

***DTS CORPORATION and
Consolidated Subsidiaries***

*Unaudited Consolidated Financial Statements
for the Second Quarter Ended September 30, 2008*

DTS CORPORATION and Consolidated Subsidiaries

**Quarterly Consolidated Balance Sheet
September 30, 2008—Unaudited**

<u>ASSETS</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars (Note 1)</u>	<u>LIABILITIES AND EQUITY</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars (Note 1)</u>
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents	¥ 10,363	\$ 100,058	Short-term bank loans	¥ 43	\$ 415
Notes and accounts receivable:			Current portion of long-term debt	351	3,389
Trade	8,386	80,969	Payables:		
Other	291	2,810	Trade accounts	1,969	19,011
Allowance for doubtful receivables	(198)	(1,912)	Other	1,257	12,137
Inventories	1,563	15,091	Income taxes payable	899	8,680
Deferred tax assets	1,208	11,664	Accrued expenses	2,801	27,045
Prepaid expenses and other current assets	436	4,210	Other current liabilities	704	6,798
Total current assets	22,049	212,890	Total current liabilities	8,024	77,475
PROPERTY AND EQUIPMENT:			LONG-TERM LIABILITIES:		
Land	6,432	62,103	Long-term debt	634	6,121
Buildings and structures	4,908	47,388	Liability for employees' retirement benefits	500	4,828
Furniture and fixtures	1,402	13,537	Retirement allowances for directors and corporate auditors	373	3,601
Other	24	232	Other long-term liabilities	13	126
Total	12,766	123,260	Total long-term liabilities	1,520	14,676
Accumulated depreciation	(3,358)	(32,423)	EQUITY:		
Net property and equipment	9,408	90,837	Common stock—authorized, 100,000,000 shares; issued, 25,222,266 shares	6,113	59,023
INVESTMENTS AND OTHER ASSETS:			Capital surplus	6,193	59,795
Investment securities	1,533	14,802	Retained earnings	18,729	180,834
Investments in unconsolidated subsidiaries and associated companies	76	734	Net unrealized gain on available-for-sale securities	134	1,294
Software	3,266	31,534	Treasury stock—at cost, 758,190 shares	(1,125)	(10,862)
Goodwill	3,152	30,433	Total	30,044	290,084
Guarantee deposit	403	3,891	Minority interests	1,203	11,615
Deferred tax assets	317	3,061	Total equity	31,247	301,699
Other assets	587	5,668	TOTAL	¥ 40,791	\$ 393,850
Total investments and other assets	9,334	90,123			
TOTAL	¥ 40,791	\$ 393,850			

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Quarterly Consolidated Statement of Income Six months ended September 30, 2008—Unaudited

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars (Note 1)</u>
NET SALES	¥ 29,811	\$ 287,834
COST OF SALES	<u>24,891</u>	<u>240,330</u>
Gross profit	4,920	47,504
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 6)	<u>3,133</u>	<u>30,250</u>
Operating income	<u>1,787</u>	<u>17,254</u>
OTHER INCOME (EXPENSES):		
Interest and dividends income	51	492
Interest expense	(13)	(125)
Impairment of goodwill (Note 7)	(111)	(1,072)
Other—net	<u>33</u>	<u>319</u>
Other expenses—net	<u>(40)</u>	<u>(386)</u>
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>1,747</u>	<u>16,868</u>
INCOME TAXES:		
Current	832	8,033
Deferred	<u>(2)</u>	<u>(19)</u>
Total income taxes	<u>830</u>	<u>8,014</u>
MINORITY INTERESTS IN NET INCOME	<u>72</u>	<u>695</u>
NET INCOME	<u>¥ 845</u>	<u>\$ 8,159</u>
	<u>Yen</u>	<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK (Note 10.b):		
Basic net income	¥ 34.54	\$ 0.33
Diluted net income	34.46	0.33

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Quarterly Consolidated Statement of Income Three months ended September 30, 2008—Unaudited

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars (Note 1)</u>
NET SALES	¥ 15,666	\$ 151,260
COST OF SALES	<u>13,146</u>	<u>126,929</u>
Gross profit	2,520	24,331
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 6)	<u>1,468</u>	<u>14,174</u>
Operating income	<u>1,052</u>	<u>10,157</u>
OTHER INCOME (EXPENSES):		
Interest and dividends income	9	87
Interest expense	(6)	(58)
Impairment of goodwill (Note 7)	(111)	(1,072)
Other—net	<u>7</u>	<u>68</u>
Other expenses—net	<u>(101)</u>	<u>(975)</u>
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>951</u>	<u>9,182</u>
INCOME TAXES:		
Current	<u>433</u>	<u>4,180</u>
Total income taxes	<u>433</u>	<u>4,180</u>
MINORITY INTERESTS IN NET INCOME	<u>41</u>	<u>396</u>
NET INCOME	<u>¥ 477</u>	<u>\$ 4,606</u>
	<u>Yen</u>	<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK (Note 10.b):		
Basic net income	¥ 19.49	\$ 0.19
Diluted net income	19.47	0.19

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Quarterly Consolidated Statement of Cash Flows Six months ended September 30, 2008—Unaudited

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars (Note 1)</u>
OPERATING ACTIVITIES:		
Income before income taxes and minority interests	¥ 1,747	\$ 16,868
Adjustments for:		
Income taxes paid	(1,612)	(15,564)
Depreciation and amortization, including impairment of goodwill	1,075	10,379
Changes in assets and liabilities:		
Decrease in notes and accounts receivable	1,375	13,276
Increase in inventories	(796)	(7,686)
Increase in other assets	(82)	(792)
Decrease in accounts payable	(708)	(6,836)
Increase in accrued expenses	390	3,766
Decrease in other current liabilities	(408)	(3,939)
Increase in liability for employees' retirement benefits and retirement allowances for directors and corporate auditors	20	193
Other—net	(121)	(1,168)
Total adjustments	<u>(867)</u>	<u>(8,371)</u>
Net cash provided by operating activities	<u>880</u>	<u>8,497</u>
INVESTING ACTIVITIES:		
Increase in time deposits other than cash equivalents	(3)	(29)
Decrease in time deposits other than cash equivalents	6	58
Payment for purchases of property and equipment	(125)	(1,207)
Proceeds from redemption of investment securities	500	4,828
Payment for purchases of software	(387)	(3,737)
Net increase in other assets	<u>(1)</u>	<u>(10)</u>
Net cash used in investing activities	<u>(10)</u>	<u>(97)</u>
FINANCING ACTIVITIES:		
Decrease in short-term bank loans—net	(870)	(8,400)
Repayment of long-term debt	(268)	(2,587)
Dividends paid	(667)	(6,440)
Repurchase of treasury stock	(1)	(10)
Disposal of treasury stock	<u>57</u>	<u>550</u>
Net cash used in financing activities	<u>(1,749)</u>	<u>(16,887)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(879)	(8,487)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>11,242</u>	<u>108,545</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>¥ 10,363</u>	<u>\$ 100,058</u>

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Notes to Quarterly Consolidated Financial Statements Six Months and Three Months Ended September 30, 2008—Unaudited

1. BASIS OF PRESENTING QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited quarterly consolidated financial statements of DTS CORPORATION (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

On March 14, 2007, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 12, "Accounting Standard for Quarterly Financial Reporting" and ASBJ Guidance No. 14, "Guidance on Accounting Standard for Quarterly Financial Reporting," which are effective for fiscal years beginning on or after April 1, 2008, in response to the introduction of a quarterly financial reporting system required by enactment of the Financial Instruments and Exchange Law of Japan.

This new standard requires an entity, in principle, to apply the same accounting principles and procedures in its quarterly financial statements as in its annual financial statements, except for special accounting methods for quarterly financial statements. However, an entity may apply simplified accounting methods unless they mislead users of quarterly financial statements.

Under this standard, certain financial information that is normally included in annual financial statements prepared in accordance with Japanese GAAP is not required to be presented for quarterly financial statements except for certain items, such as segment information and quarterly earnings, and significant items which users need in order to understand quarterly financial statements, i.e., items which have significantly changed since the last annual reporting date.

In preparing the accompanying unaudited quarterly consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The unaudited quarterly consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥103.57 to \$1, the approximate rate of exchange at September 30, 2008. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited quarterly consolidated financial statements are prepared based on the same accounting policies except otherwise stated below and should be read in conjunction with the consolidated financial statements and related notes included in the Company's "Consolidated Financial Statements for the Years Ended March 31, 2008 and 2007."

3. ADOPTION OF NEW ACCOUNTING STANDARDS

- a. Measurement of Inventories*—Under the previous accounting standard, inventories had been stated at cost.

On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories," which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

The Company adopted this new standard effective on April 1, 2008. The adoption of this standard has no effect on net income for the six months ended September 30, 2008.

- b. Lease Accounting**—Under the previous accounting standard, finance lease transactions that do not deem to transfer ownership of the leased property to the lessee had been accounted for as operating lease.

On March 30, 2007, the ASBJ revised ASBJ Statement No. 13, “Accounting Standard for Lease Transactions” and ASBJ Guidance No. 16, “Guidance on Accounting Standard for Lease Transactions,” which revised the accounting standard for lease transactions issued on June 17, 1993. The revised accounting standard for lease transactions, which requires that all finance lease transactions be capitalized, is effective for fiscal years beginning on or after April 1, 2008, with early adoption permitted for fiscal years beginning on or after April 1, 2007.

The Company adopted this revised standard effective on April 1, 2008 for lease transactions entered into on and after that date and depreciates capitalized leased assets on the straight-line method over the respective lease terms with no residual value. The adoption of this revised standard has no effect on net income for the six months ended September 30, 2008.

4. APPLICATION OF SIMPLIFIED ACCOUNTING METHODS

- a. Inventories**—As of September 30, 2008, physical inventory counts were not performed and inventories are adjusted for an estimated shrinkage factor based on the results of physical inventory counts performed as of March 31, 2008 and measured at cost if a loss of profitability was not apparent.
- b. Property and Equipment**—Depreciation charge for property and equipment depreciated using the declining-balance method represents proportional amount of the annual budget.

5. APPLICATION OF ACCOUNTING METHODS SPECIAL FOR PREPARING QUARTERLY FINANCIAL STATEMENTS

Income Taxes—Income taxes are calculated by multiplying the income before income taxes and minority interests for the six months and three months ended September 30, 2008 by the estimated effective tax rate for the year ending March 31, 2009, after taking into account the effect of possible temporary differences.

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major items of selling, general and administrative expenses for the six months and three months ended September 30, 2008 were as follows:

<u>Six months ended September 30, 2008</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Salaries and fringe benefits	¥ 902	\$ 8,709
Provision for bonuses	270	2,607
<u>Three months ended September 30, 2008</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Salaries and fringe benefits	¥ 422	\$ 4,075
Provision for bonuses	124	1,197

7. IMPAIRMENT OF GOODWILL

In the three months ended September 30, 2008, following an assessment of the financial performance of RD Corporation, one of the consolidated subsidiaries, impairment loss on goodwill of ¥111 million (\$1,072 thousand) was recognized.

8. DIVIDENDS

The following appropriation of retained earnings at March 31, 2008 was approved at the Company's shareholders meeting held on June 20, 2008.

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Year-end cash dividends, ¥25 (\$0.24) per share (Record date: March 31, 2008; effective date: June 23, 2008)	¥ 611	\$ 5,899

The following distribution of cash was resolved by the Board of Directors on November 13, 2008.

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Interim cash dividends, ¥15 (\$0.14) per share (Record date: September 30, 2008; effective date: December 8, 2008)	¥ 367	\$ 3,543

9. SEGMENT INFORMATION

The Company and its consolidated subsidiaries operate in the following industries:

- “Information service” consists of
 - consulting and integration services of information systems; design and construction of various networks and development of communication control software; design, development and maintenance of consignment software and packaged software; and
 - operational management of computer facilities and information systems; monitoring and maintenance of various networks; and data entries.
- “Other” consists of
 - sales of system products such as packaged software produced by other companies and information-related equipment such as computers;
 - general worker dispatching business; and
 - education and training; capacity building; and research and consulting services related to trainings.

Information about industry segments, geographical segments and sales to foreign customers for the six months and three months ended September 30, 2008 was as follows:

a. Industry Segments

Information about operations in different industry segments for the six months and three months ended September 30, 2008 was as follows:

Six months ended September 30, 2008					
Millions of Yen					
	Information Service	Other	Total	Inter-Segment Elimination or Corporate	Consolidated Amount
Net sales	¥ 26,560	¥ 3,525	¥ 30,085	¥ (274)	¥ 29,811
Operating income	3,768	294	4,062	(2,275)	1,787
Thousands of U.S. Dollars					
	Information Service	Other	Total	Inter-Segment Elimination or Corporate	Consolidated Amount
Net sales	\$ 256,445	\$ 34,035	\$ 290,480	\$ (2,646)	\$ 287,834
Operating income	36,381	2,839	39,220	(21,966)	17,254
Three months ended September 30, 2008					
Millions of Yen					
	Information Service	Other	Total	Inter-Segment Elimination or Corporate	Consolidated Amount
Net sales	¥ 13,956	¥ 1,899	¥ 15,855	¥ (189)	¥ 15,666
Operating income	1,919	142	2,061	(1,009)	1,052
Thousands of U.S. Dollars					
	Information Service	Other	Total	Inter-Segment Elimination or Corporate	Consolidated Amount
Net sales	\$ 134,749	\$ 18,335	\$ 153,084	\$ (1,824)	\$ 151,260
Operating income	18,528	1,371	19,899	(9,742)	10,157

b. Geographical Segments

Information about geographical segments for the six months and three months ended September 30, 2008 has been omitted since sales in Japan accounted for more than 90% of the total consolidated sales.

c. Sales to Foreign Customers

As the Company and its consolidated subsidiaries had no sales to foreign customers, information about sales to foreign customers for the six months and three months ended September 30, 2008 was not disclosed.

10. PER SHARE INFORMATION

a. Equity per Share

Equity per share as of September 30, 2008 was as follows:

<u>September 30, 2008</u>	<u>Yen</u>	<u>U.S. Dollars</u>
Equity per share	¥ 1,228.09	\$ 11.86

Basis for the above computation was as follows:

<u>September 30, 2008</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Total equity	¥ 31,247	\$ 301,699
Less: Minority interests	<u>(1,203)</u>	<u>(11,615)</u>
Equity available to common shareholders	<u>¥ 30,044</u>	<u>\$ 290,084</u>
Number of common stock shares for computation	<u>24,464,076</u>	

b. Net Income per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the six months and three months ended September 30, 2008 was as follows:

<u>September 30, 2008</u>	<u>Millions of Yen</u>	<u>Number of Shares</u>	<u>Yen</u>	<u>U.S. Dollars</u>
<u>Six months ended September 30, 2008</u>	<u>Net Income</u>	<u>Weighted-average Shares</u>		<u>EPS</u>
Basic EPS—Net income available to common shareholders	¥ 845	24,454,301	¥ 34.54	\$ 0.33
Effect of dilutive securities— Stock options	_____	<u>51,937</u>		
Diluted EPS—Net income for computation	<u>¥ 845</u>	<u>24,506,238</u>	<u>¥ 34.46</u>	<u>\$ 0.33</u>
 <u>Three months ended September 30, 2008</u>				
Basic EPS—Net income available to common shareholders	¥ 477	24,464,242	¥ 19.49	\$ 0.19
Effect of dilutive securities— Stock options	_____	<u>18,500</u>		
Diluted EPS—Net income for computation	<u>¥ 477</u>	<u>24,482,742</u>	<u>¥ 19.47</u>	<u>\$ 0.19</u>
