DTS CORPORATION
and Subsidiaries

Unaudited Semiannual Consolidated Financial Statements
for the Six Months Ended September 30, 2006 and 2005

DTS CORPORATION and Subsidiaries

Semiannual Consolidated Balance Sheets
September 30, 2006 and 2005—Unaudited

ASSETS	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT ASSETS:			
Cash and cash equivalents	¥ 8,431	¥ 4,629	$ 71,510
Time deposits other than cash equivalents		20	
Receivables:			
Trade accounts	6,888	6,723	58,422
Other	22	18	187
Allowance for doubtful receivables	(9)	(5)	(76)
Inventories (Note 3)	954	1,550	8,091
Deferred tax assets	946	856	8,024
Prepaid expenses and other current assets	281	279	2,383
Total current assets	17,513	14,070	148,541
PROPERTY, PLANT AND EQUIPMENT:			
Land	6,320	6,320	53,605
Buildings and structures	4,638	4,600	39,338
Furniture and fixtures	1,231	1,225	10,441
Other assets	24	24	203
Total	12,213	12,169	103,587
Accumulated depreciation	(2,917)	(2,706)	(24,741)
Net property, plant and equipment	9,296	9,463	78,846
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	3,437	3,441	29,152
Investment in associated companies	340		2,884
Software	3,404	3,578	28,872
Goodwill	244	16	2,070
Guarantee deposit	148	112	1,255
Deferred tax assets	36	41	305
Other assets	473	358	4,012
Total investments and other assets	8,082	7,546	68,550
TOTAL	¥ 34,891	¥ 31,079	$ 295,937

LIABILITIES AND EQUITY	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT LIABILITIES:			
Short-term bank loans (Note 5)	¥ 112		$ 950
Current portion of long-term debt (Note 5)	67		568
Payables:			
Trade accounts	1,559	¥ 1,329	13,223
Other	1,108	760	9,398
Income taxes payable	864	680	7,328
Accrued expenses	2,166	2,027	18,372
Other current liabilities	745	481	6,319
Total current liabilities	6,621	5,277	56,158
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	128		1,086
Liability for employees' retirement benefits	74	101	627
Retirement allowances for directors and corporate auditors	174	232	1,476
Deferred tax liabilities	172	137	1,459
Other long-term liabilities	28	3	237
Total long-term liabilities	576	473	4,885
MINORITY INTERESTS		465	
EQUITY (Note 6):			
Common stock—authorized, 50,000,000 shares; issued, 12,611,133 shares in 2006 and in 2005	6,113	6,113	51,849
Capital surplus	6,191	6,191	52,511
Retained earnings	15,241	13,269	129,271
Net unrealized gain on available-for-sale securities	623	627	5,284
Treasury stock—at cost, 385,920 shares in 2006 and 472,132 shares in 2005	(1,093)	(1,336)	(9,271)
Total	27,075	24,864	229,644
Minority interests	619		5,250
Total equity	27,694	24,864	234,894
TOTAL	¥ 34,891	¥ 31,079	$ 295,937

See notes to semiannual consolidated financial statements.

DTS CORPORATION and Subsidiaries

Semiannual Consolidated Statements of Income
Six Months Ended September 30, 2006 and 2005—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
NET SALES	¥ 23,333	¥ 19,611	$ 197,905
COST OF SALES (Note 8)	19,106	16,111	162,053
Gross profit	4,227	3,500	35,852
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 8)	1,960	1,555	16,624
Operating income	2,267	1,945	19,228
OTHER INCOME (EXPENSES):			
Interest and dividends income	46	31	390
Interest expense	(2)	(1)	(17)
Other—net	(9)	16	(76)
Other income—net	35	46	297
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	2,302	1,991	19,525
INCOME TAXES (Note 7):			
Current	823	641	6,981
Deferred	145	178	1,230
Total income taxes	968	819	8,211
MINORITY INTERESTS IN NET INCOME	65	39	551
NET INCOME	¥ 1,269	¥ 1,133	$ 10,763

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.q and 9):			
Net income	¥ 104.06	¥ 92.99	$ 0.88
Diluted net income	103.32	92.46	0.88

See notes to semiannual consolidated financial statements.

DTS CORPORATION and Subsidiaries

Semiannual Consolidated Statements of Changes in Equity
Six Months Ended September 30, 2006 (Unaudited) and Year Ended March 31, 2006

		Millions of Yen							
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2005	12,229,345	¥ 6,113	¥ 6,191	¥ 12,702	¥ 383	¥ (993)	¥ 24,396		¥ 24,396
Net income				2,656			2,656		2,656
Cash dividends, ¥60 per share				(732)			(732)		(732)
Bonuses to directors and corporate auditors				(76)			(76)		(76)
Repurchase of treasury stock	(110,828)					(402)	(402)		(402)
Disposal of treasury stock	64,700		4			183	187		187
Net change in unrealized gain on available-for-sale securities					519		519		519
BALANCE, MARCH 31, 2006	12,183,217	6,113	6,195	14,550	902	(1,212)	26,548		26,548
Reclassified balance as of March 31, 2006 (Note 2.k)								¥ 573	573
Net income				1,269			1,269		1,269
Cash dividends, ¥40 per share				(487)			(487)		(487)
Bonuses to directors and corporate auditors				(82)			(82)		(82)
Repurchase of treasury stock	(4)								
Disposal of treasury stock	42,000		(4)	(9)		119	106		106
Net change in the period					(279)		(279)	46	(233)
BALANCE, SEPTEMBER 30, 2006	12,225,213	¥ 6,113	¥ 6,191	¥ 15,241	¥ 623	¥ (1,093)	¥ 27,075	¥ 619	¥ 27,694

	Thousands of U.S. Dollars (Note 1)							
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2006	$ 51,849	$ 52,545	$ 123,410	$ 7,650	$ (10,280)	$ 225,174		$ 225,174
Reclassified balance as of March 31, 2006 (Note 2.k)							$ 4,860	4,860
Net income			10,763			10,763		10,763
Cash dividends, $0.34 per share			(4,131)			(4,131)		(4,131)
Bonuses to directors and corporate auditors			(695)			(695)		(695)
Repurchase of treasury stock								
Disposal of treasury stock		(34)	(76)		1,009	899		899
Net change in the period				(2,366)		(2,366)	390	(1,976)
BALANCE, SEPTEMBER 30, 2006	$ 51,849	$ 52,511	$ 129,271	$ 5,284	$ (9,271)	$ 229,644	$ 5,250	$ 234,894

See notes to semiannual consolidated financial statements.

DTS CORPORATION and Subsidiaries

Semiannual Consolidated Statements of Cash Flows
Six Months Ended September 30, 2006 and 2005—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 2,302	¥ 1,991	$ 19,525
Adjustments for:			
Income taxes paid	(1,380)	(1,147)	(11,705)
Depreciation and amortization	433	425	3,673
Changes in assets and liabilities:			
Decrease in receivables	1,243	20	10,543
Increase in inventories	(250)	(915)	(2,120)
Increase in prepaid expenses and other current assets	(61)	(68)	(517)
Decrease in payables	(423)	(465)	(3,588)
Increase in accrued expenses	299	184	2,536
Decrease in other current liabilities	(10)	(53)	(85)
(Decrease) increase in liability for retirement benefits	(145)	37	(1,230)
Other—net	(43)	(82)	(365)
Total adjustments	(337)	(2,064)	(2,858)
Net cash provided by (used in) operating activities	1,965	(73)	16,667
INVESTING ACTIVITIES:			
Payment for purchase of investment securities		(991)	
Payment for purchase of newly consolidated subsidiary	(30)		(254)
Payment for purchase of property, plant and equipment	(66)	(199)	(560)
Payment for purchase of software	(195)	(193)	(1,654)
Other—net	84		712
Net cash used in investing activities	(207)	(1,383)	(1,756)
FINANCING ACTIVITIES:			
Proceeds from short-term bank loans	162	900	1,374
Repayment of short-term bank loans	(50)	(900)	(424)
Proceeds from long-term bank loans	200		1,696
Repayment of long-term bank loans	(349)		(2,960)
Cash dividends paid	(499)	(487)	(4,232)
Disposal of treasury stock	106		899
Repurchase of treasury stock		(401)	
Other—net		48	
Net cash used in financing activities	(430)	(840)	(3,647)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,328	(2,296)	11,264
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	7,103	6,925	60,246
CASH AND CASH EQUIVALENTS, END OF PERIOD	¥ 8,431	¥ 4,629	$ 71,510

See notes to semiannual consolidated financial statements.

1. BASIS OF PRESENTING SEMIANNUAL CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited semiannual consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

On December 27, 2005, the Accounting Standards Board of Japan ("ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006.

The statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan and has been renamed "the statement of changes in equity" from the current fiscal year.

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 DTS CORPORATION (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 ¥117.90 to $1, the approximate rate of exchange at September 30, 2006. 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 or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in all associated companies are accounted by the equity method.

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 mainly 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 mainly depreciated by the straight-line method over 3 years.

e. ***Long-lived Assets—***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.

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 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 or 10 years.

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

Certain subsidiary has an unfunded retirement benefit plan covering substantially all of its employees.

Certain subsidiary participates in the Smaller Enterprise Retirement Allowance Mutual Aid Plan.

The Company and some subsidiaries have a contributory funded pension plan.

The Company and the subsidiary charge 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 the subsidiaries for their 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. ***Presentation of Equity—***On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

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

m. ***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.

n. ***Bonuses to Directors and Corporate Auditors—***Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The Group adopted the new accounting standard for bonuses to directors as of April 1, 2006.

The effects of this adoption were to decrease operating income and income before income taxes and minority interests for the six months ended September 30, 2006 by ¥30 million ($254 thousand).

o. ***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.

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

q. ***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.

3. INVENTORIES

Inventories at September 30, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Merchandise	¥ 71	¥ 22	$ 602
Work in process	864	1,516	7,328
Supplies	19	12	161
Total	¥ 954	¥ 1,550	$ 8,091

4. INVESTMENT SECURITIES

Investment securities as of September 30, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Non-current:			
Equity securities	¥ 3,269	¥ 3,263	$ 27,727
Government, corporate and other bonds	168	178	1,425
Total	¥ 3,437	¥ 3,441	$ 29,152

The carrying amounts and aggregate fair values of investment securities at September 30, 2006 and 2005, were as follows:

	Millions of Yen			
September 30, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 982	¥ 1,073		¥ 2,055
Debt securities	193		¥ 25	168
September 30, 2005				
Securities classified as available-for-sale:				
Equity securities	982	1,067		2,049
Debt securities	192		14	178

	Thousands of U.S. Dollars			
September 30, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$ 8,329	$ 9,101		$ 17,430
Debt securities	1,637		$ 212	1,425

Available-for-sale securities whose fair value is not readily determinable as of September 30, 2006 and 2005, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Available-for-sale equity securities	¥ 1,214	¥ 1,214	$ 10,297

5. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at September 30, 2006, consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans were 1.38% at September 30, 2006.

Long-term debt at September 30, 2006, consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2006	2006
Unsecured loan from bank, due serially through 2009 with interest rate of 1.68%	¥ 195	$ 1,654
Total	195	1,654
Less current portion	(67)	(568)
Long-term debt, less current portion	¥ 128	$ 1,086

Annual maturities of long-term debt at September 30, 2006, were as follows:

Period Ending September 30	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 67	$ 568
2008	67	568
2009	61	518
Total	¥ 195	$ 1,654

6. EQUITY

Through May 1, 2006, Japanese companies are subject to the Commercial Code of Japan (the "Code").

The Code requires that all shares of common stock be issued 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 are required to be presented 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 by way of 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 of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. 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 purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

Dividends are approved by the 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 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 59,800 shares of common stock of the Company as of September 30, 2006. 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 51,600 shares of common stock of the Company as of September 30, 2006. 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 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 73,800 shares of common stock of the Company as of September 30, 2006. The exercise period for the options is from October 2004 to June 2014 and the exercise price of the options is ¥2,390.

On December 8, 2005, 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 224,900 shares of common stock of the Company as of September 30, 2006. The exercise period for the options is from December 2005 to June 2015 and the exercise price of the options is ¥3,977.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained to be at least ¥3 million.

On November 14, 2006, the Board of Directors approved interim dividends of ¥20 per share to the shareholders on record as of September 30, 2006.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained eamings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

7. 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, 2006 and 2005.

8. 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, 2006 and 2005 were ¥23 million ($195 thousand) and ¥23 million, respectively, including ¥18 million ($153 thousand) and ¥18 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, 2006 and 2005, was as follows:

	Millions of Yen					
	2006			2005		
	Furniture and Fixtures	Software	Total	Furniture and Fixtures	Software	Total
Acquisition cost	¥ 52	¥ 31	¥ 83	¥ 59	¥ 22	¥ 81
Accumulated depreciation	38	20	58	34	14	48
Net leased property	¥ 14	¥ 11	¥ 25	¥ 25	¥ 8	¥ 33

	Thousands of U.S. Dollars		
	2006		
	Furniture and Fixtures	Software	Total
Acquisition cost	$ 441	$ 263	$ 704
Accumulated depreciation	322	170	492
Net leased property	$ 119	$ 93	$ 212

Acquisition costs and obligations include the imputed interest expense portion.

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 13	¥ 17	$ 110
Due after one year	12	15	102
Total	¥ 25	¥ 32	$ 212

Depreciation expense including imputed interest expense under finance leases was ¥9 million ($76 thousand) and ¥10 million for the periods ended September 30, 2006 and 2005, respectively.

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

9. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the periods ended September 30, 2006 and 2005 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Period Ended September 30, 2006	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥ 1,269	12,192	¥ 104.06	$ 0.88
Effect of dilutive securities—Warrants		88		
Diluted EPS—Net income for computation	¥ 1,269	12,280	¥ 103.32	$ 0.88
Period Ended September 30, 2005				
Basic EPS—Net income available to common shareholders	¥ 1,133	12,181	¥ 92.99	
Effect of dilutive securities—Warrants		69		
Diluted EPS—Net income for computation	¥ 1,133	12,250	¥ 92.46	

10. SUBSEQUENT EVENT

Acquisition

On November 14, 2006, the Board of Directors of the Company approved the acquisition, dated November 14, 2006, of 3,000,000 shares of JAPAN SYSTEMS ENGINEERING CORPORATION for the purpose of expanding the basis of the business. As a result of this acquisition, JAPAN SYSTEMS ENGINEERING CORPORATION became the Company's subsidiary. The cash acquisition amount totaled ¥3,470 million ($29,432 thousand).

11. SEGMENT INFORMATION

The Group operates in the following industry segments:

"Information Technology Service" consists of computer software design, development and maintenance; computer facility and information systems management; and computer network design, supervision and maintenance.
"Other" consists of product sales and temp agency.

Information about industry segments, geographical segments and sales to foreign customers of the Group for the period ended September 30, 2006, is as follows:

(1) Industry Segments

Sales and operating income

	Millions of Yen			
	2006			
	Information Technology Service	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 20,730	¥ 2,603		¥ 23,333
Intersegment sales	2	32	¥ (34)	
Total sales	20,732	2,635	(34)	23,333
Operating expenses	17,295	2,492	1,279	21,066
Operating income	¥ 3,437	¥ 143	¥ (1,313)	¥ 2,267

	Thousands of U.S. Dollars			
	2006			
	Information Technology Service	Other	Eliminations/ Corporate	Consolidated
Sales to customers	$ 175,827	$ 22,078		$ 197,905
Intersegment sales	17	271	$ (288)	
Total sales	175,844	22,349	(288)	197,905
Operating expenses	146,692	21,137	10,848	178,677
Operating income	$ 29,152	$ 1,212	$ (11,136)	$ 19,228

Corporate operating expenses consist primarily of the administration expenses of the Company, which are not allocated to industry segments. Corporate operating expenses for the period ended September 30, 2006 were ¥1,311 million ($11,120 thousand).

Until the period ended September 30, 2005, the sales or operating income of the information service industry segment accounted for more than 90% of the total consolidated sales or operating income. Other sales or operating income was not significant compared to the above segment. Therefore, information about operations in different industry segments has been omitted.

(2) Geographical Segments and Sales to Foreign Customers

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.

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