DTS CORPORATION and Consolidated Subsidiaries

Unaudited Quarterly Consolidated Financial Statements
for the Three Months Ended June 30, 2008

DTS CORPORATION and Consolidated Subsidiaries

Quarterly Consolidated Balance Sheet
June 30, 2008—Unaudited

ASSETS	Millions of Yen	Thousands of U.S. Dollars (Note 1)
CURRENT ASSETS:		
Cash and cash equivalents	¥ 9,802	$ 92,107
Notes and accounts receivable:		
Trade	8,019	75,352
Other	298	2,800
Allowance for doubtful receivables	(196)	(1,842)
Inventories	1,942	18,249
Deferred tax assets	1,208	11,351
Prepaid expenses and other current assets	406	3,815
Total current assets	21,479	201,832
PROPERTY AND EQUIPMENT:		
Land	6,432	60,440
Buildings and structures	4,906	46,100
Furniture and fixtures	1,354	12,723
Other	23	216
Total	12,715	119,479
Accumulated depreciation	(3,285)	(30,868)
Net property and equipment	9,430	88,611
INVESTMENTS AND OTHER ASSETS:		
Investment securities	1,622	15,242
Investments in unconsolidated subsidiaries and associated companies	75	705
Software	3,111	29,233
Goodwill	3,466	32,569
Guarantee deposit	417	3,918
Deferred tax assets	281	2,641
Other assets	436	4,097
Total investments and other assets	9,408	88,405
TOTAL	¥ 40,317	$ 378,848

LIABILITIES AND EQUITY	Millions of Yen	Thousands of U.S. Dollars (Note 1)
CURRENT LIABILITIES:		
Short-term bank loans	¥ 273	$ 2,565
Current portion of long-term debt	373	3,505
Payables:		
Trade accounts	1,994	18,737
Other	1,829	17,187
Income taxes payable	434	4,078
Accrued expenses	1,481	13,917
Other current liabilities	1,482	13,926
Total current liabilities	7,866	73,915
LONG-TERM LIABILITIES:		
Long-term debt	808	7,593
Liability for employees' retirement benefits	481	4,520
Retirement allowances for directors and corporate auditors	349	3,279
Other long-term liabilities	31	291
Total long-term liabilities	1,669	15,683
EQUITY:		
Common stock—authorized, 100,000,000 shares; issued, 25,222,266 shares	6,113	57,442
Capital surplus	6,193	58,194
Retained earnings	18,252	171,509
Net unrealized gain on available-for-sale securities	186	1,748
Treasury stock—at cost, 757,876 shares	(1,124)	(10,562)
Total	29,620	278,331
Minority interests	1,162	10,919
Total equity	30,782	289,250
TOTAL	¥ 40,317	$ 378,848

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

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

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
NET SALES	¥ 14,145	$ 132,917
COST OF SALES	11,744	110,355
Gross profit	2,401	22,562
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 6)	1,666	15,655
Operating income	735	6,907
OTHER INCOME (EXPENSES):		
Interest and dividends income	42	395
Interest expense	(7)	(66)
Other—net	26	244
Other income—net	61	573
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	796	7,480
INCOME TAXES:		
Current	399	3,749
Deferred	(2)	(18)
Total income taxes	397	3,731
MINORITY INTERESTS IN NET INCOME	31	291
NET INCOME	¥ 368	$ 3,458

	Yen	U.S. Dollars
PER SHARE OF COMMON STOCK (Note 9.b):		
Basic net income	¥ 15.05	$ 0.14
Diluted net income	15.00	0.14

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Quarterly Consolidated Statement of Cash Flows
Three months ended June 30, 2008—Unaudited

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
OPERATING ACTIVITIES:		
Income before income taxes and minority interests	¥ 796	$ 7,480
Adjustments for:		
Income taxes paid	(1,611)	(15,138)
Depreciation and amortization	476	4,473
Changes in assets and liabilities:		
Decrease in trade notes and accounts receivable	1,734	16,294
Increase in inventories	(1,175)	(11,041)
Increase in other assets	(45)	(423)
Decrease in trade accounts payable	(188)	(1,767)
Decrease in accrued expenses	(934)	(8,777)
Increase in other current liabilities	410	3,853
Decrease in liability for employees' retirement benefits and retirement allowances for directors and corporate auditors	(23)	(216)
Other—net	(35)	(329)
Total adjustments	(1,391)	(13,071)
Net cash used in operating activities	(595)	(5,591)
INVESTING ACTIVITIES:		
Increase in time deposits other than cash equivalents	(2)	(19)
Payment for purchases of property and equipment	(74)	(695)
Proceeds from redemption of investment securities	500	4,698
Payment for purchases of software	(17)	(160)
Net increase in other assets	(1)	(9)
Net cash provided by investing activities	406	3,815
FINANCING ACTIVITIES:		
Increase in short-term bank loans—net	(641)	(6,023)
Repayment of long-term debt	(72)	(677)
Dividends paid	(594)	(5,582)
Repurchase of treasury stock	(1)	(9)
Disposal of treasury stock	57	536
Net cash used in financing activities	(1,251)	(11,755)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,440)	(13,531)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	11,242	105,638
CASH AND CASH EQUIVALENTS, END OF PERIOD	¥ 9,802	$ 92,107

See notes to quarterly consolidated financial statements.

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 Japanese Financial Instruments and Exchange Law 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 ¥106.42 to $1, the approximate rate of exchange at June 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 three months ended June 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 three months ended June 30, 2008.

4. APPLICATION OF SIMPLIFIED ACCOUNTING METHODS

a. ***Inventories*—**As of June 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 SPECIFIC ACCOUNTING METHOD

***Income Taxes*—**Income taxes are calculated multiplying the income before income taxes and minority interests for the three months ended June 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 item of selling, general and administrative expenses for the three months ended June 30, 2008 was as follows:

Three months ended June 30, 2008	Millions of Yen	Thousands of U.S. Dollars
Salaries and fringe benefits	¥ 480	$ 4,510

7. DIVIDENDS

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

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25 ($0.23) per share (Record date: March 31, 2008; effective date: June 23, 2008)	¥ 611	$ 5,741

8. 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; and 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 three months ended June 30, 2008 is as follows:

a. Industry Segments

Information about operations in different industry segments for the three months ended June 30, 2008, was as follows.

	Millions of Yen				
	Three months ended June 30, 2008				
	Information Service	Other	Total	Inter-Segment Elimination or Corporate	Consolidated Amount
Net sales	¥ 12,604	¥ 1,626	¥ 14,230	¥ (85)	¥ 14,145
Operating income	1,850	152	2,002	(1,267)	735

	Thousands of U.S. Dollars				
	Three months ended June 30, 2008				
	Information Service	Other	Total	Inter-Segment Elimination or Corporate	Consolidated Amount
Net sales	$ 118,436	$ 15,279	$ 133,715	$ (798)	$ 132,917
Operating income	17,384	1,428	18,812	(11,905)	6,907

b. Geographical Segments

Information about geographical segments for the three months ended June 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 three months ended June 30, 2008 was not disclosed.

9. PER SHARE INFORMATION

a. *Equity per Share*

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

June 30, 2008	Yen	U.S. Dollars
Equity per share	¥ 1,210.75	$ 11.38

Basis for the above computation was as follows:

June 30, 2008	Millions of Yen	Thousands of U.S. Dollars
Total equity	¥ 30,782	$ 289,250
Less: Minority interests	(1,162)	(10,919)
Equity available to common shareholders	¥ 29,620	$ 278,331
Number of common stock for computation	24,464,390	

b. *Net Income per Share*

Reconciliation of the differences between basic and diluted net income per share ("EPS") was as follows:

	Millions of Yen	Number of Shares	Yen	U.S. Dollars
Three months ended June 30, 2008	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥ 368	24,444,251	¥ 15.05	$ 0.14
Effect of dilutive securities—Stock options		82,457		
Diluted EPS—Net income for computation	¥ 368	24,526,708	¥ 15.00	$ 0.14

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