DTS CORPORATION
and Subsidiaries

Unaudited Semiannual Consolidated Financial Statements
for the Six Months Ended September 30, 2004 and 2003

DTS CORPORATION and Subsidiaries

Semiannual Consolidated Balance Sheets
September 30, 2004 and 2003—Unaudited

ASSETS	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars (Note 1) 2004
CURRENT ASSETS:			
Cash and cash equivalents	¥ 7,370	¥ 5,657	$ 66,367
Receivables:			
Trade accounts	6,269	6,447	56,452
Other	14	17	126
Allowance for doubtful receivables	(5)	(4)	(45)
Inventories (Note 3)	1,025	1,337	9,230
Deferred tax assets	882	916	7,942
Prepaid expenses and other current assets	310	355	2,791
Total current assets	15,865	14,725	142,863
PROPERTY, PLANT AND EQUIPMENT:			
Land	6,487	7,066	58,415
Buildings and structures	4,913	4,929	44,241
Furniture and fixtures	1,135	1,134	10,221
Construction in progress		260	
Other assets	27	33	243
Total	12,562	13,422	113,120
Accumulated depreciation	(2,692)	(2,916)	(24,241)
Net property, plant and equipment	9,870	10,506	88,879
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	1,792	1,713	16,137
Software	3,520	12	31,698
Goodwill	49	81	441
Guarantee money deposit	157	327	1,414
Deferred tax assets	247	446	2,224
Other assets	437	377	3,935
Allowance for doubtful receivables	(193)		(1,738)
Total investments and other assets	6,009	2,956	54,111
TOTAL	¥ 31,744	¥ 28,187	$ 285,853

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars (Note 1) 2004
CURRENT LIABILITIES:			
Payables:			
Trade accounts	¥ 1,080	¥ 1,682	$ 9,725
Other	3,764	634	33,895
Income taxes payable	753	676	6,781
Accrued expenses	2,030	1,981	18,280
Other current liabilities	390	495	3,512
Total current liabilities	8,017	5,468	72,193
LONG-TERM LIABILITIES:			
Liability for employees' retirement benefits	78	670	702
Retirement allowances for directors and corporate auditors	190	161	1,711
Total long-term liabilities	268	831	2,413
MINORITY INTERESTS	395	391	3,557
SHAREHOLDERS' EQUITY (Note 5):			
Common stock—authorized, 18,000,000 shares; issued, 12,611,133 shares in 2004 and in 2003	6,113	6,113	55,047
Capital surplus	6,191	6,191	55,750
Retained earnings	11,513	9,995	103,674
Net unrealized gain on available-for-sale securities	239	188	2,152
Treasury stock—at cost, 381,450 shares in 2004 and 380,806 shares in 2003	(992)	(990)	(8,933)
Total shareholders' equity	23,064	21,497	207,690
TOTAL	¥ 31,744	¥ 28,187	$ 285,853

See notes to semiannual consolidated financial statements.

DTS CORPORATION and Subsidiaries

Semiannual Consolidated Statements of Income
Six Months Ended September 30, 2004 and 2003—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
NET SALES	¥ 17,669	¥ 17,437	$ 159,109
COST OF SALES (Note 7)	14,262	14,462	128,429
Gross profit	3,407	2,975	30,680
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 7)	1,506	1,651	13,562
Operating income	1,901	1,324	17,118
OTHER INCOME (EXPENSES):			
Interest and dividends income	31	24	279
Interest expense		(3)	
Loss on sale or disposal of property, plant and equipment	(159)		(1,432)
Other—net	(51)	(21)	(458)
Other expenses—net	(179)		(1,611)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	1,722	1,324	15,507
INCOME TAXES (Note 6):			
Current	720	675	6,484
Deferred	(12)	(98)	(108)
Total income taxes	708	577	6,376
MINORITY INTERESTS IN NET INCOME	22	18	198
NET INCOME	¥ 992	¥ 729	$ 8,933
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK—Net income (Note 2.n)	¥ 81.15	¥ 59.28	$ 0.73

See notes to semiannual consolidated financial statements.

DTS CORPORATION and Subsidiaries

Semiannual Consolidated Statements of Shareholders' Equity
Six Months Ended September 30, 2004 (Unaudited) and Year Ended March 31, 2004

	Outstanding Number of Shares of Common Stock	Millions of Yen				
		Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-sale Securities	Treasury Stock
BALANCE, APRIL 1, 2003	12,421,711	¥ 6,113	¥ 6,191	¥ 9,763	¥ (1)	¥ (628)
Net income				1,806		
Cash dividends, ¥50 per share				(618)		
Bonuses to directors and corporate auditors				(63)		
Repurchase of treasury stock	(191,628)					(363)
Net change in unrealized gain (loss) on available-for-sale securities					274	
BALANCE, MARCH 31, 2004	12,230,083	6,113	6,191	10,888	273	(991)
Net income				992		
Cash dividends, ¥25 per share				(306)		
Bonuses to directors and corporate auditors				(61)		
Repurchase of treasury stock	(400)					(1)
Net change in unrealized gain (loss) on available-for-sale securities					(34)	
BALANCE, SEPTEMBER 30, 2004	12,229,683	¥ 6,113	¥ 6,191	¥ 11,513	¥ 239	¥ (992)

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-sale Securities	Treasury Stock
BALANCE, MARCH 31, 2004	$ 55,047	$ 55,750	$ 98,046	$2,458	$ (8,924)
Net income			8,933		
Cash dividends, $0.23 per share			(2,756)		
Bonuses to directors and corporate auditors			(549)		
Repurchase of treasury stock					(9)
Net change in unrealized gain (loss) on available-for-sale securities				(306)	
BALANCE, SEPTEMBER 30, 2004	$ 55,047	$ 55,750	$ 103,674	$ 2,152	$ (8,933)

See notes to semiannual consolidated financial statements.

DTS CORPORATION and Subsidiaries

Semiannual Consolidated Statements of Cash Flows
Six Months Ended September 30, 2004 and 2003—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 1,722	¥ 1,324	$ 15,507
Adjustments for:			
Income taxes paid	(707)	(1,096)	(6,367)
Depreciation and amortization	165	174	1,486
Loss on sale or disposal of property, plant and equipment	159		1,432
Changes in assets and liabilities:			
Decrease in receivables	966	1,083	8,699
Increase in inventories	(579)	(594)	(5,214)
Increase in prepaid expenses and other current assets	(69)	(262)	(621)
Decrease in payables	(1,283)	(722)	(11,553)
Increase in accrued expenses	316	282	2,845
Decrease in other current liabilities	(274)	(59)	(2,468)
Increase in liability for retirement benefits	19	14	171
Other—net	127	195	1,144
Total adjustments	(1,160)	(985)	(10,446)
Net cash provided by operating activities	562	339	5,061
INVESTING ACTIVITIES:			
Payment for purchase of property, plant and equipment	(369)	(346)	(3,323)
Proceeds from sales of property, plant and equipment	129		1,162
Payment for purchase of marketable and investment securities		(5)	
Proceeds from sales of investment securities in a subsidiary		104	
Payment for purchase of software	(536)		(4,827)
Other—net	1	(2)	9
Net cash used in investing activities	(775)	(249)	(6,979)
FINANCING ACTIVITIES:			
Proceeds from short-term bank loans	100		901
Redemption of bonds		(700)	
Cash dividends paid	(305)	(433)	(2,747)
Repurchase of treasury stock	(1)	(362)	(9)
Other—net		(3)	
Net cash used in financing activities	(206)	(1,498)	(1,855)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(419)	(1,408)	(3,773)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	7,789	7,065	70,140
CASH AND CASH EQUIVALENTS, END OF PERIOD	¥ 7,370	¥ 5,657	$ 66,367

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 semiannual 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 2003 financial statements to conform to the classifications used in 2004.

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 ¥111.05 to $1, the rate of exchange at September 30, 2004. 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 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. 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.

f. 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.

g. 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.

h. Employees' Pension Plan—The Company has contributory funded pension plan, a defined contribution pension plan and a benefit plan of advance retirement payment covering substantially all of its employees.

The subsidiaries have contributory or non-contributory funded pension plans covering substantially all of their employees. Employees whose service with the subsidiaries 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.

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

The subsidiaries accounted for the liability for retirement benefits based on the amounts that would be required if their 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.

i. ***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.

j. ***Research and Development Costs*****—**Research and development costs of the Company are charged to income as incurred.

k. ***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.

l. ***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.

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

n. ***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 is not disclosed because it is anti-dilutive in 2004 and 2003.

3. INVENTORIES

Inventories at September 30, 2004 and 2003, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Merchandise	¥ 13	¥ 27	$ 117
Work in process	1,001	1,302	9,014
Supplies	11	8	99
Total	¥ 1,025	¥ 1,337	$ 9,230

4. INVESTMENT SECURITIES

Investment securities as of September 30, 2004 and 2003, consisted of non-current equity securities.

The carrying amounts and aggregate fair values of investment securities at September 30, 2004 and 2003, were as follows:

	Millions of Yen			
September 30, 2004	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	¥ 183	¥ 394		¥ 577
September 30, 2003				
Securities classified as available-for-sale equity securities	184	314		498

	Thousands of U.S. Dollars			
September 30, 2004	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	$ 1,648	$ 3,548		$ 5,196

Available-for-sale securities whose fair value is not readily determinable as of September 30, 2004 and 2003, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Investment securities, available-for-sale equity securities	¥ 1,215	¥ 1,215	$ 10,941

5. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code"), to which various amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being 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 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 revised 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 revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting 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 dividends plus amounts of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general 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 16, 2004, the Board of Directors approved interim dividends of ¥15 per share to the shareholders on record as of September 30, 2004.

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 100,000 shares of common stock of the Company. 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 102,500 shares of common stock of the Company. 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. 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, 2004 and 2003.

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, 2004 and 2003 were ¥24 million ($216 thousand) and ¥28 million, respectively, including ¥20 million ($180 thousand) and ¥24 million of lease payments under finance leases, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, 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, 2004 and 2003, was as follows:

	Millions of Yen					
	2004			2003		
	Furniture and Fixtures	Software	Total	Furniture and Fixtures	Software	Total
Acquisition cost	¥ 79	¥ 25	¥ 104	¥ 100	¥ 25	¥ 125
Accumulated depreciation	37	12	49	58	7	65
Net leased property	¥ 42	¥ 13	¥ 55	¥ 42	¥ 18	¥ 60

	Thousands of U.S. Dollars		
	2004		
	Furniture and Fixtures	Software	Total
Acquisition cost	$ 712	$ 225	$ 937
Accumulated depreciation	334	108	442
Net leased property	$ 378	$ 117	$ 495

Acquisition costs and obligations include the imputed interest expense portion.

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Due within one year	¥ 22	¥ 21	$ 198
Due after one year	33	39	297
Total	¥ 55	¥ 60	$ 495

Depreciation expense including imputed interest expense under finance leases was ¥12 million ($108 thousand) and ¥13 million for the periods ended September 30, 2004 and 2003, respectively.

Depreciation expense, which is not reflected in the accompanying 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 was not disclosed.

* * * * * *