

***DTS CORPORATION and
Consolidated Subsidiaries***

*Unaudited Consolidated Financial Statements
for the Second Quarter Ended September 30, 2009*

DTS CORPORATION and Consolidated Subsidiaries

**Quarterly Consolidated Balance Sheets—Unaudited
September 30, 2009 and March 31, 2009**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)		Millions of Yen		Thousands of U.S. Dollars (Note 1)
	September 30, 2009	March 31, 2009	September 30, 2009		September 30, 2009	March 31, 2009	September 30, 2009
ASSETS				LIABILITIES AND EQUITY			
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents	¥ 9,878	¥ 10,740	\$ 109,500	Short-term bank loans	¥ 45	¥ 45	\$ 499
Notes and accounts receivable:				Current portion of long-term debt	392	345	4,345
Trade	6,825	8,681	75,657	Payables:			
Other	327	290	3,625	Trade accounts	1,349	1,998	14,954
Allowance for doubtful receivables	(197)	(197)	(2,184)	Other	1,219	1,328	13,513
Inventories (Note 7)	1,635	1,320	18,124	Income taxes payable	289	845	3,204
Deferred tax assets	1,167	1,169	12,936	Accrued expenses	2,577	2,728	28,567
Prepaid expenses and other current assets	454	326	5,033	Other current liabilities (Note 7)	629	942	6,972
Total current assets	20,089	22,329	222,691	Total current liabilities	6,500	8,231	72,054
PROPERTY AND EQUIPMENT:				LONG-TERM LIABILITIES:			
Land	6,432	6,432	71,300	Long-term debt	235	454	2,605
Buildings and structures	4,927	4,913	54,617	Liability for employees' retirement benefits	411	473	4,556
Furniture and fixtures	1,411	1,392	15,641	Retirement allowances for directors and corporate auditors	230	364	2,550
Other	24	23	267	Other long-term liabilities	196	28	2,172
Total	12,794	12,760	141,825	Total long-term liabilities	1,072	1,319	11,883
Accumulated depreciation	(3,596)	(3,481)	(39,863)	EQUITY:			
Net property and equipment	9,198	9,279	101,962	Common stock—authorized, 100,000,000 shares; issued, 25,222,266 shares at September 30 and March 31, 2009	6,113	6,113	67,764
INVESTMENTS AND OTHER ASSETS:				Capital surplus	6,193	6,193	68,651
Investment securities	1,588	1,531	17,603	Retained earnings	18,293	19,031	202,782
Investments in unconsolidated subsidiaries and associated companies	204	204	2,261	Net unrealized loss on available-for-sale securities	(8)	(64)	(88)
Software	3,068	3,148	34,010	Treasury stock—at cost, 1,558,263 shares at September 30 and March 31, 2009	(1,609)	(1,608)	(17,836)
Goodwill	2,337	2,741	25,906	Total	28,982	29,665	321,273
Deferred tax assets	380	290	4,212	Minority interests	1,282	1,301	14,211
Other assets	972	994	10,776	Total equity	30,264	30,966	335,484
Total investments and other assets	8,549	8,908	94,768	TOTAL	¥ 37,836	¥ 40,516	\$ 419,421
TOTAL	¥ 37,836	¥ 40,516	\$ 419,421				

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Quarterly Consolidated Statements of Operations—Unaudited Six Months Ended September 30, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	September 30, 2009	September 30, 2008	September 30, 2009
NET SALES	¥ 25,270	¥ 29,811	\$ 280,124
COST OF SALES	<u>22,446</u>	<u>24,891</u>	<u>248,819</u>
Gross profit	2,824	4,920	31,305
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 8)	<u>2,749</u>	<u>3,133</u>	<u>30,473</u>
Operating income	<u>75</u>	<u>1,787</u>	<u>832</u>
OTHER INCOME (EXPENSES):			
Interest and dividends income	23	51	255
Interest expense	(6)	(13)	(67)
Loss from prior period adjustments (Note 9)	(208)		(2,306)
Other—net	<u>49</u>	<u>(78)</u>	<u>543</u>
Other expenses—net	<u>(142)</u>	<u>(40)</u>	<u>(1,575)</u>
(LOSS) INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>(67)</u>	<u>1,747</u>	<u>(743)</u>
INCOME TAXES:			
Current	251	832	2,782
Deferred	<u>(89)</u>	<u>(2)</u>	<u>(987)</u>
Total income taxes	<u>162</u>	<u>830</u>	<u>1,795</u>
MINORITY INTERESTS IN NET INCOME	<u>35</u>	<u>72</u>	<u>388</u>
NET (LOSS) INCOME	<u>¥ (264)</u>	<u>¥ 845</u>	<u>\$ (2,926)</u>
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 12.b):			
Basic net (loss) income	¥ (11.17)	¥ 34.54	\$ (0.12)
Diluted net income	-	34.46	-

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Quarterly Consolidated Statements of Operations—Unaudited Three Months Ended September 30, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	September 30, 2009	September 30, 2008	September 30, 2009
NET SALES	¥ 13,283	¥ 15,666	\$ 147,245
COST OF SALES	<u>11,846</u>	<u>13,146</u>	<u>131,316</u>
Gross profit	1,437	2,520	15,929
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 8)	<u>1,265</u>	<u>1,468</u>	<u>14,023</u>
Operating income	<u>172</u>	<u>1,052</u>	<u>1,906</u>
OTHER INCOME (EXPENSES):			
Interest and dividends income	3	9	33
Interest expense	(3)	(6)	(33)
Loss from prior period adjustment (Note 9)	(208)		(2,306)
Other—net	<u>40</u>	<u>(104)</u>	<u>443</u>
Other expenses—net	<u>(168)</u>	<u>(101)</u>	<u>(1,863)</u>
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>4</u>	<u>951</u>	<u>43</u>
INCOME TAXES:			
Current	167	433	1,851
Deferred	<u>(89)</u>		<u>(987)</u>
Total income taxes	<u>78</u>	<u>433</u>	<u>864</u>
MINORITY INTERESTS IN NET INCOME	<u>17</u>	<u>41</u>	<u>188</u>
NET (LOSS) INCOME	<u>¥ (91)</u>	<u>¥ 477</u>	<u>\$ (1,009)</u>
		Yen	U.S. Dollars
PER SHARE OF COMMON STOCK (Note 12.b):			
Basic net (loss) income	¥ (3.82)	¥ 19.49	\$ (0.04)
Diluted net income	-	19.47	-

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Quarterly Consolidated Statements of Cash Flows—Unaudited Six Months Ended September 30, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	September 30, 2009	September 30, 2008	September 30, 2009
OPERATING ACTIVITIES:			
(Loss) income before income taxes and minority interests	¥ (67)	¥ 1,747	\$ (743)
Adjustments for:			
Income taxes paid	(801)	(1,612)	(8,879)
Depreciation and amortization	1,038	1,075	11,506
Changes in assets and liabilities:			
Decrease in trade notes and accounts receivable	1,821	1,375	20,186
Increase in inventories	(315)	(796)	(3,492)
Increase in other current assets	(13)	(82)	(144)
Decrease in accounts payable	(603)	(708)	(6,684)
(Decrease) increase in accrued expenses	(151)	390	(1,674)
Decrease in other current liabilities	(231)	(408)	(2,560)
(Decrease) increase in liability for employees' retirement benefits and retirement allowances for directors and corporate auditors	(197)	20	(2,184)
Other—net	149	(121)	1,652
Total adjustments	697	(867)	7,727
Net cash provided by operating activities	630	880	6,984
INVESTING ACTIVITIES:			
Increase in time deposits other than cash equivalents	(125)	(3)	(1,386)
Decrease in time deposits other than cash equivalents	10	6	110
Payment for purchases of property and equipment	(38)	(125)	(421)
Proceeds from redemption of investment securities		500	
Payment for purchases of software	(637)	(387)	(7,061)
Net increase in other assets	(4)	(1)	(44)
Net cash used in investing activities	(794)	(10)	(8,802)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans—net	0	(870)	0
Repayment of long-term debt	(172)	(268)	(1,907)
Dividends paid	(526)	(667)	(5,831)
Repurchase of treasury stock		(1)	
Disposal of treasury stock		57	
Net cash used in financing activities	(698)	(1,749)	(7,738)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(862)	(879)	(9,556)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10,740	11,242	119,056
CASH AND CASH EQUIVALENTS, END OF PERIOD	¥ 9,878	¥ 10,363	\$ 109,500

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Notes to Quarterly Consolidated Financial Statements—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 Act 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.

Certain financial information that is normally included in annual financial statements prepared in accordance with Japanese GAAP, but is not required for interim reporting purposes, has been condensed or omitted.

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 ¥90.21 to \$1, the approximate rate of exchange at September 30, 2009. 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, 2009 and 2008.”

3. CHANGE IN SCOPE OF CONSOLIDATION

During the second quarter of fiscal year 2010, RD CORPORATION, which had been a subsidiary of the Company, was liquidated and excluded from the scope of consolidation. As a result, the consolidated financial statements as of September 30, 2009 include the accounts of the Company and its 8 significant subsidiaries. However, the results of operation of RD CORPORATION up to the liquidation are included in the consolidated statements of operation.

4. ADOPTION OF NEW ACCOUNTING STANDARD

Construction Contracts—Under the previous accounting standard, construction contracts had been accounted for by the completed-contract method.

On December 27, 2007, the Accounting Standards Board of Japan (“ASBJ”) issued ASBJ Statement No. 15, “Accounting Standard for Construction Contracts” and ASBJ Guidance No. 18, “Guidance on Accounting Standard for Construction Contracts.” Under this accounting standard, the construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method shall be applied. When it is probable that total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for loss on construction contracts. This standard is applicable to construction contracts and software development contracts and effective for fiscal years beginning on or after April 1, 2009 with early adoption permitted for fiscal years beginning on or before March 31, 2009 but after December 27, 2007.

The Company adopted this new standard effective April 1, 2009. As a result of the adoption of this new standard, net sales and operating income increased by ¥123 million (\$1,363 thousand) and ¥14 million (\$155 thousand), respectively, and loss before income taxes and minority interests decreased by ¥14 million (\$155 thousand) for the six months ended September 30, 2009.

5. APPLICATION OF SIMPLIFIED ACCOUNTING METHODS

- a. Inventories*—As of September 30, 2009, 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, 2009 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.

6. APPLICATION OF ACCOUNTING METHOD SPECIAL FOR PREPARING QUARTERLY FINANCIAL STATEMENTS

Income Taxes—Income taxes are calculated by multiplying the (loss) income before income taxes and minority interests for the six months and three months ended September 30, 2009 by the estimated effective tax rate for the year ending March 31, 2010, after taking into account the effect of possible temporary differences.

7. LOSS ON CONSTRUCTION CONTRACTS

As of September 30, 2009, an estimated loss of ¥37 million (\$410 thousand) on construction contracts was included in both inventories and other current liabilities.

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major item of selling, general and administrative expenses for the six months and three months ended September 30, 2009 and 2008 were as follows:

Six Months Ended September 30	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Salaries and fringe benefits	¥ 856	¥ 902	\$ 9,489
Provision for bonuses	230	270	2,550
Three Months Ended September 30	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Salaries and fringe benefits	¥ 398	¥ 422	\$ 4,412
Provision for bonuses	97	124	1,075

9. LOSS FROM PRIOR PERIOD ADJUSTMENTS

Loss from prior period adjustments of ¥208 million (\$2,306 thousand) attributed to adjustments of unrealized profit on intangible assets was recognized during the second quarter of fiscal year 2010.

10. DIVIDENDS

The following appropriation of retained earnings was resolved at the Company's shareholders meeting held on June 25, 2009.

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Year-end cash dividends, ¥20 (\$0.22) per share (Record date: March 31, 2009; effective date: June 26, 2009)	¥ 473	\$ 5,243

The following appropriation of retained earnings was resolved by the Board of Directors on November 12, 2009.

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Interim cash dividends, ¥15 (\$0.17) per share (Record date: September 30, 2009; effective date: December 7, 2009)	¥ 355	\$ 3,935

11. 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; and monitoring and maintenance of various networks.
- "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 business in the IT field.

Information about industry segments, geographical segments and sales to foreign customers for the six months ended September 30, 2009 and 2008 was as follows:

a. Industry Segments

Information about operations in different industry segments for the six months and three months ended September 30, 2009 and 2008 were as follows:

		<u>Six Months Ended September 30, 2009</u>				
		<u>Millions of Yen</u>			<u>Inter-Segment</u>	<u>Consolidated</u>
	<u>Information</u>	<u>Other</u>	<u>Total</u>	<u>Elimination</u>	<u>or Corporate</u>	<u>Amount</u>
	<u>Service</u>			<u>or Corporate</u>		
Net sales	¥ 22,051	¥ 3,519	¥ 25,570	¥ (300)		¥ 25,270
Operating income	1,499	344	1,843	(1,768)		75
		<u>Thousands of U.S. Dollars</u>				
	<u>Information</u>	<u>Other</u>	<u>Total</u>	<u>Inter-Segment</u>	<u>Elimination</u>	<u>Consolidated</u>
	<u>Service</u>			<u>or Corporate</u>		<u>Amount</u>
Net sales	\$ 244,440	\$ 39,009	\$ 283,449	\$ (3,325)		\$ 280,124
Operating income	16,617	3,813	20,430	(19,598)		832

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	

Three Months Ended September 30, 2009						
Millions of Yen						
	Information Service	Other	Total	Inter-Segment Elimination or Corporate	Consolidated Amount	
Net sales	¥ 11,503	¥ 1,974	¥ 13,477	¥ (194)	¥ 13,283	
Operating income	761	248	1,009	(837)	172	

Thousands of U.S. Dollars						
	Information Service	Other	Total	Inter-Segment Elimination or Corporate	Consolidated Amount	
Net sales	\$ 127,514	\$ 21,882	\$ 149,396	\$ (2,151)	\$ 147,245	
Operating income	8,436	2,749	11,185	(9,279)	1,906	

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	

b. Geographical Segments

Information about geographical segments for the six months and three months ended September 30, 2009 and 2008 has been omitted since sales in Japan accounted for more than 90% of the total consolidated sales.

c. Sales to Foreign Customers

Information about sales to foreign customers has been omitted since sales to foreign customers accounted for less than 10% of the total consolidated sales for the six months and three months ended September 30, 2009 and the Company and its consolidated subsidiaries had no sales to foreign customers for the six months and three months ended September 30, 2008.

12. PER SHARE INFORMATION

a. *Equity per Share*

Equity per share as of September 30 and March 31, 2009 was as follows:

	<u>Yen</u>		<u>U.S. Dollars</u>
	<u>September 30, 2009</u>	<u>March 31, 2009</u>	<u>September 30, 2009</u>
Equity per share	¥ 1,224.74	¥1,253.58	\$ 13.58

Basis for the above computation was as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>September 30, 2009</u>	<u>March 31, 2009</u>	<u>September 30, 2009</u>
Total equity	¥ 30,264	¥ 30,966	\$ 335,484
Less: Minority interests	<u>(1,282)</u>	<u>(1,301)</u>	<u>(14,211)</u>
Equity available to common shareholders	<u>¥ 28,982</u>	<u>¥ 29,665</u>	<u>\$ 321,273</u>
Number of common stock shares for computation	<u>23,664,003</u>	<u>23,664,003</u>	

b. *Net (Loss) Income per Share*

Basic net loss per share for the six months and three months ended September 30, 2009 was calculated as follows:

	<u>Millions of Yen</u>	<u>Number of Shares</u>	<u>Yen</u>	<u>U.S. Dollars</u>
	<u>Net Loss</u>	<u>Weighted-average Shares</u>	<u>Net Loss per Share</u>	
<u>Six Months Ended September 30, 2009</u>				
Basic net loss per share—Net loss available to common shareholders	¥ (264)	23,664,003	¥ (11.17)	\$ (0.12)
<u>Three Months Ended September 30, 2009</u>				
Basic net loss per share—Net loss available to common shareholders	¥ (91)	23,664,003	¥ (3.82)	\$ (0.04)

Diluted net income per share for the six months and three months ended September 30, 2009 is not disclosed because of the Company's net loss position and because it is anti-dilutive.

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

	Millions of Yen	Number of Shares	Yen
	Net Income	Weighted-average Shares	EPS
<u>Six months ended September 30, 2008</u>			
Basic EPS—Net income available to common shareholders	¥ 845	24,454,301	¥ <u>34.54</u>
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>Three months ended September 30, 2008</u>			
Basic EPS—Net income available to common shareholders	¥ 477	24,464,242	¥ <u>19.49</u>
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>

13. SUBSEQUENT EVENT

At a meeting of the Board of Directors held on October 26, 2009, the Company approved that its newly-incorporated, wholly-owned subsidiary would acquire the SI business of DIGITAL TECHNOLOGIES CORPORATION (“DTC”), and the acquisition contract was concluded on the same day.

The SI business of DTC includes system consulting, infra-structures development and system equipment sales. The acquisition will be completed on December 1, 2009 at the price of ¥830 million (\$9,201 thousand).

The subsidiary will be named as “DIGITAL TECHNOLOGIES CORPORATION” on December 1, 2009, when DTC changes its name.

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