

***DTS CORPORATION and
Consolidated Subsidiaries***

*Unaudited Consolidated Financial Statements
for the Third Quarter Ended December 31, 2010*

DTS CORPORATION and Consolidated Subsidiaries

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

| ASSETS | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|----------------------|-------------------|--|
| | December 31, 2010 | March 31, 2010 | December 31, 2010 |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | ¥ 9,560 | ¥ 9,367 | \$ 117,315 |
| Notes and accounts receivable: | | | |
| Trade | 8,287 | 9,521 | 101,694 |
| Other | 112 | 410 | 1,375 |
| Allowance for doubtful receivables | (21) | (203) | (258) |
| Inventories (Note 6) | 1,724 | 1,221 | 21,156 |
| Deferred tax assets | 1,014 | 1,017 | 12,443 |
| Prepaid expenses and other current assets | 1,754 | 1,366 | 21,524 |
| Total current assets | 22,430 | 22,699 | 275,249 |
| PROPERTY AND EQUIPMENT: | | | |
| Land | 6,432 | 6,432 | 78,930 |
| Buildings and structures | 5,024 | 5,006 | 61,652 |
| Furniture and fixtures | 1,367 | 1,382 | 16,775 |
| Other | 43 | 24 | 527 |
| Total | 12,866 | 12,844 | 157,884 |
| Accumulated depreciation | (3,699) | (3,635) | (45,392) |
| Net property and equipment | 9,167 | 9,209 | 112,492 |
| INVESTMENTS AND OTHER ASSETS: | | | |
| Investment securities | 1,415 | 1,507 | 17,364 |
| Investments in unconsolidated subsidiaries and associated companies | 206 | 206 | 2,528 |
| Software | 2,524 | 2,925 | 30,973 |
| Goodwill | 2,376 | 2,701 | 29,157 |
| Deferred tax assets | 835 | 907 | 10,247 |
| Other assets | 1,340 | 1,157 | 16,443 |
| Allowance for doubtful receivables | (203) | (40) | (2,491) |
| Total investments and other assets | 8,493 | 9,363 | 104,221 |
| TOTAL | ¥ 40,090 | ¥ 41,271 | \$ 491,962 |

| LIABILITIES AND EQUITY | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|----------------------|-------------------|--|
| | December 31, 2010 | March 31, 2010 | December 31, 2010 |
| CURRENT LIABILITIES: | | | |
| Short-term bank loans | ¥ 346 | ¥ 412 | \$ 4,246 |
| Current portion of long-term debt | 220 | 430 | 2,700 |
| Current portion of bonds | 120 | 120 | 1,472 |
| Payables: | | | |
| Trade accounts | 1,782 | 2,293 | 21,868 |
| Other | 1,674 | 1,644 | 20,542 |
| Income taxes payable | 531 | 340 | 6,516 |
| Accrued expenses | 1,517 | 2,372 | 18,616 |
| Other current liabilities (Note 6) | 2,535 | 1,812 | 31,108 |
| Total current liabilities | 8,725 | 9,423 | 107,068 |
| LONG-TERM LIABILITIES: | | | |
| Long-term debt | 11 | 19 | 135 |
| Bonds payable | 230 | 340 | 2,823 |
| Liability for employees' retirement benefits | 493 | 500 | 6,050 |
| Retirement allowances for directors and corporate auditors | 93 | 241 | 1,141 |
| Other long-term liabilities | 214 | 179 | 2,626 |
| Total long-term liabilities | 1,041 | 1,279 | 12,775 |
| EQUITY: | | | |
| Common stock—authorized, 100,000,000 shares; issued, 25,222,266 shares at December 31 and March 31, 2010 | 6,113 | 6,113 | 75,015 |
| Capital surplus | 6,191 | 6,191 | 75,973 |
| Retained earnings | 18,159 | 18,463 | 222,837 |
| Net unrealized loss on available-for-sale securities | (51) | (53) | (626) |
| Treasury stock—at cost, 1,446,816 shares at December 31, 2010 and 1,446,580 shares at March 31, 2010 | (1,494) | (1,493) | (18,334) |
| Total | 28,918 | 29,221 | 354,865 |
| Minority interests | 1,406 | 1,348 | 17,254 |
| Total equity | 30,324 | 30,569 | 372,119 |
| TOTAL | ¥ 40,090 | ¥ 41,271 | \$ 491,962 |

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Quarterly Consolidated Statements of Operations—Unaudited Three Months Ended December 31, 2010 and 2009

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|----------|--|
| | 2010 | 2009 | 2010 |
| NET SALES | ¥ 13,802 | ¥ 11,683 | \$ 169,370 |
| COST OF SALES | 12,055 | 10,310 | 147,932 |
| Gross profit | 1,747 | 1,373 | 21,438 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 7) | 1,419 | 1,412 | 17,413 |
| Operating income (loss) | 328 | (39) | 4,025 |
| OTHER INCOME (EXPENSES): | | | |
| Subsidy income | 7 | 35 | 86 |
| Interest and dividends income | 18 | 17 | 221 |
| Interest expense | (2) | (2) | (25) |
| Other—net | (11) | (19) | (135) |
| Other income—net | 12 | 31 | 147 |
| INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS | 340 | (8) | 4,172 |
| INCOME TAXES | 226 | 37 | 2,773 |
| NET INCOME (LOSS) BEFORE MINORITY INTERESTS | 114 | (45) | 1,399 |
| MINORITY INTERESTS IN NET INCOME | 39 | 31 | 479 |
| NET INCOME (LOSS) | ¥ 75 | ¥ (76) | \$ 920 |
| | | | |
| PER SHARE OF COMMON STOCK (Note 11.b): | | | |
| Basic net income (loss) | ¥ 3.14 | ¥ (3.19) | \$ 0.04 |

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Quarterly Consolidated Statements of Cash Flows—Unaudited Nine Months Ended December 31, 2010 and 2009

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|---------|--|
| | 2010 | 2009 | 2010 |
| OPERATING ACTIVITIES: | | | |
| Income (loss) before income taxes and minority interests | ¥ 1,352 | ¥ (74) | \$ 16,591 |
| Adjustments for: | | | |
| Income taxes paid | (511) | (1,035) | (6,271) |
| Depreciation and amortization | 1,405 | 1,566 | 17,241 |
| Changes in assets and liabilities: | | | |
| Decrease in trade notes and accounts receivable | 1,355 | 2,596 | 16,628 |
| Increase in inventories | (504) | (1,198) | (6,185) |
| Increase in other current assets | (94) | (27) | (1,154) |
| Decrease in accounts payable | (340) | (147) | (4,172) |
| Decrease in accrued expenses | (855) | (1,458) | (10,492) |
| Increase in other current liabilities | 666 | 357 | 8,173 |
| Decrease in liability for employees' retirement benefits and retirement allowances for directors and corporate auditors | (156) | (183) | (1,914) |
| Other—net | 104 | 237 | 1,276 |
| Total adjustments | 1,070 | 708 | 13,130 |
| Net cash provided by operating activities | 2,422 | 634 | 29,721 |
| INVESTING ACTIVITIES: | | | |
| Increase in time deposits other than cash equivalents | (625) | (125) | (7,670) |
| Decrease in time deposits other than cash equivalents | 325 | 10 | 3,988 |
| Payment for purchases of property and equipment | (188) | (103) | (2,307) |
| Payment for purchases of software | (445) | (736) | (5,461) |
| Proceeds from redemption of investment securities | 100 | | 1,227 |
| Payments for acquisition of business | (134) | | (1,643) |
| Other—net | (3) | (2) | (37) |
| Net cash used in investing activities | (970) | (956) | (11,903) |
| FINANCING ACTIVITIES: | | | |
| Decrease in short-term bank loans—net | (65) | | (798) |
| Redemption of bonds | (110) | | (1,350) |
| Repayment of long-term debt | (218) | (184) | (2,675) |
| Dividends paid | (863) | (874) | (10,590) |
| Other—net | (3) | | (37) |
| Net cash used in financing activities | (1,259) | (1,058) | (15,450) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 193 | (1,380) | 2,368 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 9,367 | 10,740 | 114,947 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | ¥ 9,560 | ¥ 9,360 | \$ 117,315 |

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 ¥81.49 to \$1, the approximate rate of exchange at December 31, 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 ¥3 million (\$37 thousand) and by ¥15 million (\$184 thousand), respectively, for the nine months ended December 31, 2010.

4. APPLICATION OF SIMPLIFIED ACCOUNTING METHODS

- a. *Inventories*—As of December 31, 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 nine months and three months ended December 31, 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 December 31 and March 31, 2010, an estimated loss of ¥73 million (\$896 thousand) and ¥53 million, respectively, on construction contracts was included in both inventories and other current liabilities.

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major items of selling, general and administrative expenses for the nine months and three months ended December 31, 2010 and 2009 were as follows:

| Nine Months Ended December 31 | Millions of Yen | | Thousands of U.S. Dollars |
|-------------------------------|-----------------|---------|---------------------------|
| | 2010 | 2009 | 2010 |
| Salaries and fringe benefits | ¥ 1,425 | ¥ 1,268 | \$ 17,487 |
| Provision for bonuses | 169 | 113 | 2,074 |

| Three Months Ended December 31 | Millions of Yen | | Thousands of U.S. Dollars |
|--------------------------------|-----------------|-------|---------------------------|
| | 2010 | 2009 | 2010 |
| Salaries and fringe benefits | ¥ 458 | ¥ 412 | \$ 5,620 |
| Provision for bonuses | 134 | 101 | 1,644 |

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 (\$0.25) per share (Record date: March 31, 2010; effective date: June 28, 2010) | ¥ 476 | \$ 5,841 |

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 |
|--|-----------------|---------------------------|
| Interim cash dividends, ¥15 (\$0.18) per share (Record date: September 30, 2010; effective date: November 29, 2010) | ¥ 357 | \$ 4,381 |

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 Nine Months and Three Months Ended December 31, 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 Nine Months and Three Months Ended December 31, 2010

| | | Nine Months Ended December 31, 2010 | | | | |
|--------------------------------------|----|-------------------------------------|------------------------------|-------------------|---------------------|---------------------------------|
| | | Millions of Yen | | | | |
| | | Reportable Segment | | | Adjustment (* 1) | Consolidated Amount (* 2) |
| | | Information Service | Human Resource Service | Total | | |
| Net sales | | | | | | |
| Outside customers | ¥ | 39,471 | ¥ 3,483 | ¥ 42,954 | | ¥ 42,954 |
| Inter-segment sales and transfers | | 4 | 62 | 66 | ¥ (66) | |
| Total | ¥ | <u>39,475</u> | ¥ <u>3,545</u> | ¥ <u>43,020</u> | ¥ <u>(66)</u> | ¥ <u>42,954</u> |
| Segment profit | ¥ | 1,192 | ¥ 68 | ¥ 1,260 | ¥ 2 | ¥ 1,262 |
| | | Thousands of U.S. Dollars | | | | |
| | | Reportable Segment | | | Adjustment (* 1) | Consolidated Amount (* 2) |
| | | Information Service | Human Resource Service | Total | | |
| Net sales | | | | | | |
| Outside customers | \$ | 484,366 | \$ 42,742 | \$ 527,108 | | \$ 527,108 |
| Inter-segment sales and transfers | | 49 | 761 | 810 | \$ (810) | |
| Total | \$ | <u>484,415</u> | \$ <u>43,503</u> | \$ <u>527,918</u> | \$ <u>(810)</u> | \$ <u>527,108</u> |
| Segment profit | \$ | 14,628 | \$ 834 | \$ 15,462 | \$ 25 | \$ 15,487 |

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 December 31, 2010

Millions of Yen

| | Reportable Segment | | | Adjustment (* 1) | Consolidated Amount (* 2) |
|--------------------------------------|------------------------|------------------------------|-----------------|---------------------|---------------------------------|
| | Information Service | Human Resource Service | Total | | |
| Net sales | | | | | |
| Outside customers | ¥ 12,654 | ¥ 1,148 | ¥ 13,802 | | ¥ 13,802 |
| Inter-segment sales and transfers | 0 | 20 | 20 | ¥ (20) | |
| Total | <u>¥ 12,654</u> | <u>¥ 1,168</u> | <u>¥ 13,822</u> | <u>¥ (20)</u> | <u>¥ 13,802</u> |
| Segment profit | ¥ 301 | ¥ 27 | ¥ 328 | ¥ (0) | ¥ 328 |

Thousands of U.S. Dollars

| | Reportable Segment | | | Adjustment (* 1) | Consolidated Amount (* 2) |
|--------------------------------------|------------------------|------------------------------|-------------------|---------------------|---------------------------------|
| | Information Service | Human Resource Service | Total | | |
| Net sales | | | | | |
| Outside customers | \$ 155,283 | \$ 14,087 | \$ 169,370 | | \$ 169,370 |
| Inter-segment sales and transfers | 0 | 245 | 245 | \$ (245) | |
| Total | <u>\$ 155,283</u> | <u>\$ 14,332</u> | <u>\$ 169,615</u> | <u>\$ (245)</u> | <u>\$ 169,370</u> |
| Segment profit | \$ 3,694 | \$ 331 | \$ 4,025 | \$ (0) | \$ 4,025 |

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 Nine Months and Three Months Ended December 31, 2009

The segment information for the nine months and three months ended December 31, 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 nine months and three months ended December 31, 2009 was as follows:

| Nine Months Ended December 31, 2009 | | | | | | |
|-------------------------------------|---------------------|---------|----------|--|---------------------|--|
| Millions of Yen | | | | | | |
| | Information Service | Other | Total | Inter-Segment Elimination or Corporate | Consolidated Amount | |
| Net sales | ¥ 32,288 | ¥ 5,098 | ¥ 37,386 | ¥ (433) | ¥ 36,953 | |
| Operating income | 2,203 | 409 | 2,612 | (2,576) | 36 | |

| Three Months Ended December 31, 2009 | | | | | | |
|--------------------------------------|---------------------|---------|----------|--|---------------------|--|
| Millions of Yen | | | | | | |
| | Information Service | Other | Total | Inter-Segment Elimination or Corporate | Consolidated Amount | |
| Net sales | ¥ 10,237 | ¥ 1,579 | ¥ 11,816 | ¥ (133) | ¥ 11,683 | |
| Operating income | 705 | 64 | 769 | (808) | (39) | |

b. Geographical Segments

Information about geographical segments for the nine months and three months ended December 31, 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 nine months and three months ended December 31, 2009.

11. PER SHARE INFORMATION

a. Equity per Share

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

| | Yen | | U.S. Dollars |
|------------------|-------------------|----------------|-------------------|
| | December 31, 2010 | March 31, 2010 | December 31, 2010 |
| Equity per share | ¥ 1,216.31 | ¥ 1,229.02 | \$ 14.93 |

Basis for the above computation was as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-------------------|----------------|---------------------------|
| | December 31, 2010 | March 31, 2010 | December 31, 2010 |
| Total equity | ¥ 30,324 | ¥ 30,569 | \$ 372,119 |
| Less: Minority interests | 1,406 | 1,348 | 17,254 |
| Equity available to common shareholders | ¥ 28,918 | ¥ 29,221 | \$ 354,865 |
| Number of common stock shares for computation | 23,775,450 | 23,775,686 | |

b. Net Income (Loss) per Share

Basic net income (loss) per share for the nine months and three months ended December 31, 2010 and 2009 was calculated as follows:

| | Millions of Yen | Number of Shares | Yen | U.S. Dollars |
|---|-----------------------|------------------------------------|-----------------------------|-----------------|
| <u>Nine Months Ended December 31, 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 | ¥ 528 | 23,775,614 | ¥ 22.21 | \$ 0.27 |
| <u>Three Months Ended December 31, 2010</u> | | | | |
| Basic net income per share | | | | |
| —Net income available to common shareholders | ¥ 75 | 23,755,552 | ¥ 3.14 | \$ 0.04 |

Diluted net income per share for the nine months and three months ended December 31, 2010 is not disclosed because it is anti-dilutive.

| | Millions of Yen | Number of Shares | Yen | |
|---|---------------------|------------------------------------|-------------------------------|--|
| <u>Nine Months Ended December 31, 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 | ¥ (340) | 23,663,989 | ¥ (14.37) | |
| <u>Three Months Ended December 31, 2009</u> | | | | |
| Basic net loss per share | | | | |
| —Net loss available to common shareholders | ¥ (76) | 23,663,963 | ¥ (3.19) | |

Diluted net income per share for the nine months and three months ended December 31, 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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