assets	9
Amortizable intangible assets:	
Existing technology	3,600
Customer relationships	1,050
Non-compete	515
Tradename	190
IPR&D	1,090
Goodwill	748
Total assets acquired	7,514
Liabilities assumed:	
Accounts payable	211
Accrued liabilities	34
Total liabilities assumed	245
Total purchase price	$7,269

A preliminary estimate of $5,355 has been allocated to amortizable intangible assets consisting of existing technology, customer relationships, non-compete and tradename.

A preliminary estimate of $748 has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair market value of the net tangible and amortizable intangible assets acquired. Goodwill will not be amortized, and it will be tested for impairment at least annually. The preliminary purchase price allocation for this acquisition is subject to revision as more detailed analysis

DTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Amounts in thousands, except per share data)

Note 5—Business Combination (Continued)

is completed and additional information becomes available. Any such revisions will change the amount of the purchase price allocable to goodwill. The goodwill estimate decreased $224 from the December 31, 2008 estimate during the first six months of 2009 as a result of the aforementioned Settlement Agreement, net of additional information relating to the fair value of certain assets and liabilities and the aforementioned additional direct acquisition costs.

The final purchase price and the valuation of the net assets acquired are expected to be completed as soon as practicable, but no later than one year from the date of acquisition.

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 technology, indemnities for liabilities associated with the infringement of other parties' technology based upon the Company's products and technology, 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.

Legal Proceedings

As a result of the Company's legal proceedings with Zoran Corporation, it has incurred approximately $6,125 and $8,725 in legal fees and expenses during the three and six months ended June 30, 2009, respectively, which have been classified as selling, general and administrative expenses on the consolidated statements of operations. On June 18, 2009, we settled all pending legal matters with Zoran Corporation. As a result, Zoran Corporation has entered into a new DTS license agreement for DTS technologies required for both DVD and Blu-ray products, including DTS-HD Master Audio. For additional information regarding the Company's legal proceedings with Zoran, see "Legal Proceedings" in Item 1 of Part II of this report.

Note 7—Income Taxes

For the three months ended June 30, 2009, the Company recorded an income tax provision of $2,361 on pre-tax income from continuing operations of $5,987. For the six months ended June 30, 2009, the Company recorded an income tax provision of $4,161 on pre-tax income from continuing operations of $7,977, which resulted in an annualized effective tax rate of 52%. This rate differed from the U.S. statutory rate of 35% primarily due to an adjustment for imputed interest on inter-company balances as described below, which impacted the rate by 11 percentage points.

DTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Amounts in thousands, except per share data)

Note 7—Income Taxes (Continued)

In the first quarter of 2009, the Company's management identified an adjustment in its unrecognized tax benefits, in accordance with FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109" ("FIN 48"), liability primarily related to imputed interest on inter-company balances for the years 2003 through 2008, that was recorded during the quarter. The adjustment had the effect of increasing income tax expense in the quarter by $882. The adjustment has decreased income from continuing operations by $882 and net income by $882. The Company's management determined that the effect on previously filed reports was not material.

During the six months ended June 30, 2009, the Company's unrecognized tax benefits increased by $882 for an out-of-period adjustment, $23 for tax positions taken in prior periods and by $467 for tax positions taken during the current period. The increases were primarily attributable to uncertain tax positions taken on tax returns that are currently being audited and transfer pricing positions taken with respect to the Company's foreign subsidiaries. These unrecognized tax benefits would affect the Company's effective tax rate, if recognized. There is an immaterial liability for uncertain tax positions for the possible payment of interest and penalties. The Company does not anticipate any significant changes to its total unrecognized tax benefit within the next twelve months. However, the Company notes that the resolution and timing of closure of open audits is highly uncertain.

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 2004. The Internal Revenue Service is examining the Company's 2005 and 2006 federal tax returns, including certain prior period carry forwards. In addition, the California Franchise Tax Board is conducting a state tax examination for the years 2004 and 2005.

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 June 30, 2008 and 2009, withholding taxes were $601 and $592, respectively. For the six months ended June 30, 2008 and 2009, withholding taxes were $1,784 and $1,781, respectively.

Note 8—Comprehensive Income

At December 31, 2008 and June 30, 2009, accumulated other comprehensive income was comprised mostly of foreign currency translation.

Comprehensive income for the three months ended June 30, 2008 and 2009 was $5,077 and $3,608, respectively. Comprehensive income for the six months ended June 30, 2008 and 2009 was $6,399 and $3,772, respectively.

DTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Amounts in thousands, except per share data)

Note 9—Operating Segment and 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 June 30,		For the Six Months Ended June 30,	
	2008	2009	2008	2009
United States	$ 1,313	$11,833	$ 2,391	$13,536
International	11,516	12,332	25,648	27,891
Total revenue	$12,829	$24,165	$28,039	$41,427

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

	As of December 31, 2008	As of June 30, 2009
United States	$ 22,461	$ 28,589
International	1,317	1,415
Total long-lived tangible assets	$ 23,778	$ 30,004

Note 10—Discontinued Operations

In presenting discontinued operations, general corporate overhead expenses that have been allocated historically to DTS Digital Cinema for segment presentation purposes are not included in discontinued operations. The following table presents revenue and expense information for the discontinued operations of DTS Digital Cinema for the three and six months ended June 30, 2008 and 2009.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2009(1)	2008	2009(1)
Revenue	$ 1,347	$ —	$ 6,214	$ —
Pre-tax income (loss)	(2,983)	4	(681)	1
Income tax benefit	(6,622)	—	(2,386)	—
Income from discontinued operations, net of tax	$ 3,639	$ 4	$ 1,705	$ 1

(1) The loss from discontinued operations resulted from the resolution of certain estimated costs associated with the sale and other expenses.

DTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Amounts in thousands, except per share data)

Note 11—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 June 30,		For the Six Months Ended June 30,	
	2008	2009	2008	2009
Basic net income per common share:				
Numerator:				
Income from continuing operations	$ 1,374	$ 3,626	$ 4,625	$ 3,816
Income from discontinued operations	3,639	4	1,705	1
Net income	$ 5,013	$ 3,630	$ 6,330	$ 3,817
Denominator:				
Weighted average common shares outstanding	17,714	17,123	17,620	17,096
Continuing operations	$ 0.08	$ 0.21	$ 0.26	$ 0.22
Discontinued operations	0.20	—	0.10	—
Basic net income per common share	$ 0.28	$ 0.21	$ 0.36	$ 0.22
Diluted net income per common share:				
Numerator:				
Income from continuing operations	$ 1,374	$ 3,626	$ 4,625	$ 3,816
Income from discontinued operations	3,639	4	1,705	1
Net income	$ 5,013	$ 3,630	$ 6,330	$ 3,817
Denominator:				
Weighted average shares outstanding	17,714	17,123	17,620	17,096
Effect of dilutive securities:				
Common stock options	574	468	523	336
Restricted stock	66	80	63	67
ESPP	4	12	3	5
Diluted shares outstanding	18,358	17,683	18,209	17,504
Continuing operations	$ 0.07	$ 0.21	$ 0.25	$ 0.22
Discontinued operations	0.20	—	0.10	—
Diluted net income per common share	$ 0.27	$ 0.21	$ 0.35	$ 0.22

For the three months ended June 30, 2008 and 2009, 28 and 382 shares, respectively, of the Company's stock options and restricted stock were excluded from the calculation of diluted earnings

DTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Amounts in thousands, except per share data)

Note 11—Net Income Per Common Share (Continued)

per share because their inclusion would have been anti-dilutive. For the six months ended June 30, 2008 and 2009, 240 and 1,076 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.

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 or expectations, and our objectives for future operations, including 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 from 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 core DTS digital multi-channel audio technology enables the delivery and playback of compelling surround sound and is currently used in a variety of product applications, including audio/video receivers, DVD based products, Blu-ray Disc players, personal computers or PCs, car audio products, video game consoles, and home theater systems. In addition, we provide products and services to 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 derive revenues from licensing our audio technology, 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.

We actively engage in intellectual property compliance and enforcement activities focused on identifying third parties who have either incorporated our technology, 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 costs associated with promotional and other selling activities. Selling, general, and administrative expenses also include professional fees, facility-related expenses, and other general corporate expenses, including 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 increased 88% and 48% for the three and six months ended June 30, 2009, respectively, compared to the same prior year periods.
- Royalty recoveries from intellectual property compliance and enforcement activities increased $11.2 million and $12.6 million during the three and six months ended June 30, 2009, respectively, compared to the same prior year periods.
- Royalties from broadcast markets comprised 4% of total revenue for the three and six months ended June 30, 2009, primarily as a result of the business that we acquired from Neural Audio Corporation, or Neural, on December 31, 2008.
- Royalties from Blu-ray product markets increased 53% and 29% for the three and six months ended June 30, 2009, respectively, compared to the same prior year periods.
- Legal expenses for our litigation with Zoran Corporation were approximately $6.1 million and $8.7 million for the three and six months ended March 31, 2009, respectively, which were included in selling, general and administrative expenses.

Trends, Opportunities, and Challenges

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 to the car audio, personal computer, portable electronics and video game markets as well. In addition, we expect the recent acceleration of the market for high definition televisions to drive demand for Blu-ray Disc players and advanced home theater systems over the next several years. Because we have been selected as a mandatory technology in the Blu-ray Disc standard, our revenue growth should closely track the growth rate for sales of these players over the next several years. We expect that the market for Blu-ray Disc players will yield new growth that provides an offset to an expected decline in DVD based product shipments. Further, we believe that mandatory inclusion in the Blu-ray Disc standard will help to improve the adoption rate of our technologies in other consumer products such as video game consoles, personal audio and video players, personal computers and in-car entertainment systems.

While we are optimistic about the expected growth in Blu-ray Disc products over the next several years, we do not have near-term visibility into the precise timing of this expected growth or how smooth or linear this growth will be. Factors that could potentially affect this growth in the near term include the pace of consumer adoption of these products, product pricing, manufacturer redesign cycles, content availability, and the impact of the current economic downturn on consumer buying patterns.

We believe the market for virtual surround sound technologies is growing. DTS Surround Sensation is a suite of virtual surround sound technologies that allows the playing of simulated 5.1 multi-channel content over two speakers or headphones. DTS Surround Sensation contains significant psycho-acoustic information that alters human perception, causing the listener to perceive that sounds are actually occurring outside the boundaries of the two-speaker system or headphones. Developed with a key understanding of acoustics and significant experience with the properties of sound, DTS Surround Sensation creates a three-dimensional sound field that exceeds the limitations of just two speakers, producing a surround sound experience.

We view our recent business acquisition from Neural as an excellent opportunity for us to leverage our high quality branded technology, and this acquired business places us into the broadcast (both radio and television) market and helps to solidify our position in the car and game markets.

We continue to be cautious regarding the outlook for the consumer electronics industry as a whole, and the revenues we derive from that industry, in light of the turmoil in the global economic environment. Consumer spending for discretionary goods, including consumer electronics products, is generally negatively affected by falling consumer confidence, high unemployment rates, stagnant or falling salaries and wage rates and consumer perception of a protracted economic recovery.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is 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 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 6, 2009.

Results of Continuing Operations

Revenues

	2009	2008	Change $	Change %
	($ in thousands)			
Three months ended June 30,	$24,165	$12,829	$11,336	88%
Six months ended June 30,	$41,427	$28,039	$13,388	48%

The increase in revenues for the three months ended June 30, 2009, compared to the same prior year period, was primarily attributable to an $11.2 million increase in royalty recoveries from intellectual property compliance and enforcement activities. Also, revenues from broadcast markets and Blu-ray product markets increased during the three months ended June 30, 2009, compared to the same prior year period. Royalties from broadcast markets comprised 4% of total revenue for the three months ended June 30, 2009, primarily as a result of the business that we acquired from Neural, on December 31, 2008. Royalties from Blu-ray product markets increased 53% for the three months ended June 30, 2009, compared to the same prior year period, as increases in revenues from stand alone Blu-ray players and Blu-ray enabled PCs offset softness in game consoles. We continue to be cautious regarding the outlook for the consumer electronics industry as a whole, and the revenues we derive from that industry, in light of the turmoil in the global economic environment. However, we expect technology licensing revenues to grow during the remainder of this year, as wider availability of Blu-ray players, PC and game console models equipped with a Blu-ray Disc drive, coupled with expected aggressive pricing and promotion of these products, should result in increasing licensing revenues from the Blu-ray format.

The increase in revenues for the six months ended June 30, 2009, compared to the same prior year period, was primarily attributable to a $12.6 million increase in royalty recoveries from intellectual property compliance and enforcement activities. Also, revenues from broadcast markets and Blu-ray product markets increased during the six months ended June 30, 2009, compared to the same prior year period. Royalties from broadcast markets comprised 4% of total revenue for the six months ended June 30, 2009, primarily as a result of the business that we acquired from Neural, on December 31, 2008. Royalties from Blu-ray product markets increased 29% for the six months ended June 30, 2009, compared to the same prior year period.

Gross Profit

	2009	%	2008	%	Percentage point change in gross profit margin relative to prior period
			($ in thousands)		
Three months ended June 30,	$23,716	98%	$12,515	98%	0%
Six months ended June 30,	$40,533	98%	$27,431	98%	0%

Consolidated gross profit for the three and six months ended June 30, 2009, compared to the same prior year periods, remained consistent. We expect consolidated gross margins in the 97% to 98% range for 2009.

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

	2009	2008	Change $	Change %
		($ in thousands)		
Three months ended June 30,	$16,067	$ 8,726	$ 7,341	84%
% of Revenue	*66 %*	*68 %*		
Six months ended June 30,	$28,855	$17,523	$11,332	65%
% of Revenue	*70 %*	*62 %*		

The dollar increase for the three months ended June 30, 2009, compared to the same prior year period, was primarily due to a $6.1 million increase in expenses related to our litigation with Zoran Corporation, a $0.5 million increase in employee related costs, including expanded operations and stock-based compensation, and a $0.3 million increase in advertising expenses.

The increase for the six months ended June 30, 2009, compared to the same prior year period, was primarily due to an $8.7 million increase in expenses related to our litigation with Zoran Corporation, a $1.6 million increase in employee related costs, including expanded operations and stock-based compensation, and a $0.3 million increase in occupancy costs for expanded operations.

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")

	2009	2008	Change $	Change %
	($ in thousands)			
Three months ended June 30,	$2,380	$1,876	$504	27%
% of Revenue	*10 %*	*15 %*		
Six months ended June 30,	$4,563	$3,639	$924	25%
% of Revenue	*11 %*	*13 %*		

The dollar increase for the three months ended June 30, 2009, compared to the same prior year period, was primarily due to a $0.4 million increase in employee related costs, including expanded operations and stock-based compensation.

The dollar increase for the six months ended June 30, 2009, compared to the same prior year period, was primarily due to a $0.6 million increase in employee related costs, including expanded operations and stock-based compensation, and a $0.1 million increase in consulting fees to support our broadening product development agenda and ongoing support of the rollout of Blu-ray Disc.

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

	2009	2008	Change $	Change %
	($ in thousands)			
Three months ended June 30,	$718	$ 388	$ 330	85%
Six months ended June 30,	$862	$1,267	$(405)	(32)%

The increase for the three months ended June 30, 2009, compared to the same prior year period, was primarily due to the interest income associated with the aforementioned royalty recoveries from intellectual property compliance and enforcement activities, partially offset by the decrease in interest income resulting from lower average interest rates and investment balances in the current year period. Also contributing to the increase for the three months ended June 30, 2009, compared to the same prior year period, were the effects of translation for certain foreign subsidiaries to the United States dollar or functional currency.

The decrease for the six months ended June 30, 2009, compared to the same prior year period, was primarily due to the decrease in interest income resulting from lower average interest rates and investment balances in the current year period. Also contributing to the decrease for the six months ended June 30, 2009, compared to the same prior year period, were the effects of translation for certain foreign subsidiaries to the United States dollar or functional currency. Partially offsetting these decreases was interest income associated with the aforementioned royalty recoveries from intellectual property compliance and enforcement activities.

We expect interest and other income for the year to be in the range of $1.0 to $1.5 million, based on the current interest rate environment and current investment balances.

Income Taxes

	2009	2008
	($ in thousands)	
Three months ended June 30,	$2,361	$ 927
Effective tax rate	*39 %*	*40 %*
Six months ended June 30,	$4,161	$2,911
Effective tax rate	*52 %*	*39 %*

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 managements identification of an adjustment in its reserve for unrecognized tax benefits, in accordance with Financial Accounting Standards Board, or FASB, Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109", or FIN 48, related to the years 2003 through 2008 that was adjusted during the first quarter of 2009. This adjustment to increase the FIN 48 liability for imputed interest on inter-company balances had the effect of increasing the effective tax rate for the six months ended June 30, 2009, by 11 percentage points. The Company's management determined that the effect on previously filed reports was not material. Also increasing the annualized rate are the effects of other FIN 48 adjustments primarily related to transfer pricing.

Results of Discontinued Operations

The results of discontinued operations, comprised of our former digital images and cinema businesses, during the three and six months ended June 30, 2009 resulted from the resolution of certain estimated costs associated with the sale and other minor expenses.

As further relevant information becomes available relating to the contingent consideration or further obligations of ours, if any, additional adjustments and expenses may be recorded through discontinued operations in future periods. As a result of the sales of the digital images and cinema businesses during the second quarter of 2008, the current year periods are not comparable to the same prior year periods.

Liquidity and Capital Resources

At June 30, 2009, we had cash, cash equivalents and short-term investments of $78.6 million, compared to $68.0 million at December 31, 2008. Due to auction failures in the auction rate security markets, we classified our auction rate security holdings of $2.3 million as long-term investments on the unaudited consolidated balance sheet as of June 30, 2009. Once it is determined that the auction markets have recovered, we will reclassify our remaining auction rate security holdings back to short-term investments. For additional information, see the "Auction Rate Securities" discussion below.

Net cash provided by operating activities was $8.2 million and $15.0 million for the six months ended June 30, 2008 and 2009, 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 increase in operating cash flows during the six months ended June 30, 2009, compared to the same prior year period, results largely from the increase in liabilities for legal expenses related to the aforementioned litigation with Zoran Corporation. During the six months ended June 30, 2008, our operating cash flows included the working capital of the cinema and digital images businesses, which we sold in two separate transactions during the second quarter of 2008.

Net cash provided by investing activities totaled $7.0 million for the six months ended June 30, 2008. Net cash used in investing activities totaled $3.4 million for the six months ended June 30, 2008. During the six months ended June 30, 2008, the primary source of cash by investing activities were the proceeds from the sales of the cinema and digital images businesses during the second quarter of 2008. During the six months ended June 30, 2008, the primary use of cash in investing activities were capital expenditures related to the build-out of real property acquired on November 7, 2008. For additional information, see the "New Corporate Headquarters" discussion below.

Net cash provided by financing activities totaled $5.8 million and $0.9 million for the six months ended June 30, 2008 and 2009, respectively, which results primarily from proceeds from the issuance of common stock under our stock-based compensation plans.

New Corporate Headquarters

On November 7, 2008, we purchased real property in Calabasas, California, which includes an approximately 89,000 square foot building that shall be used as our new corporate headquarters later in 2009. We may incur approximately $3.0 million to $5.0 million in capitalized and non-capitalized costs during the remainder of 2009 for the relocation and build-out of this new location. From the purchase date and through June 30, 2009, we have incurred approximately $7.7 million of capitalized costs for the build-out of this new location.

Auction Rate Securities

As of June 30, 2009, we held approximately $2.3 million in auction rate securities. The auction rate securities held at June 30, 2009 are tax-exempt municipal bonds issued by governmental entities located within the United States that are insured and have a AAA rating.

On October 24, 2008, we accepted an offer from UBS AG, or UBS, to liquidate our auction rate securities held in UBS accounts on February 13, 2008. The terms or rights of the UBS offer were publicly filed in a prospectus, dated October 7, 2008. As of June 30, 2009, we owned $2.3 million par value of these securities. From January 2, 2009 and ending January 4, 2011, we have the right, but not the obligation, to sell, at par, these auction rate securities to UBS, and such transaction would be initiated by UBS. Prior to January 4, 2011, we will continue to earn and receive all interest that is payable for these auction rate securities. Furthermore, prior to January 4, 2011, UBS, at its sole discretion, may sell, or otherwise dispose of, and/or enter orders in the auctions process with respect to these securities on our behalf so long as we receive par value for the auction rate securities sold. UBS has also agreed to use its best efforts to facilitate issuer redemptions and/or to resolve the liquidity concerns of holders of their auction rate securities through restructurings and other means. In addition, UBS has agreed to provide "no net cost" loans to holders of the illiquid securities that are subject to bank repurchase, thereby providing us with short-term liquidity on our auction rate securities portfolio at no additional cost to us. As a result of this arrangement with UBS, we believe par value or cost is a reasonable approximation of fair value.

Due to our belief that it may take until January 2011 to liquidate these securities, our auction rate security instruments have been classified as long-term investments on the consolidated balance sheet as of June 30, 2009.

To date, we have collected all interest receivable on our auction rate security instruments when due and expect to continue to do so in the future. Based on current cash, cash equivalents and short-term investment balances and expected operating cash flows, we do not anticipate a lack of liquidity associated with our auction rate securities to adversely affect our ability to conduct business, and we believe that we have the ability and intent to hold these securities throughout the estimated recovery period.

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, in our Form 10-K filed on March 6, 2009 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, 2008, with the exception of the increased obligations associated with our gross unrecognized tax benefits recorded in accordance with FIN 48. As of June 30, 2009, our total amount of unrecognized tax benefits was $4.8 million and is 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 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 June 30, 2009. Based on current cash, cash equivalents and short-term investment balances and expected operating cash flows, we do not anticipate a lack of liquidity associated with our auction rate security instruments to adversely affect our ability to conduct business, and we believe that we have the ability and intent to hold these securities throughout the estimated recovery period. In the event that we are unable to sell the underlying securities at or above our carrying value, these securities may not provide us a liquid source of cash. The estimated average maturity of our investment portfolio is less than one year. As of June 30, 2009, 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 six months ended June 30, 2009, we derived over 67% of our revenues from continuing operations 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 4% of total revenues during the six months ended June 30, 2009. Operating expenses, including cost of sales, for our foreign subsidiaries were approximately $6.4 million in the six months ended June 30, 2009. Based upon the expenses for the six months ended June 30, 2009, a 1% change in foreign currency rates throughout a one-year period would have an immaterial annual effect on income from continuing operations before income taxes.

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 vary, these results, when translated, may vary from expectations and could adversely or positively impact overall profitability. During the six months ended June 30, 2009, 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

On October 8, 2008, Zoran Corporation filed a complaint in the U.S. District Court in the Northern District of California alleging violation of the Sherman Act and patent misuse by us related to our Blu-ray Disc technology and seeking treble monetary damages, injunctive relief and judgment that certain of our patents are unenforceable. We disputed Zoran's allegations and defended the lawsuit vigorously. On October 29, 2008, we filed a motion to compel arbitration and dismiss this action for failure to state a claim, which motion was granted in part with respect to all arbitrable issues and denied with respect to non-arbitrable issues. The court also stayed the case pending the arbitrator's decision on the arbitrable issues. We filed a notice of appeal of this ruling on February 12, 2009 with the U.S. Court of Appeals for the Ninth Circuit. The arbitration hearing began on April 27, 2009.

On November 21, 2008, we filed suit against Zoran Corporation in the Superior Court for the State of California, County of Los Angeles, Northwest District for fraud, breach of contract and unfair competition. On December 23, 2008, Zoran responded with a general denial and asserted affirmative defenses and filed a cross-complaint against us for declaratory relief. We have filed a general denial and asserted affirmative defenses in response to Zoran's cross-complaint.

On June 18, 2009, we settled all pending legal matters with Zoran Corporation. As a result, Zoran Corporation has entered into a new DTS license agreement for DTS technologies required for both DVD and Blu-ray products, including DTS-HD Master Audio.

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 risks 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 any material changes to and supersede the risk factors previously disclosed in Part I, Item 1A of our most recent Annual Report on Form 10-K.

Risks Related to Our Business

We do not expect sales of DVD based products to sustain their past growth rates. Our business is highly dependent on the growth in Blu-ray Disc products, and we do not have near-term visibility into the precise timing of this expected growth or how smooth or linear this growth will be. To the extent that sales of DVD based products and home theater systems level off or decline, consumer adoption of Blu-ray Disc products fails to materialize or does not materialize as quickly or extensively as we expect, or alternative technologies in which we do not participate replace DVD based products as a dominant medium for consumer video entertainment, 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 expect sales of these products to decline. To the extent that sales of DVD based products and home theater systems level off or decline, our business will be adversely affected. Additionally, the release and consumer adoption of Blu-ray Disc players has only just begun to ramp up. While Toshiba Corporation has previously announced its decision to discontinue sales and marketing of HD-DVD players, they and others continue to sell DVD players with upscaling features that aim to enhance the image quality. The existence of both Blu-ray Disc players and upscaling DVD players can lead to consumer confusion and potentially slow the adoption of Blu-ray Disc players. A potentially slow adoption by consumers of Blu-ray Disc players, as well as the inability of DVD based

products to sustain their past growth rates, could adversely affect our business, as revenue and earnings derived from these new players and associated home theater system sales may not fully replace the anticipated decline in revenue and earnings associated with DVD based products and home theater systems. Even with the resolution of the competing disc format conflict in early 2008, the rate of consumer adoption and ultimate penetration of Blu-ray Disc players is uncertain and may be slower than past growth rates of DVD based products. In addition, if new technologies are developed for use with DVDs or new technologies, including direct downloads of content, are developed or deployed that substantially compete with or replace DVDs as a dominant medium for consumer video entertainment, our business, operating results and prospects could be adversely affected.

Economic downturns could disrupt and materially harm our business.

Negative trends in the general economy could cause a downturn in the market for our technology, products and services. The current and continuing financial disruption affecting the banking system, housing market and 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. This financial crisis could 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 technology. For example, the automotive industry suffered a significant slowdown in 2008 and prospects have not improved in 2009. The incorporation of our technologies into car audio products has accounted for a significant portion of our revenue. In 2008, we derived more than 16% of our revenue from car audio related products and services, but the current state of the automotive industry may result in a substantial decrease in that portion of our revenue in 2009.

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.

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. Patent, trademark, copyright, 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 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 prevent the unauthorized disclosure or use of our technical knowledge or other trade secrets by employees, consultants, and advisors;
- 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;
- 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;
- our competitors may produce competitive products or services that do not unlawfully infringe upon our intellectual property rights;
- efforts to identify and prosecute unauthorized uses of our technology are time consuming, expensive, and divert resources from the operation of our business; and
- we may be unable to successfully identify or prosecute unauthorized uses of our technology.

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.

Our business and prospects depend on 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 on 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. Maintaining and strengthening our brand will depend heavily on our ability to develop innovative technologies for the entertainment industry, to continue to provide high quality products and services, and to manage a brand transition in connection with the sales of our digital images and cinema businesses in 2008, which we may not do successfully. For example, if customers of the sold businesses do not receive the same level of service from the new owners, this may adversely affect our brand to the extent divested assets display our trademarks or are otherwise associated with our brand. We may be required to expend substantial resources to ensure our reputation for high quality products and technologies is not harmed as a result of actions or inaction on the part of the new owners. In addition, these efforts may divert management attention from our current business.

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

The market for our technology, 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 on our ability to enhance our existing technology, products, and services and to develop acceptable new technology, products, and services on a timely basis. The development of enhanced and new technology, 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 technology, products, or services on a timely basis, if at all. Furthermore, our new technology, 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 technology, products, and services from gaining market acceptance or maintaining market share and could lead to our technology, products and services becoming obsolete.

We may be sued by third parties for alleged infringement of their proprietary rights.

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 technology 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.

We face intense competition. Many of our competitors have greater brand recognition and 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.

Many of our current and potential competitors 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; and
- greater technical support.

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. Its technology has been incorporated in significantly more DVD based products than our technology. It has also achieved mandatory standard status in product categories that we have not, including DVD based products, for its stereo technology and 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 limited control over existing and potential customers' and licensees' decisions to include our technology in their product offerings.

We are dependent on our customers and licensees—including consumer electronics product manufacturers, semiconductor manufacturers, producers and distributors of content for music, videos, and games—to incorporate our technology in 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 technology, trademarks or services. Our customers, licensees and other manufacturers might not utilize our technology or services in the future.

If we are unable to maintain and increase the amount of entertainment content released with DTS audio soundtracks, demand for the technology, 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 technology, products, and services that we offer to manufacturers of consumer electronics products. To date, the most significant driver for the use of our technology 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 technology in emerging markets for multi-channel audio, including homes, cars, personal computers, and video games and consoles, will be based on the number, quality, and popularity of the audio DVDs, 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 do not have contracts that require any of 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, audio DVDs, 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.

Declining retail prices for consumer electronics products or video content 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 technology, such as DVD based products and Blu-ray Disc players and home theater systems, 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 technology into the consumer electronics products that they sell and distribute. Most of the consumer electronics products that include our audio technology 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 technology is not a mandatory standard could decide to exclude our DTS audio technology from their products altogether.

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 on 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 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 arrangements, 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 on 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.

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 domestic and international sales and marketing activities;

- continue developing 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 technology, products, and services and develop new technology, 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.

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 on many factors, including:

- acceptance of, and demand for, our products and technology;
- the costs of developing new products or technology;
- the extent to which we invest in new technology and research and development projects;
- the number and timing of acquisitions and other strategic transactions;
- the costs associated with the build-out of our new headquarters facility and our relocation to such facility;
- 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.

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

Although the first movie with a DTS audio soundtrack was released in 1993, we did not enter the home theater market until 1996, and our technology has only recently been incorporated into other consumer electronics markets, such as car audio, personal computers, video games and consoles, portable electronics devices, and digital satellite and cable broadcast products. More recently, we have entered into the "virtual" surround space with the asset acquisitions from Spatializer Laboratories, Inc. and Neural Audio Corporation and internal development of technology that we have branded DTS Surround Sensation. We do not have experience in this specific segment of the market and it is

dominated by existing technologies from companies including Dolby Laboratories, Inc., SRS Labs, Inc. and BBE Sound, Inc. As a result, the demand for our technology, products, and services and the income potential of these businesses are unproven. In addition, because the market for digital audio technology is relatively new and rapidly evolving, we 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.

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

Our technology or products could contain errors that could cause our products or technology to operate improperly and could cause unintended consequences. If our products or technology 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 to 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 cannot be certain of the future effectiveness of our internal control over financial reporting or the impact thereof on our operations or the market price of our common stock.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include in our annual reports on Form 10-K our assessment of the effectiveness of our internal control over financial reporting. We cannot assure you that our system of internal control will be effective in the future as our operations and control environment change. If we cannot adequately maintain the effectiveness of our internal control over financial reporting, our financial reporting may not be timely and/or accurate. If reporting delays or errors actually occur, we could be subject to sanctions or investigation by regulatory authorities, such as the SEC. Moreover, even if we conclude that our internal control is effective, our independent registered public accounting firm may disagree. If our independent registered public accounting firm is not satisfied with our internal control over financial reporting or the level at which our internal control over financial reporting is documented, designed, operated or reviewed, or if the independent registered public accounting firm interprets the requirements, rules or regulations differently than we do, then it may issue an adverse or qualified opinion. Any of the above outcomes 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.

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 ten 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. For the year ended December 31, 2008, over 91% 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 on 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 and GBP. We do not currently engage in currency hedging activities to limit the risk of exchange rate fluctuations.

We face risks in expanding our business operations in China.

An important strategy of ours is to expand our business operations in China. However, we may be unsuccessful in implementing this strategy as planned or at all. Factors that could inhibit our successful expansion into China include its historically poor recognition of intellectual property rights and poor performance in stopping counterfeiting and piracy activity as well as enforcing judgments. If we are unable to successfully stop unauthorized use of our intellectual property and assure compliance by our Chinese licensees, we could experience increased operational and enforcement costs both inside and outside China.

Even if we are successful in expanding into China, we may be greatly impacted by the political, economic, and military conditions in China, Taiwan, North Korea, and South Korea. Such disputes may continue or escalate, resulting in economic embargos, disruptions in shipping, or even military hostilities. This could severely harm our business by interrupting or delaying production or shipment of our products or products that incorporate our technology.

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. For example, the introduction of Blu-ray Disc players may result in an overall near-term slowdown in our business as sales of DVD based products slow in anticipation of purchasing Blu-ray Disc products, but purchases of Blu-ray Disc products are in an early phase market adoption. Our revenues may continue to be subject to fluctuations, seasonal or otherwise, in the future. Unanticipated fluctuations, whether due to seasonality, economic down turns, 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 technology, 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 expenditures and royalty recoveries, 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.

Even if our technologies are adopted as an industry standard for a particular market, manufacturers may not widely adopt our technologies.

Even if a standards-setting body mandates our technologies for a particular market, our technologies may not be the sole technologies adopted for that market as an industry standard. Further, even when inclusion of certain of our technologies is mandated by a particular standard, market participants may choose not to implement or adopt any of our technologies beyond those required by the mandate. Our revenues and operating results depend on manufacturers choosing to adopt our technologies instead of or along with competitive technologies that may also be acceptable under industry standards. For example, the continued growth of our revenue from the Blu-ray Disc market depends upon both the continued growth of the format generally and manufacturers' choosing to incorporate our multi-channel technologies where they are an optional industry standard.

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 could limit our control over the use of these technologies. 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, 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.

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. 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.

We are dependent on 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.

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 2008, one customer accounted for 19% 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.

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 2005 and 2006 federal income tax returns, 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 certain foreign subsidiaries to be invested indefinitely outside the United States. We have not provided for United States federal and state income taxes or foreign withholding taxes that may result on future remittances of undistributed earnings of foreign subsidiaries. The Obama administration recently announced several proposals to reform United States tax rules, including proposals that may result in a reduction or elimination of the deferral of United States income tax on our unrepatriated earnings, potentially requiring those earnings to be taxed at the United States federal income tax rate. 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 DVD based products and Blu-ray Disc. In the standard for Blu-ray Disc, both DTS and Dolby technologies have been selected as mandatory standards for two-channel output. 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 may be subject to claims and lawsuits by third parties in connection with the previously sold digital images and digital cinema businesses that may result in adverse outcomes to our business.

In the second quarter of 2008, we sold the digital images and digital cinema businesses. Although the acquirers assumed liabilities relating to those businesses, we may be subject to claims and lawsuits by third parties, including former vendors, employees and consultants of ours, related to actions or inaction by an acquirer. In addition, we agreed to indemnify the acquirers against specified losses in connection with the sold businesses and retain responsibility for various legal liabilities that accrued

prior to closing. If an acquirer makes an indemnification claim or a third party commences an action against us or an acquirer, we may incur substantial expense and our management may have to devote a substantial amount of time resolving such claims or defending against such actions, which could harm our business, operating results and financial condition. In addition, we may be required to expend substantial resources trying to determine which party has responsibility for a claim, even if we are ultimately found to be not responsible.

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 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 on 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.

We are subject to various environmental laws and regulations that could impose substantial costs upon us and may adversely affect our business, operating results and financial condition.

Some of our operations use substances regulated under various federal, state, local and international laws governing the environment, including those governing the discharge of pollutants into the air and water, the management, disposal and labeling of hazardous substances and wastes and the cleanup of contaminated sites. We could incur costs, fines and civil or criminal sanctions, third-party property damage or personal injury claims, or could be required to incur substantial investigation or remediation costs, if we were to violate or become liable under environmental laws. Liability under environmental laws can be joint and several and without regard to comparative fault. The ultimate costs under environmental laws and the timing of these costs are difficult to predict.

Risks Related to Our Common Stock

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 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.

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, including 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.

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 June 30, 2009 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
April 1, 2009 through April 30, 2009	—	—	—	—
May 1, 2009 through May 31, 2009	426	$ 24.49	—	—
June 1, 2009 through June 30, 2009	—	—	—	—
Total	426	$ 24.49(2)	—	—

Notes:

(1) Consists of shares repurchased and retired from employees to satisfy statutory withholding requirements upon the vesting of restricted stock.

(2) Represents weighted average price paid per share during the quarter ended June 30, 2009.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders of DTS, Inc. was held on May 14, 2009. The following matters were voted upon and were approved as set forth below.

The stockholders elected three Class III directors to hold office until the 2012 Annual Meeting of Stockholders, or until their successors are duly elected and qualified or until their earlier death, resignation or removal, by the following votes:

Name of Directors Elected	Number of Shares For	Number of Shares Withheld
Jon E. Kirchner	16,517,545	42,491
V. Sue Molina	16,523,024	37,012
Ronald N. Stone	16,523,390	36,646

The following individuals are continuing directors with terms expiring upon the 2010 Annual Meeting of Stockholders: Daniel E. Slusser, Joseph A. Fischer and L. Gregory Ballard.

The following individuals are continuing directors with terms expiring upon the 2011 Annual Meeting of Stockholders: Joerg D. Agin and C. Ann Busby.

The stockholders ratified Grant Thornton LLP as the independent registered public accounting firm of DTS, Inc. for the 2009 fiscal year by the following vote:

Number of Shares			
For	Against	Abstain	Broker Non-Votes
16,553,529	6,044	463	—

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Exhibit Description
10.1	Employment Agreement, executed on May 11, 2009, effective as of April 14, 2009, by and between Brian D. Towne and the Company (1)#
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*

# 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.

(1) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (SEC file number 000-50335-09815716).

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.

by: /s/ JON E. KIRCHNER

Jon E. Kirchner
President and Chief Executive Officer
(Duly Authorized Officer)

Date: August 10, 2009

by: /s/ MELVIN L. FLANIGAN

Melvin L. Flanigan
Executive Vice President, Finance and
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: August 10, 2009

EXHIBIT INDEX

Exhibit Number	Exhibit Description
10.1	Employment Agreement, executed on May 11, 2009, effective as of April 14, 2009, by and between Brian D. Towne and the Company (1)#
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*

# 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.

(1) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (SEC file number 000-50335-09815716).

QuickLinks -- Click here to rapidly navigate through this document

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: August 10, 2009

By: /s/ JON E. KIRCHNER

Jon E. Kirchner
President and Chief Executive Officer

QuickLinks

EXHIBIT 31.1

QuickLinks -- Click here to rapidly navigate through this document

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: August 10, 2009

By: /s/ MELVIN L. FLANIGAN

Melvin L. Flanigan
Chief Financial Officer

QuickLinks

EXHIBIT 31.2

QuickLinks -- Click here to rapidly navigate through this document

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 June 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jon E. Kirchner, President 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: August 10, 2009

By: /s/ JON E. KIRCHNER

Jon E. Kirchner
President 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.

QuickLinks

EXHIBIT 32.1

QuickLinks -- Click here to rapidly navigate through this document

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 June 30, 2009 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: August 10, 2009

By: /s/ MELVIN L. FLANIGAN

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.

QuickLinks

EXHIBIT 32.2