

***DTS CORPORATION and
Consolidated Subsidiaries***

*Unaudited Consolidated Financial Statements
for the Second Quarter Ended September 30, 2010*

DTS CORPORATION and Consolidated Subsidiaries

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

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	September 30, 2010	March 31, 2010	September 30, 2010
CURRENT ASSETS:			
Cash and cash equivalents	¥ 9,325	¥ 9,367	\$ 111,250
Notes and accounts receivable:			
Trade	8,913	9,521	106,335
Other	313	410	3,734
Allowance for doubtful receivables	(202)	(203)	(2,410)
Inventories (Note 6)	1,295	1,221	15,450
Deferred tax assets	1,010	1,017	12,050
Prepaid expenses and other current assets	1,438	1,366	17,156
Total current assets	22,092	22,699	263,565
PROPERTY AND EQUIPMENT:			
Land	6,432	6,432	76,736
Buildings and structures	5,036	5,006	60,081
Furniture and fixtures	1,377	1,382	16,428
Other	43	24	513
Total	12,888	12,844	153,758
Accumulated depreciation	(3,666)	(3,635)	(43,737)
Net property and equipment	9,222	9,209	110,021
INVESTMENTS AND OTHER ASSETS:			
Investment securities	1,422	1,507	16,965
Investments in unconsolidated subsidiaries and associated companies	206	206	2,458
Software	2,722	2,925	32,474
Goodwill	2,484	2,701	29,635
Deferred tax assets	909	907	10,845
Other assets	1,063	1,157	12,682
Allowance for doubtful receivables	(23)	(40)	(275)
Total investments and other assets	8,783	9,363	104,784
TOTAL	¥ 40,097	¥ 41,271	\$ 478,370

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	September 30, 2010	March 31, 2010	September 30, 2010
CURRENT LIABILITIES:			
Short-term bank loans	¥ 348	¥ 412	\$ 4,152
Current portion of long-term debt	221	430	2,637
Current portion of bonds	120	120	1,432
Payables:			
Trade accounts	1,787	2,293	21,319
Other	1,236	1,644	14,746
Income taxes payable	561	340	6,693
Accrued expenses	2,592	2,372	30,923
Other current liabilities (Note 6)	1,673	1,812	19,959
Total current liabilities	8,538	9,423	101,861
LONG-TERM LIABILITIES:			
Long-term debt	13	19	155
Bonds payable	280	340	3,341
Liability for employees' retirement benefits	484	500	5,774
Retirement allowances for directors and corporate auditors	88	241	1,050
Other long-term liabilities	214	179	2,553
Total long-term liabilities	1,079	1,279	12,873
EQUITY:			
Common stock—authorized, 100,000,000 shares; issued, 25,222,266 shares at September 30 and March 31, 2010	6,113	6,113	72,930
Capital surplus	6,191	6,191	73,861
Retained earnings	18,440	18,463	219,995
Net unrealized loss on available-for-sale securities	(138)	(53)	(1,646)
Treasury stock—at cost, 1,446,692 shares at September 30, 2010 and 1,446,580 shares at March 31, 2010	(1,493)	(1,493)	(17,812)
Total	29,113	29,221	347,328
Minority interests	1,367	1,348	16,308
Total equity	30,480	30,569	363,636
TOTAL	¥ 40,097	¥ 41,271	\$ 478,370

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Quarterly Consolidated Statements of Operations—Unaudited Six Months Ended September 30, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	September 30, 2010	September 30, 2009	September 30, 2010
NET SALES	¥ 29,152	¥ 25,270	\$ 347,793
COST OF SALES	<u>25,263</u>	<u>22,446</u>	<u>301,396</u>
Gross profit	3,889	2,824	46,397
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 7)	<u>2,955</u>	<u>2,749</u>	<u>35,254</u>
Operating income	<u>934</u>	<u>75</u>	<u>11,143</u>
OTHER INCOME (EXPENSES):			
Subsidy income	69	64	823
Interest and dividends income	27	23	322
Interest expense	(6)	(6)	(72)
Loss from prior period adjustments (Note 8)		(208)	
Other—net	<u>(12)</u>	<u>(15)</u>	<u>(143)</u>
Other income (expenses)—net	<u>78</u>	<u>(142)</u>	<u>930</u>
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>1,012</u>	<u>(67)</u>	<u>12,073</u>
INCOME TAXES	<u>503</u>	<u>162</u>	<u>6,001</u>
NET INCOME (LOSS) BEFORE MINORITY INTERESTS	<u>509</u>	<u>(229)</u>	<u>6,072</u>
MINORITY INTERESTS IN NET INCOME	<u>56</u>	<u>35</u>	<u>668</u>
NET INCOME (LOSS)	<u>¥ 453</u>	<u>¥ (264)</u>	<u>\$ 5,404</u>
		Yen	U.S. Dollars
PER SHARE OF COMMON STOCK (Note 11.b):			
Basic net income (loss)	¥ 19.07	¥ (11.17)	\$ 0.23

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

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

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	September 30, 2010	September 30, 2009	September 30, 2010
NET SALES	¥ 15,009	¥ 13,283	\$ 179,062
COST OF SALES	<u>12,888</u>	<u>11,846</u>	<u>153,758</u>
Gross profit	2,121	1,437	25,304
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 7)	<u>1,407</u>	<u>1,265</u>	<u>16,786</u>
Operating income	<u>714</u>	<u>172</u>	<u>8,518</u>
OTHER INCOME (EXPENSES):			
Subsidy income	31	62	370
Interest and dividends income	4	3	48
Interest expense	(3)	(3)	(36)
Loss from prior period adjustments (Note 8)		(208)	
Other—net	<u>8</u>	<u>(22)</u>	<u>95</u>
Other income (expenses)—net	<u>40</u>	<u>(168)</u>	<u>477</u>
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>754</u>	<u>4</u>	<u>8,995</u>
INCOME TAXES	<u>322</u>	<u>78</u>	<u>3,842</u>
NET INCOME (LOSS) BEFORE MINORITY INTERESTS	<u>432</u>	<u>(74)</u>	<u>5,153</u>
MINORITY INTERESTS IN NET INCOME	<u>32</u>	<u>17</u>	<u>381</u>
NET INCOME (LOSS)	<u>¥ 400</u>	<u>¥ (91)</u>	<u>\$ 4,772</u>
PER SHARE OF COMMON STOCK (Note 11.b):			
Basic net income (loss)	¥ 16.81	¥ (3.82)	\$ 0.20

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Quarterly Consolidated Statements of Cash Flows—Unaudited Six Months Ended September 30, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	September 30, 2010	September 30, 2009	September 30, 2010
OPERATING ACTIVITIES:			
Income (loss) before income taxes and minority interests	¥ 1,012	¥ (67)	\$ 12,073
Adjustments for:			
Income taxes paid	(282)	(801)	(3,364)
Depreciation and amortization	943	1,038	11,250
Changes in assets and liabilities:			
Decrease in trade notes and accounts receivable	714	1,821	8,518
Increase in inventories	(74)	(315)	(883)
Increase in other current assets	(73)	(13)	(871)
Decrease in accounts payable	(766)	(603)	(9,139)
Increase (decrease) in accrued expenses	221	(151)	2,637
Decrease in other current liabilities	(177)	(231)	(2,112)
Decrease in liability for employees' retirement benefits and retirement allowances for directors and corporate auditors	(169)	(197)	(2,016)
Other—net	128	149	1,528
Total adjustments	465	697	5,548
Net cash provided by operating activities	1,477	630	17,621
INVESTING ACTIVITIES:			
Increase in time deposits other than cash equivalents	(325)	(125)	(3,877)
Decrease in time deposits other than cash equivalents	325	10	3,877
Payment for purchases of property and equipment	(164)	(38)	(1,956)
Payment for purchases of software	(370)	(637)	(4,414)
Payments for acquisition of business	(134)		(1,599)
Net increase in other assets		(4)	
Net cash used in investing activities	(668)	(794)	(7,969)
FINANCING ACTIVITIES:			
Decrease in short-term bank loans—net	(64)		(764)
Redemption of bonds	(60)		(716)
Repayment of long-term debt	(215)	(172)	(2,565)
Dividends paid	(510)	(526)	(6,084)
Other—net	(2)		(24)
Net cash used in financing activities	(851)	(698)	(10,153)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(42)	(862)	(501)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	9,367	10,740	111,751
CASH AND CASH EQUIVALENTS, END OF PERIOD	¥ 9,325	¥ 9,878	\$ 111,250

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. In addition, certain reclassifications have been made in the prior period’s financial statements to conform to the classifications used in the current period.

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 ¥83.82 to \$1, the approximate rate of exchange at September 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 and income before income taxes and minority interests decreased by ¥2 million (\$24 thousand) and by ¥14 million (\$167 thousand), respectively, for the six months ended September 30, 2010.

4. APPLICATION OF SIMPLIFIED ACCOUNTING METHODS

- a. *Inventories*—As of September 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 six months ended September 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 September 30 and March 31, 2010, an estimated loss of ¥52 million (\$620 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 six months and three months ended September 30, 2010 and 2009 were as follows:

Six Months Ended September 30	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Salaries and fringe benefits	¥ 967	¥ 856	\$ 11,537
Provision for bonuses	251	230	2,995

Three Months Ended September 30	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Salaries and fringe benefits	¥ 461	¥ 398	\$ 5,500
Provision for bonuses	121	97	1,444

8. LOSS FROM PRIOR PERIOD ADJUSTMENTS

Loss from prior period adjustments of ¥208 million attributed to adjustments of unrealized profit on intangible assets was recognized during the second quarter of fiscal year 2010.

9. DIVIDENDS

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

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥20 (\$0.24) per share (Record date: March 31, 2010; effective date: June 28, 2010)	¥ 476	\$ 5,679

The following appropriation of retained earnings was resolved by the Board of Directors on November 5, 2010.

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥15 (\$0.18) per share (Record date: September 30, 2010; effective date: November 29, 2010)	¥ 357	\$ 4,259

10. 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 for the Six Months and Three Months Ended September 30, 2010

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.

2. Operating segment information for the Six Months and Three Months Ended September 30, 2010

		Six Months Ended September 30, 2010				
		Millions of Yen				
		Reportable Segment			Adjustment (* 1)	Consolidated Amount (* 2)
		Information Service	Human Resource Service	Total		
Net sales						
Outside customers	¥	26,817	¥	2,335	¥	29,152
Inter-segment sales and transfers		4		42	¥	(46)
Total	¥	<u>26,821</u>	¥	<u>2,377</u>	¥	<u>29,152</u>
Segment profit	¥	892	¥	40	¥	2
		Thousands of U.S. Dollars				
		Reportable Segment			Adjustment (* 1)	Consolidated Amount (* 2)
		Information Service	Human Resource Service	Total		
Net sales						
Outside customers	\$	319,936	\$	27,857	\$	347,793
Inter-segment sales and transfers		48		501	\$	(549)
Total	\$	<u>319,984</u>	\$	<u>28,358</u>	\$	<u>347,793</u>
Segment profit	\$	10,642	\$	477	\$	24

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.

Three Months Ended September 30, 2010

Millions of Yen

	Reportable Segment			Adjustment (* 1)	Consolidated Amount (* 2)
	Information Service	Human Resource Service	Total		
Net sales					
Outside customers	¥ 13,840	¥ 1,169	¥ 15,009		¥ 15,009
Inter-segment sales and transfers	4	21	25	¥ (25)	
Total	<u>¥ 13,844</u>	<u>¥ 1,190</u>	<u>¥ 15,034</u>	<u>¥ (25)</u>	<u>¥ 15,009</u>
Segment profit	¥ 694	¥ 21	¥ 715	¥ (1)	¥ 714

Thousands of U.S. Dollars

	Reportable Segment			Adjustment (* 1)	Consolidated Amount (* 2)
	Information Service	Human Resource Service	Total		
Net sales					
Outside customers	\$ 165,116	\$ 13,946	\$ 179,062		\$ 179,062
Inter-segment sales and transfers	48	251	299	\$ (299)	
Total	<u>\$ 165,164</u>	<u>\$ 14,197</u>	<u>\$ 179,361</u>	<u>\$ (299)</u>	<u>\$ 179,062</u>
Segment profit	\$ 8,279	\$ 251	\$ 8,530	\$ (12)	\$ 8,518

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.

3. Segment Information for the Six Months and Three Months Ended September 30, 2009

The segment information for the six months and three months ended September 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 six months and three months ended September 30, 2009 was as follows:

Six Months Ended September 30, 2009						
Millions of Yen						
	Information Service	Other	Total	Inter-Segment Elimination or Corporate	Consolidated Amount	
Net sales	¥ 22,051	¥ 3,519	¥ 25,570	¥ (300)	¥ 25,270	
Operating income	1,499	344	1,843	(1,768)	75	

Three Months Ended September 30, 2009						
Millions of Yen						
	Information Service	Other	Total	Inter-Segment Elimination or Corporate	Consolidated Amount	
Net sales	¥ 11,502	¥ 1,975	¥ 13,477	¥ (194)	¥ 13,283	
Operating income	761	248	1,009	(837)	172	

b. Geographical Segments

Information about geographical segments for the six months and three months ended September 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 six months and three months ended September 30, 2009.

11. PER SHARE INFORMATION

a. Equity per Share

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

	Yen		U.S. Dollars
	September 30, 2010	March 31, 2010	September 30, 2010
Equity per share	¥ 1,224.50	¥ 1,229.02	\$ 14.61

Basis for the above computation was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	September 30, 2010	March 31, 2010	September 30, 2010
Total equity	¥ 30,480	¥ 30,569	\$ 363,636
Less: Minority interests	(1,367)	(1,348)	(16,308)
Equity available to common shareholders	¥ 29,113	¥ 29,221	\$ 347,328
Number of common stock shares for computation	23,775,574	23,775,686	

b. Net Income (Loss) per Share

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

	Millions of Yen	Number of Shares	Yen	U.S. Dollars
<u>Six Months Ended September 30, 2010</u>	<u>Net Income</u>	<u>Weighted-average Shares</u>	<u>Net Income per Share</u>	
Basic net income per share				
—Net income available to common shareholders	¥ 453	23,775,645	¥ 19.07	\$ 0.23
 <u>Three Months Ended September 30, 2010</u>				
Basic net income per share				
—Net income available to common shareholders	¥ 400	23,775,611	¥ 16.81	\$ 0.20

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

	Millions of Yen	Number of Shares	Yen	
<u>Six Months Ended September 30, 2009</u>	<u>Net Loss</u>	<u>Weighted-average Shares</u>	<u>Net Loss per Share</u>	
Basic net loss per share				
—Net loss available to common shareholders	¥ (264)	23,664,003	¥ (11.17)	
 <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)	

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.

12. SUBSEQUENT EVENT

No item to report.

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