

***DTS CORPORATION and
Consolidated Subsidiaries***

*Unaudited Consolidated Financial Statements
for the Third Quarter Ended December 31, 2009*

DTS CORPORATION and Consolidated Subsidiaries

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

	Millions of Yen		Thousands of U.S. Dollars (Note 1)		Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2009	March 31, 2009	December 31, 2009		December 31, 2009	March 31, 2009	December 31, 2009
ASSETS				LIABILITIES AND EQUITY			
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents	¥ 9,360	¥ 10,740	\$ 101,629	Short-term bank loans	¥ 45	¥ 45	\$ 489
Notes and accounts receivable:				Current portion of long-term debt	383	345	4,159
Trade	6,091	8,681	66,135	Payables:			
Other	362	290	3,930	Trade accounts	1,290	1,998	14,006
Allowance for doubtful receivables	(195)	(197)	(2,117)	Other	1,729	1,328	18,773
Inventories (Note 7)	2,519	1,320	27,351	Income taxes payable	151	845	1,640
Deferred tax assets	1,175	1,169	12,758	Accrued expenses	1,272	2,728	13,811
Prepaid expenses and other current assets	467	326	5,070	Other current liabilities (Note 7)	1,329	942	14,429
Total current assets	19,779	22,329	214,756	Total current liabilities	6,199	8,231	67,307
PROPERTY AND EQUIPMENT:				LONG-TERM LIABILITIES:			
Land	6,432	6,432	69,837	Long-term debt	231	454	2,508
Buildings and structures	4,940	4,913	53,637	Liability for employees' retirement benefits	422	473	4,582
Furniture and fixtures	1,354	1,392	14,701	Retirement allowances for directors and corporate auditors	232	364	2,519
Other	23	23	250	Other long-term liabilities	197	28	2,139
Total	12,749	12,760	138,425	Total long-term liabilities	1,082	1,319	11,748
Accumulated depreciation	(3,576)	(3,481)	(38,827)	EQUITY:			
Net property and equipment	9,173	9,279	99,598	Common stock—authorized, 100,000,000 shares; issued, 25,222,266 shares at December 31 and March 31, 2009	6,113	6,113	66,374
INVESTMENTS AND OTHER ASSETS:				Capital surplus	6,193	6,193	67,242
Investment securities	1,523	1,531	16,536	Retained earnings	17,864	19,031	193,963
Investments in unconsolidated subsidiaries and associated companies	204	204	2,215	Net unrealized loss on available-for-sale securities	(74)	(64)	(803)
Software	2,906	3,148	31,553	Treasury stock—at cost, 1,558,316 shares at December 31, 2009 and 1,558,263 shares at March 31, 2009	(1,609)	(1,608)	(17,470)
Goodwill	2,135	2,741	23,181	Total	28,487	29,665	309,306
Deferred tax assets	374	290	4,061	Minority interests	1,313	1,301	14,256
Other assets	1,010	994	10,967	Total equity	29,800	30,966	323,562
Allowance for doubtful receivables	(23)		(250)	TOTAL	¥ 37,081	¥ 40,516	\$ 402,617
Total investments and other assets	8,129	8,908	88,263				
TOTAL	¥ 37,081	¥ 40,516	\$ 402,617				

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Quarterly Consolidated Statements of Operations—Unaudited Nine Months Ended December 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2009	December 31, 2008	December 31, 2009
NET SALES	¥ 36,953	¥ 44,273	\$ 401,227
COST OF SALES	<u>32,756</u>	<u>37,001</u>	<u>355,657</u>
Gross profit	4,197	7,272	45,570
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 8)	<u>4,161</u>	<u>4,693</u>	<u>45,179</u>
Operating income	<u>36</u>	<u>2,579</u>	<u>391</u>
OTHER INCOME (EXPENSES):			
Interest and dividends income	40	69	434
Interest expense	(8)	(17)	(87)
Loss from prior period adjustments (Note 9)	(208)		(2,258)
Other—net	<u>66</u>	<u>(79)</u>	<u>717</u>
Other expenses—net	<u>(110)</u>	<u>(27)</u>	<u>(1,194)</u>
(LOSS) INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>(74)</u>	<u>2,552</u>	<u>(803)</u>
INCOME TAXES:			
Current	291	1,219	3,160
Deferred	<u>(91)</u>	<u>(2)</u>	<u>(988)</u>
Total income taxes	<u>200</u>	<u>1,217</u>	<u>2,172</u>
MINORITY INTERESTS IN NET INCOME	<u>66</u>	<u>124</u>	<u>717</u>
NET (LOSS) INCOME	<u>¥ (340)</u>	<u>¥ 1,211</u>	<u>\$ (3,692)</u>
	<u>Yen</u>		<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK (Note 12.b):			
Basic net (loss) income	¥ (14.37)	¥ 49.51	\$ (0.16)
Diluted net income		49.47	

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Quarterly Consolidated Statements of Operations—Unaudited Three Months Ended December 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2009	December 31, 2008	December 31, 2009
NET SALES	¥ 11,683	¥ 14,461	\$ 126,851
COST OF SALES	<u>10,310</u>	<u>12,110</u>	<u>111,943</u>
Gross profit	1,373	2,351	14,908
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 8)	<u>1,412</u>	<u>1,561</u>	<u>15,331</u>
Operating (loss) income	<u>(39)</u>	<u>790</u>	<u>(423)</u>
OTHER INCOME (EXPENSES):			
Interest and dividends income	17	18	185
Interest expense	(2)	(3)	(22)
Other—net	<u>16</u>	<u>1</u>	<u>174</u>
Other income—net	<u>31</u>	<u>16</u>	<u>337</u>
(LOSS) INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>(8)</u>	<u>806</u>	<u>(86)</u>
INCOME TAXES:			
Current	39	388	423
Deferred	<u>(2)</u>	<u>(0)</u>	<u>(22)</u>
Total income taxes	<u>37</u>	<u>388</u>	<u>401</u>
MINORITY INTERESTS IN NET INCOME	<u>31</u>	<u>52</u>	<u>337</u>
NET (LOSS) INCOME	<u>¥ (76)</u>	<u>¥ 366</u>	<u>\$ (824)</u>
	<u>Yen</u>		<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK (Note 12.b):			
Basic net (loss) income	¥ (3.19)	¥ 14.97	\$ (0.03)

See notes to quarterly consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Quarterly Consolidated Statements of Cash Flows—Unaudited Nine Months Ended December 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2009	December 31, 2008	December 31, 2009
OPERATING ACTIVITIES:			
(Loss) income before income taxes and minority interests	¥ (74)	¥ 2,552	\$ (803)
Adjustments for:			
Income taxes paid	(1,035)	(2,429)	(11,238)
Depreciation and amortization	1,566	1,574	17,003
Changes in assets and liabilities:			
Decrease in trade notes and accounts receivable	2,596	2,061	28,187
Increase in inventories	(1,198)	(1,478)	(13,008)
Increase in other current assets	(27)	(103)	(293)
Decrease in accounts payable	(147)	(364)	(1,596)
Decrease in accrued expenses	(1,458)	(870)	(15,831)
Increase in other current liabilities	357	392	3,876
(Decrease) increase in liability for employees' retirement benefits and retirement allowances for directors and corporate auditors	(183)	38	(1,987)
Other—net	237	(120)	2,574
Total adjustments	708	(1,299)	7,687
Net cash provided by operating activities	634	1,253	6,884
INVESTING ACTIVITIES:			
Increase in time deposits other than cash equivalents	(125)	(33)	(1,357)
Decrease in time deposits other than cash equivalents	10	26	108
Payment for purchases of property and equipment	(103)	(174)	(1,118)
Proceeds from redemption of investment securities		500	
Payment for purchases of software	(736)	(416)	(7,991)
Payment for investment in unconsolidated subsidiaries and affiliates		(129)	
Net increase in other assets	(2)	(2)	(21)
Net cash used in investing activities	(956)	(228)	(10,379)
FINANCING ACTIVITIES:			
Decrease in short-term bank loans—net		(870)	
Repayment of long-term debt	(184)	(274)	(1,998)
Dividends paid	(874)	(1,027)	(9,490)
Repurchase of treasury stock		(1)	
Disposal of treasury stock		57	
Net cash used in financing activities	(1,058)	(2,115)	(11,488)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,380)	(1,090)	(14,983)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10,740	11,242	116,612
CASH AND CASH EQUIVALENTS, END OF PERIOD	¥ 9,360	¥ 10,152	\$ 101,629

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 ¥92.10 to \$1, the approximate rate of exchange at December 31, 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. CHANGES 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, although the results of operation of RD CORPORATION up to the liquidation are included in the consolidated statements of operation.

During the third quarter of fiscal year 2010, DIGITAL TECHNOLOGIES CORPORATION, a newly incorporated subsidiary, was included in the scope of consolidation. The change had no effect on the statement of operation for the three months ended December 31, 2009.

As a result, the consolidated financial statements as of December 31, 2009 include the accounts of the Company and its 9 significant subsidiaries.

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 ¥193 million (\$2,096 thousand) and ¥22 million (\$239 thousand), respectively, and loss before income taxes and minority interests decreased by ¥22 million (\$239 thousand) for the nine months ended December 31, 2009.

5. APPLICATION OF SIMPLIFIED ACCOUNTING METHODS

- a. Inventories*—As of December 31, 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 nine months and three months ended December 31, 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 December 31, 2009, an estimated loss of ¥158 million (\$1,716 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 nine months and three months ended December 31, 2009 and 2008 were as follows:

Nine Months Ended December 31	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Salaries and fringe benefits	¥ 1,268	¥ 1,323	\$ 13,768
Provision for bonuses	113	135	1,227
Three Months Ended December 31	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Salaries and fringe benefits	¥ 412	¥ 421	\$ 4,473
Provision for bonuses	101	126	1,097

9. LOSS FROM PRIOR PERIOD ADJUSTMENTS

Loss from prior period adjustments of ¥208 million (\$2,258 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	\$ 5,136

The following appropriation of retained earnings was resolved at the Company's Board of Director's meeting held on November 12, 2009.

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Interim cash dividends, ¥15 (\$0.16) per share (Record date: September 30, 2009; effective date: December 7, 2009)	¥ 355	\$ 3,855

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.

a. Industry Segments

Information about operations in different industry segments for the nine months and three months ended December 31, 2009 and 2008 were as follows:

		<u>Nine Months Ended December 31, 2009</u>				
		<u>Millions of Yen</u>				
	<u>Information Service</u>	<u>Other</u>	<u>Total</u>	<u>Inter-Segment Elimination or Corporate</u>	<u>Consolidated Amount</u>	
Net sales	¥ 32,288	¥ 5,098	¥ 37,386	¥ (433)	¥ 36,953	
Operating income	2,203	409	2,612	(2,576)	36	
		<u>Thousands of U.S. Dollars</u>				
	<u>Information Service</u>	<u>Other</u>	<u>Total</u>	<u>Inter-Segment Elimination or Corporate</u>	<u>Consolidated Amount</u>	
Net sales	\$ 350,575	\$ 55,353	\$ 405,928	\$ (4,701)	\$ 401,227	
Operating income	23,920	4,440	28,360	(27,969)	391	

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	

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 (loss)	705	64	769	(808)	(39)	

Thousands of U.S. Dollars						
	Information Service	Other	Total	Inter-Segment Elimination or Corporate	Consolidated Amount	
Net sales	\$ 111,151	\$ 17,144	\$ 128,295	\$ (1,444)	\$ 126,851	
Operating income (loss)	7,655	695	8,350	(8,773)	(423)	

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	

b. Geographical Segments

Information about geographical segments for the nine months and three months ended December 31, 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 nine months and three months ended December 31, 2009 and the Company and its consolidated subsidiaries had no sales to foreign customers for the nine months and three months ended December 31, 2008.

12. PER SHARE INFORMATION

a. *Equity per Share*

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

	<u>Yen</u>		<u>U.S. Dollars</u>
	<u>December 31, 2009</u>	<u>March 31, 2009</u>	<u>December 31, 2009</u>
Equity per share	¥ 1,203.79	¥1,253.58	\$ 13.07

Basis for the above computation was as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>December 31, 2009</u>	<u>March 31, 2009</u>	<u>December 31, 2009</u>
Total equity	¥ 29,800	¥ 30,966	\$ 323,562
Less: Minority interests	<u>(1,313)</u>	<u>(1,301)</u>	<u>(14,256)</u>
Equity available to common shareholders	<u>¥ 28,487</u>	<u>¥ 29,665</u>	<u>\$ 309,306</u>
Number of common stock shares for computation	<u>23,663,950</u>	<u>23,664,003</u>	

b. *Net (Loss) Income per Share*

Basic net loss per share for the nine months and three months ended December 31, 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>Nine Months Ended December 31, 2009</u>				
Basic net loss per share—Net loss available to common shareholders	¥ (340)	23,663,989	¥ (14.37)	\$ (0.16)
<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)	\$ (0.03)

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.

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

	Millions of Yen	Number of Shares	Yen
Nine Months Ended December 31, 2008	Net Income	Weighted-average Shares	EPS
Basic EPS—Net income available to common shareholders	¥ 1,211	24,457,564	<u>¥ 49.51</u>
Effect of dilutive securities— Stock options		23,052	
Diluted EPS—Net income for computation	<u>¥ 1,211</u>	<u>24,480,616</u>	<u>¥ 49.47</u>

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

	Millions of Yen	Number of Shares	Yen
Three Months Ended December 31, 2008	Net Income	Weighted-average Shares	EPS
Basic EPS—Net income available to common shareholders	¥ 366	24,464,053	<u>¥ 14.97</u>

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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