DTS CORPORATION and Consolidated Subsidiaries

Consolidated Financial Statements for the Years Ended March 31, 2007 and 2006, and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
DTS CORPORATION:

We have audited the accompanying consolidated balance sheets of DTS CORPORATION and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DTS CORPORATION and consolidated subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

June 22, 2007

DTS CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheets
March 31, 2007 and 2006

ASSETS	Millions of Yen 2007	Millions of Yen 2006	Thousands of U.S. Dollars (Note 1) 2007
CURRENT ASSETS:			
Cash and cash equivalents	¥ 7,936	¥ 7,103	$ 67,226
Time deposits other than cash equivalents (Note 5)	80		678
Notes and accounts receivable:			
Trade	9,398	8,052	79,610
Other	335	25	2,838
Allowance for doubtful receivables	(189)	(7)	(1,601)
Inventories (Note 3)	954	704	8,081
Deferred tax assets (Note 10)	1,172	1,016	9,928
Prepaid expenses and other current assets	266	216	2,253
Total current assets	19,952	17,109	169,013
PROPERTY AND EQUIPMENT (Note 5):			
Land	6,432	6,320	54,486
Buildings and structures	4,854	4,607	41,118
Furniture and fixtures	1,336	1,220	11,317
Other	24	24	203
Total	12,646	12,171	107,124
Accumulated depreciation	(3,095)	(2,816)	(26,217)
Net property and equipment	9,551	9,355	80,907
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	3,261	3,907	27,624
Investments in associated companies	306	357	2,592
Software	3,317	3,506	28,098
Goodwill	4,475		37,908
Guarantee deposit	307	129	2,601
Life insurance premiums	295	232	2,499
Deferred tax assets (Note 10)	69	34	584
Other assets	181	156	1,533
Total investments and other assets	12,211	8,321	103,439
TOTAL	¥41,714	¥34,785	$353,359

LIABILITIES AND EQUITY	Millions of Yen 2007	Millions of Yen 2006	Thousands of U.S. Dollars (Note 1) 2007
CURRENT LIABILITIES:			
Short-term bank loans (Note 5)	¥ 309		$ 2,617
Current portion of long-term debt (Note 5)	1,286		10,894
Payables:			
Trade accounts	2,216	¥ 1,544	18,772
Other	1,934	1,466	16,383
Income taxes payable	1,668	1,420	14,129
Accrued expenses	2,335	1,829	19,780
Other current liabilities	961	743	8,141
Total current liabilities	10,709	7,002	90,716
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	1,317		11,156
Liability for employees' retirement benefits (Note 6)	406	89	3,439
Retirement allowances for directors and corporate auditors	361	254	3,058
Deferred tax liabilities (Note 10)	35	317	297
Other long-term liabilities	59	2	500
Total long-term liabilities	2,178	662	18,450
MINORITY INTERESTS		573	
EQUITY (Notes 7 and 15):			
Common stock—authorized, 50,000,000 shares; issued, 12,611,133 shares in 2007 and 2006	6,113	6,113	51,783
Capital surplus	6,191	6,195	52,444
Retained earnings	16,290	14,550	137,993
Net unrealized gain on available-for-sale securities	546	902	4,625
Treasury stock—at cost, 368,463 shares in 2007 and 427,916 shares in 2006	(1,044)	(1,212)	(8,844)
Total	28,096	26,548	238,001
Minority interests	731		6,192
Total equity	28,827	26,548	244,193
TOTAL	¥41,714	¥34,785	$353,359

See notes to consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
NET SALES	¥51,969	¥42,953	$440,229
COST OF SALES (Notes 6, 9 and 11)	42,291	35,009	358,247
Gross profit	9,678	7,944	81,982
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 6, 9 and 11)	4,924	3,338	41,711
Operating income	4,754	4,606	40,271
OTHER INCOME (EXPENSES):			
Interest and dividends income	64	47	542
Interest expense	(34)	(1)	(288)
Other—net	122	23	1,034
Other income—net	152	69	1,288
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	4,906	4,675	41,559
INCOME TAXES (Note 10):			
Current	2,338	1,919	19,805
Deferred	(145)	14	(1,228)
Total income taxes	2,193	1,933	18,577
MINORITY INTERESTS IN NET INCOME	148	86	1,254
NET INCOME	¥ 2,565	¥ 2,656	$ 21,728

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.r and 14):			
Basic net income	¥210.09	¥211.49	$1.78
Diluted net income	208.67	210.02	1.77
Cash dividends applicable to the year	60.00	60.00	0.51

See notes to consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2007 and 2006

	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	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—exercise of stock options	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				2,565			2,565		2,565
Cash dividends, ¥60 per share				(732)			(732)		(732)
Bonuses to directors and corporate auditors				(81)			(81)		(81)
Repurchase of treasury stock	(247)					(1)	(1)		(1)
Disposal of treasury stock—exercise of stock options	59,700		(4)	(12)		169	153		153
Net change in the year					(356)		(356)	158	(198)
BALANCE, MARCH 31, 2007	12,242,670	¥6,113	¥6,191	¥16,290	¥546	¥(1,044)	¥28,096	¥731	¥28,827

	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	$51,783	$52,478	$123,253	$7,641	$(10,267)	$224,888		$224,888
Reclassified balance as of March 31, 2006 (Note 2.k)							$4,854	4,854
Net income			21,728			21,728		21,728
Cash dividends, $0.51 per share			(6,201)			(6,201)		(6,201)
Bonuses to directors and corporate auditors			(686)			(686)		(686)
Repurchase of treasury stock					(9)	(9)		(9)
Disposal of treasury stock—exercise of stock options		(34)	(101)		1,432	1,297		1,297
Net change in the year				(3,016)		(3,016)	1,338	(1,678)
BALANCE, MARCH 31, 2007	$51,783	$52,444	$137,993	$4,625	$ (8,844)	$238,001	$6,192	$244,193

See notes to consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥4,906	¥4,675	$41,559
Adjustments for:			
Income taxes paid	(2,106)	(1,691)	(17,840)
Depreciation and amortization	1,282	879	10,860
Changes in assets and liabilities:			
Increase in receivables	(569)	(1,316)	(4,820)
Decrease (increase) in inventories	80	(69)	678
Decrease (increase) in other assets	141	(5)	1,194
Increase in payables	693	442	5,870
Increase (decrease) in accrued expenses	70	(15)	593
Increase in other current liabilities	51	216	432
(Decrease) increase in liability for retirement benefits	(103)	47	(872)
Other—net	24	(101)	203
Total adjustments	(437)	(1,613)	(3,702)
Net cash provided by operating activities	4,469	3,062	37,857
INVESTING ACTIVITIES:			
Increase in time deposits other than cash equivalents	(12)	(20)	(102)
Decrease in time deposits other than cash equivalents	400	20	3,388
Payment for purchase of marketable securities	(100)		(847)
Proceeds from the redemption of bonds	100		847
Payment for purchases of property and equipment	(128)	(244)	(1,084)
Payment for purchases of investment securities	(10)	(991)	(85)
Proceeds from sales of investment securities	224		1,898
Payment for purchases of investments in associated companies		(357)	
Payment for purchases of newly consolidated subsidiaries	(2,515)		(21,304)
Payment for purchases of software	(487)	(396)	(4,125)
Net decrease (increase) in other assets	3	(2)	25
Net cash used in investing activities	(2,525)	(1,990)	(21,389)
FINANCING ACTIVITIES:			
Proceeds from short-term bank loans	162	950	1,372
Repayment of short-term bank loans	(50)	(950)	(424)
Proceeds from long-term debt	1,523		12,901
Repayment of long-term debt	(2,146)		(18,179)
Dividends paid	(743)	(738)	(6,294)
Repurchase of treasury stock	(1)	(403)	(8)
Disposal of treasury stock	153	187	1,296
Other—net	(9)	60	(76)
Net cash used in financing activities	(1,111)	(894)	(9,412)
NET INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥ 833	¥ 178	$ 7,056

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DTS CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
NET INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥ 833	¥ 178	$ 7,056
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,103	6,925	60,170
CASH AND CASH EQUIVALENTS, END OF YEAR	¥7,936	¥7,103	$67,226
ADDITIONAL INFORMATION RELATED TO PAYMENT FOR PURCHASE OF NEWLY CONSOLIDATED SUBSIDIARIES:			
Assets acquired	¥5,802		$49,148
Goodwill	3,197		27,082
Liability assumed	(4,981)		(42,194)
Minority interest	(28)		(237)
Acquisition cost	3,990		33,799
Cash and cash equivalents	(1,475)		(12,495)
Payment for purchase of newly consolidated subsidiaries	¥2,515		$21,304

See notes to consolidated financial statements.

(Concluded)

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying 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 ("Japanese GAAP"), 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 (the "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 consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under Japanese GAAP and has been renamed "the consolidated statement of changes in equity" in the current fiscal year.

In preparing these 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 2006 financial statements to conform to the classifications used in 2007.

The 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 ¥118.05 to $1, the approximate rate of exchange at March 31, 2007. 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 consolidated financial statements as of March 31, 2007 include the accounts of the Company and its 9 (3 in 2006) significant 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 for 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 is 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 and Equipment***—Property and equipment are stated at cost. Depreciation is computed by the declining-balance method for most assets at rates based on the estimated useful lives of the assets except for buildings acquired after April 1, 1998, to which the straight-line method is applied. The range of useful lives is principally from 3 to 50 years for buildings and structures, from 4 to 15 years for machinery and equipment and from 2 to 20 years for furniture and fixtures.

Assets with an acquisition cost of ¥100,000 to ¥200,000 are mainly 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 ASBJ issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets."

These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

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.

f. ***Software Costs***

(1) *Software for sale*—Software development costs, incurred through the completion of a Beta version of specific software for sale, 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 sales life of the software up to 3 years or the amount to be amortized by the straight-line method over such sales life.

(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 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 in a separate 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 determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

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 from 5 to 10 years.

i. ***Employees' Retirement and Pension Plans***—The Company and some consolidated subsidiaries have a contributory funded pension plan and a defined contribution pension plan covering substantially all of its employees, and have an unfunded retirement benefit plan for the operating officers.

The Company and the subsidiaries charge the contributions for a contributory funded pension plan and a defined contribution pension plan to income when paid.

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

A subsidiary has an unfunded retirement benefit plan covering substantially all of its employees. The subsidiary accounts for the liability for retirement benefits based on projected benefit obligations at the balance sheet date.

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 retirement and the number of years of service when they retire from the Company. The accrued provisions are not funded and any amounts payable to directors and corporate auditors upon retirement 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 retire 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. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

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 companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

The Company adopted the new accounting standard for bonuses to directors and corporate auditors from the year ended March 31, 2007. The effect of adoption of this accounting standard was to decrease income before income taxes and minority interests for the year ended March 31, 2007 by ¥66 million ($559 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 financial statements for the following year upon shareholders' approval.

q. ***Derivatives and Hedging Activities***—The Group uses derivative financial instruments, such as interest rate swaps, to manage its exposures to fluctuations in interest rates. Interest rate swaps are utilized by the Group to reduce interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income.

r. ***Per Share Information***—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding for the 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 year.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

s. ***New Accounting Pronouncements***

Measurement of Inventories—Under Japanese GAAP, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories," which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting**—**On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**—**Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ PITF No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new task force prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. INVENTORIES

Inventories at March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Merchandise	¥ 36	¥ 4	$ 305
Work in process	896	678	7,590
Supplies	22	22	186
Total	¥954	¥704	$8,081

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Non-current:			
Equity securities	¥3,093	¥3,742	$26,201
Debt securities	168	165	1,423
Total	¥3,261	¥3,907	$27,624

The carrying amounts and aggregate fair values of investment securities at March 31, 2007 and 2006, were as follows:

	Millions of Yen			
March 31, 2007	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥995	¥ 959	¥14	¥1,940
Debt securities	193		25	168
March 31, 2006				
Equity securities	982	1,550	4	2,528
Debt securities	193		28	165

	Thousands of U.S. Dollars			
March 31, 2007	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	$8,429	$8,124	$119	$16,434
Debt securities	1,635		212	1,423

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2007 and 2006, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Available-for-sale equity securities	¥1,153	¥1,214	$9,767

Proceeds from sales of available-for-sale securities for the years ended March 31, 2007 and 2006 were ¥224 million ($1,898 thousand) and ¥1 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, for the years ended March 31, 2007 and 2006 were ¥34 million ($288 thousand) and ¥1 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2007 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Available-for-sale	Available-for-sale
Due after ten years	¥168	$1,423
Total	¥168	$1,423

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

Short-term bank loans at March 31, 2007, consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 1.16% to 2.25% at March 31, 2007.

Long-term debt at March 31, 2007, consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2007	2007
Loans from banks, due serially through 2011 with interest rates ranging from 1.20% to 3.45%:		
Collateralized	¥2,136	$18,094
Unsecured	467	3,956
Total	2,603	22,050
Less current portion	(1,286)	(10,894)
Long-term debt, less current portion	¥1,317	$11,156

Annual maturities of long-term debt at March 31, 2007, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥1,286	$10,894
2009	481	4,074
2010	388	3,287
2011	438	3,710
2012	10	85
Total	¥2,603	$22,050

The carrying amounts of assets pledged as collateral for the above collateralized long-term debt at March 31, 2007 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Time deposits other than cash equivalents	¥ 30	$ 254
Land	112	949
Buildings and structures—net of accumulated depreciation	121	1,025
Total	¥263	$2,228

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligations that become due and, in case of default and certain other specified events, against all other debts payable to the banks. The Company has never been requested to provide any additional collateral.

6. EMPLOYEES' RETIREMENT BENEFITS

The liability for employees' retirement benefits at March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Projected benefit obligation	¥408	¥258	$3,456
Fair value of plan assets		(169)	
Unrecognized actuarial loss	(2)		(17)
Net liability	¥406	¥ 89	$3,439

The components of net periodic retirement benefit costs for the years ended March 31, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Service cost	¥ 39	¥ 66	$ 330
Interest cost	4		34
Contributions mostly to the defined contribution pension plan	356	281	3,016
Net periodic retirement benefit costs	¥399	¥347	$3,380

The contributory funded employees' pension plan, a multiemployers plan, was not included in the above tables as the fair value of plan assets corresponding to the Company's contribution cannot be reasonably computed. The contributions to the plan, except for the employees' portion, which are charged to operations, amounted to ¥421 million ($3,566 thousand) and ¥368 million for the years ended March 31, 2007 and 2006, respectively. The amounts of plan assets as of March 31, 2007 and 2006, applicable to the Company based on its contribution to the fund, were ¥9,377 million ($79,432 thousand) and ¥7,207 million, respectively.

Assumptions used for the year ended March 31, 2007 are set forth as follows:

	2007
Discount rate	2.5%
Recognition period of actuarial gain/loss	13 years

7. EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan with various revisions that are, for the most part, 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) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

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. The Corporate Law 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 at no less than ¥3 million.

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 Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings 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 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.

8. STOCK OPTIONS

The stock options outstanding as of March 31, 2007 were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2002 Stock Option	8 directors 1 corporate auditor 6 operating officers	100,000 shares	2002.9.17	¥3,199 ($27)	From October 1, 2002 to June 24, 2012
2003 Stock Option	7 directors 1 corporate auditor 5 operating officers 464 employees	102,500 shares	2003.8.20	¥2,675 ($23)	From October 1, 2003 to June 24, 2013
2004 Stock Option	9 directors 1 corporate auditor 6 operating officers 479 employees	109,100 shares	2004.9.10	¥2,390 ($20)	From October 1, 2004 to June 24, 2014
2005 Stock Option	8 directors 1 corporate auditor 11 operating officers 1,173 employees	231,200 shares	2005.12.8	¥3,977 ($34)	From December 9, 2005 to June 23, 2015

The stock option activity was as follows:

	2002 Stock Option	2003 Stock Option	2004 Stock Option	2005 Stock Option
		(Shares)		
For the Year Ended March 31, 2007				
Vested:				
March 31, 2006—outstanding	64,200	59,700	104,800	228,500
Exercised	9,100	10,000	40,600	
Canceled		1,000	1,500	6,700
March 31, 2007—outstanding	55,100	48,700	62,700	221,800
Exercise price	¥3,199 ($27)	¥2,675 ($23)	¥2,390 ($20)	¥3,977 ($34)
Average stock price at exercise	¥4,197 ($36)	¥4,146 ($35)	¥4,178 ($35)	

9. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥168 million ($1,423 thousand) and ¥121 million for the years ended March 31, 2007 and 2006, respectively.

10. INCOME TAXES

The Company and subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended March 31, 2007 and 2006.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Deferred tax assets:			
Accrued bonuses	¥ 969	¥ 777	$ 8,208
Enterprise tax payable	138	120	1,169
Accrued social insurance premium	115	100	974
Allowance for doubtful receivables	72		610
Retirement allowances for directors and corporate auditors	148	104	1,254
Tax loss carryforwards	114		966
Liability for employees' retirement benefits	107	37	906
Membership right	53	51	449
Investments in associated companies	48		407
Software	42	32	356
Temporary differences pertaining to investments in consolidated subsidiary	19		161
Other	111	24	940
Less valuation allowance	(447)		(3,787)
Total	1,489	1,245	12,613
Deferred tax liabilities:			
Work in process	21		178
Investment securities	258	498	2,185
Special reserve for tax-purpose depreciation for personal computers	4	13	34
Other		1	
Total	283	512	2,397
Net deferred tax assets	¥1,206	¥ 733	$10,216

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2007 is as follows:

Normal effective statutory tax rate	40.7%
Expenses not deductible for income tax purposes	1.1
Inhabitants taxes—per capita levy	0.4
Amortization of goodwill	1.3
Changes in valuation allowance for deferred tax assets	1.1
Equity in losses of associated companies	0.4
Temporary differences pertaining to investments in consolidated subsidiary	(0.4)
Other—net	0.1
Actual effective tax rate	44.7%

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2006 is not disclosed as the difference was less than 5% of the normal effective statutory tax rate.

11. LEASES

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

Total rental expenses for the years ended March 31, 2007 and 2006 were ¥73 million ($618 thousand) and ¥45 million, respectively, including ¥26 million ($220 thousand) and ¥19 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 years ended March 31, 2007 and 2006, was as follows:

	Millions of Yen					
	2007			2006		
	Furniture and Fixtures	Software	Total	Furniture and Fixtures	Software	Total
Acquisition cost	¥131	¥103	¥234	¥59	¥22	¥81
Accumulated depreciation	50	47	97	42	14	56
Net leased property	¥ 81	¥ 56	¥137	¥17	¥ 8	¥25

	Thousands of U.S. Dollars		
	2007		
	Furniture and Fixtures	Software	Total
Acquisition cost	$1,110	$872	$1,982
Accumulated depreciation	424	398	822
Net leased property	$ 686	$474	$1,160

Acquisition costs and obligations include the imputed interest expense portion.

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥ 39	¥16	$ 330
Due after one year	98	9	830
Total	¥137	¥25	$1,160

Depreciation expense including imputed interest expense under finance leases was ¥26 million ($220 thousand) and ¥19 million for the years ended March 31, 2007 and 2006, respectively.

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

12. DERIVATIVES

The Group enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

The Group had the following derivatives contacts outstanding at March 31, 2007:

	Millions of Yen		
	2007		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Interest rate swaps—Fixed rate payment, floating rate receipt	¥991	¥(31)	¥(31)

	Thousands of U.S. Dollars		
	2007		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Interest rate swaps—Fixed rate payment, floating rate receipt	$8,395	$(263)	$(263)

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

13. SEGMENT INFORMATION

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

14. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2007 and 2006 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2007	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥2,565	12,211	¥210.09	$1.78
Effect of dilutive securities—Warrants		83		
Diluted EPS—Net income for computation	¥2,565	12,294	¥208.67	$1.77
Year Ended March 31, 2006				
Basic EPS—Net income available to common shareholders	¥2,574	12,171	¥211.49	
Effect of dilutive securities—Warrants		85		
Diluted EPS—Net income for computation	¥2,574	12,256	¥210.02	

15. SUBSEQUENT EVENTS

a. *Dissolution*

On April 26, 2007, the Board of Directors of the Company passed a resolution to dissolve a subsidiary established for the purpose of entering the total solution business for logistics with RFID (Radio Frequency Identification), as a result of the change in the current business environment and future business prospects.

The subsidiary will be dissolved on June 29, 2007. The effect of the dissolution will be immaterial to the consolidated operating results.

The outline of the subsidiary is as follows:

Name:	SOLIDWARE CORPORATION
Deficit:	¥26 million ($220 thousand)
Total long-term liabilities:	¥8 million ($68 thousand)
Ownership ratio:	100%

b. *Appropriations of Retained Earnings*

The following appropriation of retained earnings at March 31, 2007 was approved at the Company's shareholders meeting held on June 22, 2007:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥40 ($0.34) per share	¥490	$4,151

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