DTS CORPORATION
and Subsidiaries

Unaudited Semiannual Consolidated Financial Statements
for the Six Months Ended September 30, 2005 and 2004

DTS CORPORATION and Subsidiaries

Semiannual Consolidated Balance Sheets
September 30, 2005 and 2004—Unaudited

ASSETS	Millions of Yen 2005	Millions of Yen 2004	Thousands of U.S. Dollars (Note 1) 2005
CURRENT ASSETS:			
Cash and cash equivalents	¥ 4,629	¥ 7,370	$ 40,896
Time deposits other than cash equivalents	20		176
Receivables:			
Trade accounts	6,723	6,269	59,396
Other	18	14	159
Allowance for doubtful receivables	(5)	(5)	(44)
Inventories (Note 3)	1,550	1,025	13,694
Deferred tax assets	856	882	7,562
Prepaid expenses and other current assets	279	310	2,465
Total current assets	14,070	15,865	124,304
PROPERTY, PLANT AND EQUIPMENT:			
Land	6,320	6,487	55,835
Buildings and structures	4,600	4,913	40,640
Furniture and fixtures	1,225	1,135	10,822
Other assets	24	27	212
Total	12,169	12,562	107,509
Accumulated depreciation	(2,706)	(2,692)	(23,906)
Net property, plant and equipment	9,463	9,870	83,603
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	3,441	1,792	30,400
Software	3,578	3,520	31,611
Goodwill	16	49	141
Guarantee deposit	112	157	990
Deferred tax assets	41	247	362
Other assets	358	437	3,163
Allowance for doubtful receivables		(193)	
Total investments and other assets	7,546	6,009	66,667
TOTAL	¥ 31,079	¥ 31,744	$ 274,574

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2005	Millions of Yen 2004	Thousands of U.S. Dollars (Note 1) 2005
CURRENT LIABILITIES:			
Payables:			
Trade accounts	¥ 1,329	¥ 1,080	$ 11,741
Other	760	3,764	6,714
Income taxes payable	680	753	6,008
Accrued expenses	2,027	2,030	17,908
Other current liabilities	481	390	4,250
Total current liabilities	5,277	8,017	46,621
LONG-TERM LIABILITIES:			
Liability for employees' retirement benefits	101	78	892
Retirement allowances for directors and corporate auditors	232	190	2,050
Deferred tax liabilities	137		1,210
Other long-term liabilities	3		27
Total long-term liabilities	473	268	4,179
MINORITY INTERESTS	465	395	4,108
SHAREHOLDERS' EQUITY (Note 5):			
Common stock—authorized, 50,000,000 shares; issued, 12,611,133 shares in 2005 and in 2004	6,113	6,113	54,006
Capital surplus	6,191	6,191	54,696
Retained earnings	13,269	11,513	117,228
Net unrealized gain on available-for-sale securities	627	239	5,539
Treasury stock—at cost, 472,132 shares in 2005 and 381,450 shares in 2004	(1,336)	(992)	(11,803)
Total shareholders' equity	24,864	23,064	219,666
TOTAL	¥ 31,079	¥ 31,744	$ 274,574

See notes to semiannual consolidated financial statements.

DTS CORPORATION and Subsidiaries

Semiannual Consolidated Statements of Income
Six Months Ended September 30, 2005 and 2004—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
NET SALES	¥ 19,611	¥ 17,669	$ 173,257
COST OF SALES (Note 7)	16,111	14,262	142,336
Gross profit	3,500	3,407	30,921
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 7)	1,555	1,506	13,738
Operating income	1,945	1,901	17,183
OTHER INCOME (EXPENSES):			
Interest and dividends income	31	31	274
Interest expense	(1)		(9)
Loss on sale or disposal of property, plant and equipment		(159)	
Other—net	16	(51)	142
Other income (expenses)—net	46	(179)	407
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	1,991	1,722	17,590
INCOME TAXES (Note 6):			
Current	641	720	5,663
Deferred	178	(12)	1,573
Total income taxes	819	708	7,236
MINORITY INTERESTS IN NET INCOME	39	22	344
NET INCOME	¥ 1,133	¥ 992	$ 10,010

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.o and 9):			
Net income	¥ 92.99	¥ 81.15	$0.82
Diluted net income	92.46		0.82

See notes to semiannual consolidated financial statements.

DTS CORPORATION and Subsidiaries

Semiannual Consolidated Statements of Shareholders' Equity
Six Months Ended September 30, 2005 (Unaudited) and Year Ended March 31, 2005

	Outstanding Number of Shares of Common Stock	Millions of Yen Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Treasury Stock
BALANCE, APRIL 1, 2004	12,230,083	¥ 6,113	¥ 6,191	¥ 10,888	¥ 273	¥ (991)
Net income				2,365		
Cash dividends, ¥40 per share				(490)		
Bonuses to directors and corporate auditors				(61)		
Repurchase of treasury stock	(738)					(2)
Net change in unrealized gain on available-for-sale securities					110	
BALANCE, MARCH 31, 2005	12,229,345	6,113	6,191	12,702	383	(993)
Net income				1,133		
Cash dividends, ¥40 per share				(489)		
Bonuses to directors and corporate auditors				(76)		
Loss on disposal of treasury stock				(1)		
Repurchase of treasury stock	(110,344)					(400)
Disposal of treasury stock	20,000					57
Net change in unrealized gain on available-for-sale securities					244	
BALANCE, SEPTEMBER 30, 2005	12,139,001	¥ 6,113	¥ 6,191	¥ 13,269	¥ 627	¥ (1,336)

	Thousands of U.S. Dollars (Note 1) Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Treasury Stock
BALANCE, MARCH 31, 2005	$ 54,006	$ 54,696	$ 112,218	$ 3,384	$ (8,773)
Net income			10,010		
Cash dividends, $0.35 per share			(4,320)		
Bonuses to directors and corporate auditors			(671)		
Loss on disposal of treasury stock			(9)		
Repurchase of treasury stock					(3,534)
Disposal of treasury stock					504
Net change in unrealized gain on available-for-sale securities				2,155	
BALANCE, SEPTEMBER 30, 2005	$ 54,006	$ 54,696	$ 117,228	$ 5,539	$ (11,803)

See notes to semiannual consolidated financial statements.

DTS CORPORATION and Subsidiaries

Semiannual Consolidated Statements of Cash Flows
Six Months Ended September 30, 2005 and 2004—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 1,991	¥ 1,722	$ 17,590
Adjustments for:			
Income taxes paid	(1,147)	(707)	(10,133)
Depreciation and amortization	425	165	3,755
Loss on sale or disposal of property, plant and equipment		159	
Changes in assets and liabilities:			
Decrease in receivables	20	966	177
Increase in inventories	(915)	(579)	(8,084)
Increase in prepaid expenses and other current assets	(68)	(69)	(601)
Decrease in payables	(465)	(1,283)	(4,108)
Increase in accrued expenses	184	316	1,626
Decrease in other current liabilities	(53)	(274)	(468)
Increase in liability for retirement benefits	37	19	327
Other—net	(82)	127	(726)
Total adjustments	(2,064)	(1,160)	(18,235)
Net cash (used in) provided by operating activities	(73)	562	(645)
INVESTING ACTIVITIES:			
Payment for purchase of investment securities	(991)		(8,755)
Payment for purchase of property, plant and equipment	(199)	(369)	(1,758)
Proceeds from sales of property, plant and equipment		129	
Payment for purchase of software	(193)	(536)	(1,705)
Other—net		1	
Net cash used in investing activities	(1,383)	(775)	(12,218)
FINANCING ACTIVITIES:			
Proceeds from short-term bank loans	900	100	7,951
Repayment of short-term bank loans	(900)		(7,951)
Cash dividends paid	(487)	(305)	(4,303)
Repurchase of treasury stock	(401)	(1)	(3,543)
Other—net	48		425
Net cash used in financing activities	(840)	(206)	(7,421)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,296)	(419)	(20,284)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,925	7,789	61,180
CASH AND CASH EQUIVALENTS, END OF PERIOD	¥ 4,629	¥ 7,370	$ 40,896

See notes to semiannual consolidated financial statements.

1. BASIS OF PRESENTING SEMIANNUAL CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited semiannual consolidated financial statements of DTS CORPORATION (the "Company") and subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law, and in conformity with the provisions of "Accounting and Reporting Standards of Semiannual Consolidated Financial Statements" issued by the Business Accounting Council, an advisory body to the Financial Services Agency, designated to set accounting standards for business enterprises in Japan, which are different in certain respects as to application and disclosure requirements of the International Financial Reporting Standards.

In preparing these unaudited semiannual consolidated financial statements, certain reclassifications and rearrangements have been made to the unaudited semiannual consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The unaudited semiannual 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 ¥113.19 to $1, the rate of exchange at September 30, 2005. 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

a. ***Consolidation*—**The unaudited semiannual consolidated financial statements include the accounts of the Company and all subsidiaries (together, the "Group").

Under the control concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group has been eliminated.

b. ***Cash Equivalents*—**Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include demand deposits, time deposits and other short-term investments, all of which mature or become due within three months of the date of acquisition.

c. ***Inventories*—**Merchandise is stated at cost determined by the moving-average method. Work in process is stated at cost determined by the specific identification method. Supplies are stated at the most recent purchase price which approximates cost determined by the first-in, first-out method.

d. ***Property, Plant and Equipment*—**Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is from 3 to 50 years for buildings, from 4 to 15 years for machinery and equipment and from 2 to 20 years for furniture and fixtures.

Assets with an acquisition cost from ¥100,000 to ¥200,000 are depreciated by the straight-line method over 3 years.

e. ***Long-lived Assets—***In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets."

The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

This accounting change has no impact on the financial position or result of operations for the six months ended September 30, 2005.

f. ***Software Costs***

(1) *Software for sale to the market—*Software development costs, incurred through the completion of a Beta version of specific software for sale to the market, are charged to income when incurred. Such costs incurred subsequent to the completion of the Beta version are capitalized and amortized at the greater of either the amount to be amortized in proportion to the actual sales volume and revenue of the software during the current year to the estimated total sales volume and revenue over the estimated salable years of the software up to 3 years or the amount to be amortized by the straight-line method over such salable years.

(2) *Software for internal use—*Software costs for the purpose of rendering services to clients under specific license contracts are amortized by the straight-line method over the relevant contract period (mainly 8 years). Most of other purchased software costs are charged to income as incurred because of the uncertainty that such costs will be recovered from related future economic benefits.

g. ***Investment Securities—***Based on management's intent, all investment securities are classified as available-for-sale securities. Available-for-sale securities with readily determinable market values are stated at fair value at each balance sheet date, with unrealized gains and losses, net of tax, reported as a component of shareholders' equity. The cost of securities sold is determined based on the moving-average method.

Non-marketable available-for-sale securities are stated at cost being determined by the moving-average method.

h. ***Goodwill—***The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is recorded as goodwill. Goodwill is amortized using the straight-line method over 5 years.

i. ***Employees' Retirement and Pension Plans—***The Company has a contributory funded pension plan, a defined contribution pension plan and a benefit plan of advance retirement payment covering substantially all of its employees. In addition, the Company has an unfunded retirement benefit plan for the operating officers.

The subsidiaries have contributory or non-contributory funded pension plans covering substantially all of their employees. Employees whose service with the subsidiary has been terminated are, under most circumstances, entitled to retirement and pension benefits determined by reference to basic rates of pay at the time of termination, length of service and conditions under which the termination occurs. If the termination is involuntary, caused by retirement at the mandatory retirement age or caused by death, the employee is entitled to greater payment than in the case of voluntary termination.

One of the subsidiaries participates in the Smaller Enterprise Retirement Allowance Mutual Aid Plan.

The Company charges the contributions for a defined contribution pension plan and a benefit plan of advance retirement payments to income when paid.

The Company and a subsidiary accounted for the liability for retirement benefits based on the amounts that would be required if their operating officers and employees retired at each balance sheet date.

The policy of the Company and a subsidiary for its contributory pension plan is to charge such costs to income as incurred.

j. ***Retirement Allowances for Directors and Corporate Auditors*—**Directors and corporate auditors are generally entitled to receive lump-sum payments based on compensation at the time of resignation and the number of years of service when they resign from the Company. The accrued provisions are not funded and any amounts payable to directors and corporate auditors upon resignation are subject to the approval of the shareholders. The provision for severance payments is calculated to state the severance liability at the amount that would be payable if all directors and corporate auditors were to resign at the balance sheet date.

k. ***Research and Development Costs*—**Research and development costs are charged to income as incurred.

l. ***Leases*—**All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

m. ***Income Taxes*—**The provision for income taxes is computed based on income before income taxes and minority interests. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

n. ***Appropriations of Retained Earnings*—**Appropriations of retained earnings are reflected in the unaudited semiannual consolidated financial statements for the following year upon shareholders' approval.

o. ***Per Share Information*—**Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding in each period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if warrants or stock options were exercised. Diluted net income per share of common stock assumes full exercise of the outstanding warrants and stock options at the beginning of the period.

Diluted net income per share in 2004 is not disclosed because it is anti-dilutive.

3. INVENTORIES

Inventories at September 30, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Merchandise	¥ 22	¥ 13	$ 194
Work in process	1,516	1,001	13,393
Supplies	12	11	107
Total	¥ 1,550	¥ 1,025	$ 13,694

4. INVESTMENT SECURITIES

Investment securities as of September 30, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Non-current:			
Equity securities	¥ 3,263	¥ 1,792	$ 28,828
Government, corporate and other bonds	178		1,572
Total	¥ 3,441	¥ 1,792	$ 30,400

The carrying amounts and aggregate fair values of investment securities at September 30, 2005 and 2004, were as follows:

	Millions of Yen			
September 30, 2005	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 982	¥ 1,067		¥ 2,049
Debt securities	192		¥ 14	178
September 30, 2004				
Securities classified as available-for-sale —				
Equity securities	183	394		577

	Thousands of U.S. Dollars			
September 30, 2005	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$ 8,676	$ 9,427		$ 18,103
Debt securities	1,696		$ 124	1,572

Available-for-sale securities whose fair value is not readily determinable as of September 30, 2005 and 2004, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Available-for-sale equity securities	¥ 1,214	¥ 1,215	$ 10,725

5. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code requires that all shares of common stock are recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the shareholders meeting.

Dividends are approved by shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code. On November 15, 2005, the Board of Directors approved interim dividends of ¥20 per share to the shareholders on record as of September 30, 2005.

On September 17, 2002, the Company issued new stock acquisition rights as a stock option plan for the Company's directors, corporate auditors and key employees. The number of shares to be issued is 87,300 shares of common stock of the Company as of September 30, 2005. The exercise period for the options is from October 2002 to June 2012 and the exercise price of the options is ¥3,199.

On August 20, 2003, the Company issued additional stock acquisition rights as a stock option plan for the Company's directors, corporate auditors and key employees. The number of shares to be issued is 83,800 shares of common stock of the Company as of September 30, 2005. The exercise period for the options is from October 2003 to June 2013 and the exercise price of the options is ¥2,675.

On September 10, 2004, the Company issued stock acquisition rights as a stock option plan for the Company's directors, corporate auditors and key employees. The number of shares to be issued is 109,100 shares of common stock of the Company as of September 30, 2005. The exercise period for the options is from October 2004 to June 2014 and the exercise price of the options is ¥2,390.

6. INCOME TAXES

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% for the periods ended September 30, 2005 and 2004.

7. LEASES

The Group leases furniture and fixtures, software and other assets.

Total rental expenses under the above leases for the six months ended September 30, 2005 and 2004 were ¥23 million ($203 thousand) and ¥24 million, respectively, including ¥18 million ($159 thousand) and ¥20 million of lease payments under finance leases, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, and depreciation expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the periods ended September 30, 2005 and 2004, was as follows:

	Millions of Yen					
	2005			2004		
	Furniture and Fixtures	Software	Total	Furniture and Fixtures	Software	Total
Acquisition cost	¥ 59	¥ 22	¥ 81	¥ 79	¥ 25	¥ 104
Accumulated depreciation	34	14	48	37	12	49
Net leased property	¥ 25	¥ 8	¥ 33	¥ 42	¥ 13	¥ 55

	Thousands of U.S. Dollars		
	2005		
	Furniture and Fixtures	Software	Total
Acquisition cost	$ 521	$ 194	$ 715
Accumulated depreciation	300	124	424
Net leased property	$ 221	$ 70	$ 291

Acquisition costs and obligations include the imputed interest expense portion.

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	¥ 17	¥ 22	$ 150
Due after one year	15	33	133
Total	¥ 32	¥ 55	$ 283

Depreciation expense including imputed interest expense under finance leases was ¥10 million ($88 thousand) and ¥12 million for the periods ended September 30, 2005 and 2004, respectively.

Depreciation expense, which is not reflected in the accompanying unaudited semiannual consolidated statements of income, is computed by the straight-line method.

8. SEGMENT INFORMATION

The Group was mainly engaged in the information service industry segment. The sales or operating income of that segment accounted for more than 90% of the total consolidated sales or operating income. Other sales or operating income were not significant compared to the above segment. Therefore, information about operations in different industry segments has been omitted. As the Group had no foreign operations and sales to foreign customers, information about geographical segments and sales to foreign customers has not been disclosed.

9. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the period ended September 30, 2005 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Period Ended September 30, 2005	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥ 1,133	12,181	¥ 92.99	$ 0.82
Effect of dilutive securities—Warrants		69		
Diluted EPS—Net income for computation	¥ 1,133	12,250	¥ 92.46	$ 0.82

10. SUBSEQUENT EVENTS

a. Foundation of a Subsidiary

In order to expand the system integration service of the pension related business, the Company's Board of Directors, at a meeting held on October 4, 2005, passed a resolution to establish a new subsidiary with The Chuo Mitsui Trust and Banking Company group.

The new subsidiary was established on November 1, 2005.

The outline of the new company is as follows:

Name	—FAITEC Ltd.
Common stock	—$2,650 thousand (¥300 million)
Ownership ratio	—80.10%
Start date of business	—January 1, 2006

b. Stock Option Plan

On December 8, 2005, the Company issued stock acquisition rights as a stock option plan for the Company's directors, corporate auditors and key employees.

The number of shares to be issued is 231,200 shares of common stock of the Company. The exercise period for the options is from December 2005 to June 2015 and the exercise price of the options is ¥3,977.

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