

***DTS CORPORATION and
Consolidated Subsidiaries***

*Unaudited Consolidated Financial Statements
for the Third Quarter Ended December 31, 2008*

DTS CORPORATION and Consolidated Subsidiaries

**Quarterly Consolidated Balance Sheet
December 31, 2008—Unaudited**

	Millions of Yen	Thousands of U.S. Dollars (Note 1)		Millions of Yen	Thousands of U.S. Dollars (Note 1)
ASSETS			LIABILITIES AND EQUITY		
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents	¥ 10,152	\$ 111,524	Short-term bank loans	¥ 43	\$ 472
Notes and accounts receivable:			Current portion of long-term debt	351	3,856
Trade	7,696	84,544	Payables:		
Other	281	3,087	Trade accounts	1,801	19,785
Allowance for doubtful receivables	(197)	(2,164)	Other	1,740	19,115
Inventories	2,245	24,662	Income taxes payable	447	4,911
Deferred tax assets	1,208	13,270	Accrued expenses	1,544	16,961
Prepaid expenses and other current assets	483	5,306	Other current liabilities	1,554	17,071
	<u>21,868</u>	<u>240,229</u>		<u>7,480</u>	<u>82,171</u>
Total current assets			Total current liabilities		
PROPERTY AND EQUIPMENT:			LONG-TERM LIABILITIES:		
Land	6,432	70,658	Long-term debt	627	6,888
Buildings and structures	4,908	53,916	Liability for employees' retirement benefits	519	5,701
Furniture and fixtures	1,408	15,467	Retirement allowances for directors and corporate auditors	372	4,086
Other	24	264	Other long-term liabilities	13	143
Total	12,772	140,305		<u>1,531</u>	<u>16,818</u>
Accumulated depreciation	(3,431)	(37,691)	Total long-term liabilities		
	<u>9,341</u>	<u>102,614</u>			
Net property and equipment			EQUITY:		
INVESTMENTS AND OTHER ASSETS:			Common stock—authorized, 100,000,000 shares; issued, 25,222,266 shares	6,113	67,154
Investment securities	1,391	15,281	Capital surplus	6,193	68,033
Investments in unconsolidated subsidiaries and associated companies	204	2,241	Retained earnings	18,728	205,734
Software	3,079	33,824	Net unrealized gain on available-for-sale securities	51	560
Goodwill	2,950	32,407	Treasury stock—at cost, 758,258 shares	(1,125)	(12,359)
Guarantee deposit	413	4,537	Total	29,960	329,122
Deferred tax assets	373	4,097	Minority interests	1,254	13,776
Other assets	606	6,657			
	<u>9,016</u>	<u>99,044</u>	Total equity	<u>31,214</u>	<u>342,898</u>
Total investments and other assets					
TOTAL	<u>¥ 40,225</u>	<u>\$ 441,887</u>	TOTAL	<u>¥ 40,225</u>	<u>\$ 441,887</u>

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Quarterly Consolidated Statement of Income Nine months ended December 31, 2008—Unaudited

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars (Note 1)</u>
NET SALES	¥ 44,273	\$ 486,356
COST OF SALES	<u>37,001</u>	<u>406,470</u>
Gross profit	7,272	79,886
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 6)	<u>4,693</u>	<u>51,554</u>
Operating income	<u>2,579</u>	<u>28,332</u>
OTHER INCOME (EXPENSES):		
Interest and dividends income	69	758
Interest expense	(17)	(187)
Impairment of goodwill (Note 7)	(111)	(1,219)
Other—net	<u>32</u>	<u>351</u>
Other expenses—net	<u>(27)</u>	<u>(297)</u>
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>2,552</u>	<u>28,035</u>
INCOME TAXES:		
Current	1,219	13,391
Deferred	<u>(2)</u>	<u>(22)</u>
Total income taxes	<u>1,217</u>	<u>13,369</u>
MINORITY INTERESTS IN NET INCOME	<u>124</u>	<u>1,362</u>
NET INCOME	<u>¥ 1,211</u>	<u>\$ 13,304</u>
	<u>Yen</u>	<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK (Note 10.b):		
Basic net income	¥ 49.51	\$ 0.54
Diluted net income	49.47	0.54

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Quarterly Consolidated Statement of Income Three months ended December 31, 2008—Unaudited

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars (Note 1)</u>
NET SALES	¥ 14,461	\$ 158,860
COST OF SALES	<u>12,110</u>	<u>133,033</u>
Gross profit	2,351	25,827
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 6)	<u>1,561</u>	<u>17,148</u>
Operating income	<u>790</u>	<u>8,679</u>
OTHER INCOME (EXPENSES):		
Interest and dividends income	18	197
Interest expense	(3)	(33)
Other—net	<u>1</u>	<u>11</u>
Other income—net	<u>16</u>	<u>175</u>
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>806</u>	<u>8,854</u>
INCOME TAXES:		
Current	388	4,262
Deferred	<u>(0)</u>	<u>(0)</u>
Total income taxes	<u>388</u>	<u>4,262</u>
MINORITY INTERESTS IN NET INCOME	<u>52</u>	<u>571</u>
NET INCOME	<u>¥ 366</u>	<u>\$ 4,021</u>
	<u>Yen</u>	<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK (Note 10.b):		
Basic net income	¥ 14.97	\$ 0.16

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Quarterly Consolidated Statement of Cash Flows Nine months ended December 31, 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	¥ 2,552	\$ 28,035
Adjustments for:		
Income taxes paid	(2,429)	(26,684)
Depreciation and amortization, including impairment of goodwill	1,574	17,291
Changes in assets and liabilities:		
Decrease in notes and accounts receivable	2,061	22,641
Increase in inventories	(1,478)	(16,236)
Increase in other current assets	(103)	(1,131)
Decrease in accounts payable	(364)	(3,999)
Decrease in accrued expenses	(870)	(9,557)
Increase in other current liabilities	392	4,306
Increase in liability for employees' retirement benefits and retirement allowances for directors and corporate auditors	38	417
Other—net	(120)	(1,318)
Total adjustments	<u>(1,299)</u>	<u>(14,270)</u>
Net cash provided by operating activities	<u>1,253</u>	<u>13,765</u>
INVESTING ACTIVITIES:		
Increase in time deposits other than cash equivalents	(33)	(363)
Decrease in time deposits other than cash equivalents	26	286
Payment for purchases of property and equipment	(174)	(1,911)
Payment for purchases of investment securities	(1)	(11)
Proceeds from redemption of investment securities	500	5,493
Payment for purchases of software	(416)	(4,570)
Payment for investments in unconsolidated subsidiaries and affiliates	(129)	(1,417)
Other—net	<u>(1)</u>	<u>(11)</u>
Net cash used in investing activities	<u>(228)</u>	<u>(2,504)</u>
FINANCING ACTIVITIES:		
Decrease in short-term bank loans—net	(870)	(9,557)
Repayment of long-term debt	(274)	(3,010)
Dividends paid	(1,027)	(11,282)
Repurchase of treasury stock	(1)	(11)
Disposal of treasury stock	<u>57</u>	<u>626</u>
Net cash used in financing activities	<u>(2,115)</u>	<u>(23,234)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,090)	(11,973)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>11,242</u>	<u>123,497</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>¥ 10,152</u>	<u>\$ 111,524</u>

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Notes to Quarterly Consolidated Financial Statements Nine Months and Three Months Ended December 31, 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 ¥91.03 to \$1, the approximate rate of exchange at December 31, 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 nine months ended December 31, 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 nine months ended December 31, 2008.

4. APPLICATION OF SIMPLIFIED ACCOUNTING METHODS

- a. Inventories**—As of December 31, 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 nine months ended December 31, 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 nine months and three months ended December 31, 2008 were as follows:

Nine months ended December 31, 2008	Millions of Yen	Thousands of U.S. Dollars
Salaries and fringe benefits	¥ 1,323	\$ 14,534
Provision for bonuses	135	1,483
Three months ended December 31, 2008		
Salaries and fringe benefits	¥ 421	\$ 4,625
Provision for bonuses	126	1,384

7. IMPAIRMENT OF GOODWILL

Impairment of goodwill of ¥111 million (\$1,219 thousand) recorded in the nine months ended December 31, 2008, is an impairment loss on goodwill recognized following an assessment of the financial performance of RD Corporation, one of the consolidated subsidiaries, during the second quarter.

8. DIVIDENDS

The following appropriation of retained earnings was resolved 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 (\$0.27) per share (Record date: March 31, 2008; effective date: June 23, 2008)	¥ 611	\$ 6,712

The following appropriation of retained earnings was resolved at the Board of Directors meeting held on November 13, 2008.

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Interim cash dividends, ¥15 (\$0.16) per share (Record date: September 30, 2008; effective date: December 8, 2008)	¥ 367	\$ 4,032

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 nine months and three months ended December 31, 2008 was as follows:

a. Industry Segments

Information about operations in different industry segments for the nine months and three months ended December 31, 2008 was as follows:

Nine months ended December 31, 2008					
Millions of Yen					
	Information Service	Other	Total	Inter-Segment Elimination or Corporate	Consolidated Amount
Net sales	¥ 39,261	¥ 5,393	¥ 44,654	¥ (381)	¥ 44,273
Operating income	5,478	465	5,943	(3,364)	2,579
Thousands of U.S. Dollars					
	Information Service	Other	Total	Inter-Segment Elimination or Corporate	Consolidated Amount
Net sales	\$ 431,297	\$ 59,244	\$ 490,541	\$ (4,185)	\$ 486,356
Operating income	60,178	5,108	65,286	(36,954)	28,332
Three months ended December 31, 2008					
Millions of Yen					
	Information Service	Other	Total	Inter-Segment Elimination or Corporate	Consolidated Amount
Net sales	¥ 12,700	¥ 1,868	¥ 14,568	¥ (107)	¥ 14,461
Operating income	1,709	171	1,880	(1,090)	790
Thousands of U.S. Dollars					
	Information Service	Other	Total	Inter-Segment Elimination or Corporate	Consolidated Amount
Net sales	\$ 139,514	\$ 20,521	\$ 160,035	\$ (1,175)	\$ 158,860
Operating income	18,774	1,879	20,653	(11,974)	8,679

b. Geographical Segments

Information about geographical segments for the nine months and three months ended December 31, 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 nine months and three months ended December 31, 2008 was not disclosed.

10. PER SHARE INFORMATION

a. *Equity per Share*

Equity per share as of December 31, 2008 was as follows:

December 31, 2008	Yen	U.S. Dollars
Equity per share	¥ 1,224.67	\$ 13.45

Basis for the above computation was as follows:

December 31, 2008	Millions of Yen	Thousands of U.S. Dollars
Total equity	¥ 31,214	\$ 342,898
Less: Minority interests	(1,254)	(13,776)
Equity available to common shareholders	¥ 29,960	\$ 329,122
Number of common stock shares for computation	24,464,008	

b. *Net Income per Share*

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the nine months ended December 31, 2008 was as follows:

Nine months ended December 31, 2008	Millions of Yen Net Income	Number of Shares Weighted-average Shares	Yen	U.S. Dollars EPS
Basic EPS—Net income available to common shareholders	¥ 1,211	24,457,564	¥ 49.51	\$0.54
Effect of dilutive securities— Stock options	_____	23,052		
Diluted EPS—Net income for computation	¥ 1,211	24,480,616	¥ 49.47	\$0.54

Basic net income per share for the three months ended December 31, 2008 was calculated as follows:

Three months ended December 31, 2008	Millions of Yen Net Income	Number of Shares Weighted-average Shares	Yen	U.S. Dollars EPS
Basic EPS—Net income available to common shareholders	¥ 366	24,464,053	¥ 14.97	\$0.16

Diluted net income per share is not disclosed because it was anti-dilutive for the three months ended December 31, 2008.

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