

***DTS CORPORATION and
Consolidated Subsidiaries***

*Unaudited Consolidated Financial Statements
for the First Quarter Ended June 30, 2010*

DTS CORPORATION and Consolidated Subsidiaries

**Quarterly Consolidated Balance Sheets—Unaudited
June 30 and March 31, 2010**

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	June 30, 2010	March 31, 2010	June 30, 2010
CURRENT ASSETS:			
Cash and cash equivalents	¥ 9,986	¥ 9,367	\$ 112,862
Notes and accounts receivable:			
Trade	7,940	9,521	89,738
Other	317	410	3,582
Allowance for doubtful receivables	(206)	(203)	(2,328)
Inventories (Note 6)	2,143	1,221	24,220
Deferred tax assets	1,015	1,017	11,471
Prepaid expenses and other current assets	1,367	1,366	15,450
Total current assets	22,562	22,699	254,995
PROPERTY AND EQUIPMENT:			
Land	6,432	6,432	72,695
Buildings and structures	5,031	5,006	56,860
Furniture and fixtures	1,424	1,382	16,094
Other	43	24	486
Total	12,930	12,844	146,135
Accumulated depreciation	(3,652)	(3,635)	(41,275)
Net property and equipment	9,278	9,209	104,860
INVESTMENTS AND OTHER ASSETS:			
Investment securities	1,470	1,507	16,614
Investments in unconsolidated subsidiaries and associated companies	206	206	2,328
Software	2,756	2,925	31,148
Goodwill	2,592	2,701	29,295
Deferred tax assets	900	907	10,172
Other assets	1,085	1,157	12,263
Allowance for doubtful receivables	(39)	(40)	(441)
Total investments and other assets	8,970	9,363	101,379
TOTAL	¥ 40,810	¥ 41,271	\$ 461,234

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	June 30, 2010	March 31, 2010	June 30, 2010
CURRENT LIABILITIES:			
Short-term bank loans	¥ 363	¥ 412	\$ 4,103
Current portion of long-term debt	430	430	4,860
Current portion of bonds	120	120	1,356
Payables:			
Trade accounts	2,369	2,293	26,774
Other	2,047	1,644	23,135
Income taxes payable	198	340	2,238
Accrued expenses	1,727	2,372	19,519
Other current liabilities (Note 6)	2,361	1,812	26,684
Total current liabilities	9,615	9,423	108,669
LONG-TERM LIABILITIES:			
Long-term debt	16	19	181
Bonds payable	290	340	3,277
Liability for employees' retirement benefits	497	500	5,617
Retirement allowances for directors and corporate auditors	82	241	927
Other long-term liabilities	216	179	2,441
Total long-term liabilities	1,101	1,279	12,443
EQUITY:			
Common stock—authorized, 100,000,000 shares; issued, 25,222,266 shares at June 30 and March 31, 2010	6,113	6,113	69,089
Capital surplus	6,191	6,191	69,971
Retained earnings	18,041	18,463	203,899
Net unrealized loss on available-for-sale securities	(92)	(53)	(1,040)
Treasury stock—at cost, 1,446,624 shares at June 30, 2010 and 1,446,580 shares at March 31, 2010	(1,494)	(1,493)	(16,885)
Total	28,759	29,221	325,034
Minority interests	1,335	1,348	15,088
Total equity	30,094	30,569	340,122
TOTAL	¥ 40,810	¥ 41,271	\$ 461,234

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Quarterly Consolidated Statements of Operations—Unaudited Three Months Ended June 30, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	June 30, 2010	June 30, 2009	June 30, 2010
NET SALES	¥ 14,142	¥ 11,986	\$ 159,833
COST OF SALES	12,375	10,600	139,862
Gross profit	1,767	1,386	19,971
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 7)	1,550	1,487	17,518
Operating income (loss)	217	(101)	2,453
OTHER INCOME (EXPENSES):			
Subsidy income	38		429
Interest and dividends income	23	20	260
Interest expense	(3)	(3)	(34)
Other—net	(17)	13	(192)
Other income—net	41	30	463
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	258	(71)	2,916
INCOME TAXES:			
Current	181	84	2,046
Total income taxes	181	84	2,046
NET INCOME (LOSS) BEFORE MINORITY INTERESTS	77	(155)	870
MINORITY INTERESTS IN NET INCOME	23	19	260
NET INCOME (LOSS)	¥ 54	¥ (174)	\$ 610
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 10.b):			
Basic net income (loss)	¥ 2.25	¥ (7.35)	\$ 0.03

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Quarterly Consolidated Statements of Cash Flows—Unaudited Three Months Ended June 30, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	June 30, 2010	June 30, 2009	June 30, 2010
OPERATING ACTIVITIES:			
Income (loss) before income taxes and minority interests	¥ 258	¥ (71)	\$ 2,916
Adjustments for:			
Income taxes paid	(289)	(801)	(3,266)
Depreciation and amortization	473	528	5,346
Changes in assets and liabilities:			
Decrease in trade notes and accounts receivable	1,681	2,268	18,999
Increase in inventories	(922)	(1,123)	(10,421)
Increase in other current assets	(1)	(29)	(11)
Increase in accounts payable	340	3	3,843
Decrease in accrued expenses	(645)	(1,274)	(7,290)
Increase in other current liabilities	428	1,038	4,837
Decrease in liability for employees' retirement benefits and retirement allowances for directors and corporate auditors	(162)	(215)	(1,831)
Other—net	179	212	2,023
Total adjustments	<u>1,082</u>	<u>607</u>	<u>12,229</u>
Net cash provided by operating activities	<u>1,340</u>	<u>536</u>	<u>15,145</u>
INVESTING ACTIVITIES:			
Payment for purchases of property and equipment	(55)	(23)	(622)
Payment for purchases of software	(121)	(340)	(1,367)
Payments for transfer of business	(4)		(45)
Net decrease in other assets	1		11
Net cash used in investing activities	<u>(179)</u>	<u>(363)</u>	<u>(2,023)</u>
FINANCING ACTIVITIES:			
(Decrease) increase in short-term bank loans—net	(49)	2	(554)
Redemption of bonds	(50)		(565)
Repayment of long-term debt	(3)	(5)	(34)
Dividends paid	(440)	(444)	(4,973)
Net cash used in financing activities	<u>(542)</u>	<u>(447)</u>	<u>(6,126)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	619	(274)	6,996
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>9,367</u>	<u>10,740</u>	<u>105,866</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>¥ 9,986</u>	<u>¥ 10,466</u>	<u>\$ 112,862</u>

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 ¥88.48 to \$1, the approximate rate of exchange at June 30, 2010. 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, 2010 and 2009.”

3. ADOPTION OF NEW ACCOUNTING STANDARD

Effective April 1, 2010, the Company adopted the “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18, March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008).

As a result of this adoption, operating income decreased by ¥1 million (\$11 thousand) and income before income taxes and minority interests decreased by ¥13 million (\$147 thousand), respectively.

4. APPLICATION OF SIMPLIFIED ACCOUNTING METHODS

a. Inventories—As of June 30, 2010, 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, 2010 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 METHOD SPECIAL FOR PREPARING QUARTERLY FINANCIAL STATEMENTS

Income Taxes—Income taxes are calculated by multiplying the income before income taxes and minority interests for the three months ended June 30, 2010 by the estimated effective tax rate for the year ending March 31, 2011, after taking into account the effect of possible temporary differences.

6. LOSS ON CONSTRUCTION CONTRACTS

As of June 30 and March 31, 2010, an estimated loss of ¥128 million (\$1,447 thousand) and ¥53 million, respectively, on construction contracts was included in both inventories and other current liabilities.

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major item of selling, general and administrative expenses for the three months ended June 30, 2010 and 2009 were as follows:

Three Months Ended June 30	Millions of Yen		Thousands of
	2010	2009	U.S. Dollars
Salaries and fringe benefits	¥ 506	¥ 458	\$ 5,719
Provision for bonuses	143	135	1,616

8. DIVIDENDS

The following appropriation of retained earnings was resolved at the Company's shareholders meeting held on June 25, 2010.

	Millions of	Thousands of
	Yen	U.S. Dollars
Year-end cash dividends, ¥20 (\$0.23) per share (Record date: March 31, 2010; effective date: June 28, 2010)	¥ 476	\$ 5,380

9. SEGMENT INFORMATION

Effective from April 1, 2010, the Company adopted the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, March 27, 2009) and the "Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (ASBJ Guidance No. 20, March 21, 2008).

1. Overview of Reportable Segment

The Company defines reportable segment as a component of the Company and its consolidated subsidiaries for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance.

Operating departments of the Company and its consolidated subsidiaries are organized by service and each department develops and implements comprehensive strategy on its service. Thus, reportable segments of the Company and its consolidated subsidiaries are determined based on the operating departments as follows:

(1) "Information service business"

- Consulting and integration of information systems; design, development and maintenance of consignment software and packaged software; design, construction, monitoring and maintenance of various network systems, etc.
- Operational management for computer facilities and information systems, etc.
- Sales of computer and other information related equipment and system products such as software.
- Education business in the IT field.

(2) "Human resource service business"

- Worker dispatching business and related operations.

Three Months Ended June 30, 2010

Millions of Yen

	Reportable Segment			Adjustment (* 1)	Consolidated Amount (* 2)
	Information Service	Human Resource Service	Total		
Net sales					
Outside customers	¥ 12,977	¥ 1,165	¥ 14,142		¥ 14,142
Inter-segment sales and transfers		21	21	¥ (21)	
Total	<u>¥ 12,977</u>	<u>¥ 1,186</u>	<u>¥ 14,163</u>	<u>¥ (21)</u>	<u>¥ 14,142</u>
Segment profit	¥ 197	¥ 19	¥ 216	¥ 1	¥ 217

Thousands of U.S. Dollars

	Reportable Segment			Adjustment (* 1)	Consolidated Amount (* 2)
	Information Service	Human Resource Service	Total		
Net sales					
Outside customers	\$ 146,666	\$ 13,167	\$ 159,833		\$ 159,833
Inter-segment sales and transfers		237	237	\$ (237)	
Total	<u>\$ 146,666</u>	<u>\$ 13,404</u>	<u>\$ 160,070</u>	<u>\$ (237)</u>	<u>\$ 159,833</u>
Segment profit	\$ 2,227	\$ 215	\$ 2,442	\$ 11	\$ 2,453

Notes: * 1. There is no material adjustment to segment profit.

* 2. Segment profit is reconciled to operating income in the accompanying quarterly consolidated statement of operations.

The segment information for the three months ended June 30, 2009 is as follows.

The Company and its consolidated subsidiaries operated 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.

a. Industry Segments

Information about operations in different industry segments for the three months ended June 30, 2009 was as follows:

	Three Months Ended June 30, 2009				
	Millions of Yen				
	Information Service	Other	Total	Inter-Segment Elimination or Corporate	Consolidated Amount
Net sales	¥ 10,548	¥ 1,544	¥ 12,092	¥ (106)	¥ 11,986
Operating income	737	96	833	(934)	(101)

b. Geographical Segments

Information about geographical segments for the three months ended June 30, 2009 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 three months ended June 30, 2009.

10. PER SHARE INFORMATION

a. Equity per Share

Equity per share as of June 30 and March 31, 2010 was as follows:

	Yen		U.S. Dollars
	June 30, 2010	March 31, 2010	June 30, 2010
Equity per share	¥ 1,209.61	¥ 1,229.02	\$ 13.67

Basis for the above computation was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	June 30, 2010	March 31, 2010	June 30, 2010
Total equity	¥ 30,094	¥ 30,569	\$ 340,122
Less: Minority interests	(1,335)	(1,348)	(15,088)
Equity available to common shareholders	<u>¥ 28,759</u>	<u>¥ 29,221</u>	<u>\$ 325,034</u>
Number of common stock shares for computation	<u>23,775,642</u>	<u>23,775,686</u>	

b. Net Income (Loss) per Share

Basic net income (loss) per share for the three months ended June 30, 2010 and 2009 was calculated as follows:

	Millions of Yen	Number of Shares	Yen	U.S. Dollars
	Net Income	Weighted-average Shares	Net Income per Share	
<u>Three Months Ended June 30, 2010</u>				
Basic net income per share				
—Net income available to common shareholders	¥ 54	23,775,679	¥ 2.25	\$ 0.03

Diluted net income per share for the three months ended June 30, 2010 is not disclosed because the Company has no diluted share.

	Millions of Yen	Number of Shares	Yen
	Net Loss	Weighted-average Shares	Net Loss per Share
<u>Three Months Ended June 30, 2009</u>			
Basic net loss per share			
—Net loss available to common shareholders	¥ (174)	23,664,003	¥ (7.35)

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

11. SUBSEQUENT EVENT

No item to report.

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