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DTS, Inc Q4 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from the line of Ralph Schackart - William Blair.

Ralph Schackart - William Blair

My first question relates to the guidance, either Mel or Jon. When I take a look at the numbers, if you were calling for growth, call it organically, of sort of 10% to 20%, I know we're absent the royalty recoveries. But you ended '07 with 23% operating margins, and you're looking for growth in '08, but with operating margins 20% to 25%. I'm just curious if that's just conservatism on your part, reflection of the market rollout? What's going into the guidance?

Mel Flanigan

I think it's a little bit of both, actually. I think, clearly at this point in the year with all of the sort of economic uncertainty we're facing in the world, not just beyond just the consumer electronics market but kind of the global economy, we're clearly taking a conservative position early on. And like I said in the script, our goal is to monitor the progress throughout the year and keep you updated as the year rolls on.

Jon Kirchner

And, Ralph, I'd add maybe to Mel's comment two things. Obviously there's a tremendous amount of leverage in our model kind of as borne out by performance in the fourth quarter where you saw operating margins approach 30% as revenue increased. And so we know there's leverage there.

The key question, as Mel said, is just what happens in the near term with respect to pricing around things like Blu-ray products and what happens with the stimulus package and the overall economy. And what we think will be more comfortable as time goes on in the year than we are right this instant to call exactly what it's going to be.

Ralph Schackart - William Blair

As it relates to the roll out of Blu DVD drives and the PC market, are you having discussions with the PC manufacturers at this point? Is that market still primed to roll out at some point the next gen drives?

Jon Kirchner

Yes is the short answer. Obviously you're seeing a lot of activity amongst PC makers looking to put in next gen drives and we think there'll be a significant expansion of the number of models available this year and obviously the unit volumes are something, we're going to wait and see how that evolves.

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