DTS CORPORATION and Subsidiaries

Consolidated Financial Statements for the Years Ended March 31, 2005 and 2004, 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 subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' 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 subsidiaries as of March 31, 2005 and 2004, 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 24, 2005

DTS CORPORATION and Subsidiaries

Consolidated Balance Sheets
March 31, 2005 and 2004

ASSETS	Millions of Yen 2005	Millions of Yen 2004	Thousands of U.S. Dollars (Note 1) 2005
CURRENT ASSETS:			
Cash and cash equivalents	¥ 6,925	¥ 7,789	$ 64,485
Time deposits other than cash equivalents	20		186
Receivables:			
Trade accounts	6,739	7,208	62,753
Other	22	42	205
Allowance for doubtful receivables	(6)	(7)	(56)
Inventories (Note 3)	634	446	5,904
Deferred tax assets (Note 8)	1,013	911	9,433
Prepaid expenses and other current assets	213	241	1,983
Total current assets	15,560	16,630	144,893
PROPERTY, PLANT AND EQUIPMENT:			
Land	6,320	6,643	58,851
Buildings and structures	4,596	4,440	42,797
Furniture and fixtures	1,185	1,111	11,035
Construction in progress		468	
Other assets	24	27	223
Total	12,125	12,689	112,906
Accumulated depreciation	(2,556)	(2,750)	(23,801)
Net property, plant and equipment	9,569	9,939	89,105
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	2,036	1,854	18,959
Software	3,644	13	33,932
Goodwill	33	65	307
Guarantee deposit	114	313	1,062
Life insurance premiums	225	154	2,095
Deferred tax assets (Note 8)	93	182	866
Other assets	128	317	1,192
Allowance for doubtful receivables		(193)	
Total investments and other assets	6,273	2,705	58,413
TOTAL	¥ 31,402	¥ 29,274	$ 292,411

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2005	Millions of Yen 2004	Thousands of U.S. Dollars (Note 1) 2005
CURRENT LIABILITIES:			
Payables:			
Trade accounts	¥ 1,272	¥ 2,116	$ 11,845
Other	1,439	1,040	13,400
Income taxes payable	1,235	694	11,500
Accrued expenses	1,844	1,714	17,171
Other current liabilities	483	611	4,497
Total current liabilities	6,273	6,175	58,413
LONG-TERM LIABILITIES:			
Liability for employees ' retirement benefits (Note 5)	82	69	764
Retirement allowances for directors and corporate auditors	214	180	1,993
Total long-term liabilities	296	249	2,757
MINORITY INTERESTS	437	376	4,069
SHAREHOLDERS' EQUITY (Notes 6 and 12):			
Common stock—authorized, 18,000,000 shares; issued, 12,611,133 shares in 2005 and 2004	6,113	6,113	56,923
Capital surplus	6,191	6,191	57,650
Retained earnings	12,702	10,888	118,279
Net unrealized gain on available-for-sale securities	383	273	3,567
Treasury stock—at cost, 381,788 shares in 2005 and 381,050 shares in 2004	(993)	(991)	(9,247)
Total shareholders' equity	24,396	22,474	227,172
TOTAL	¥ 31,402	¥ 29,274	$ 292,411

See notes to consolidated financial statements.

DTS CORPORATION and Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
NET SALES	¥ 37,928	¥ 37,095	$ 353,180
COST OF SALES (Notes 5, 7 and 9)	30,600	30,366	284,943
Gross profit	7,328	6,729	68,237
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 5, 7 and 9)	3,036	3,119	28,271
Operating income	4,292	3,610	39,966
OTHER INCOME (EXPENSES):			
Interest and dividends income	39	32	363
Interest expense	(2)	(3)	(18)
Gain on settlement of qualified retirement benefit pension plan (Note 5)		179	
Loss on sale or disposal of property, plant and equipment	(274)	(417)	(2,551)
Provision for allowance for doubtful receivables		(193)	
Other—net	58	3	540
Other expenses—net	(179)	(399)	(1,666)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	4,113	3,211	38,300
INCOME TAXES (Note 8):			
Current	1,773	1,289	16,510
Deferred	(88)	113	(820)
Total income taxes	1,685	1,402	15,690
MINORITY INTERESTS IN NET INCOME	63	3	587
NET INCOME	¥ 2,365	¥ 1,806	$ 22,023

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.n and 11):			
Net income	¥ 187.19	¥ 142.21	$ 1.74
Diluted net income	187.14		1.74
Cash dividends applicable to the year	55.00	40.00	0.51

See notes to consolidated financial statements.

DTS CORPORATION and Subsidiaries

Consolidated Statements of Shareholders' Equity
Years Ended March 31, 2005 and 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				2,365		
Cash dividends, ¥40 per share				(490)		
Bonuses to directors and corporate auditors				(61)		
Repurchase of treasury stock	(738)					(2)
Net change in unrealized gain (loss) on available-for-sale securities					110	
BALANCE, MARCH 31, 2005	12,229,345	¥ 6,113	¥ 6,191	¥ 12,702	¥ 383	¥ (993)

	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	$ 56,923	$ 57,650	$ 101,387	$ 2,542	$ (9,228)
Net income			22,023		
Cash dividends, $0.37 per share			(4,563)		
Bonuses to directors and corporate auditors			(568)		
Repurchase of treasury stock					(19)
Net change in unrealized gain (loss) on available-for-sale securities				1,025	
BALANCE, MARCH 31, 2005	$ 56,923	$ 57,650	$ 118,279	$ 3,567	$ (9,247)

See notes to consolidated financial statements.

DTS CORPORATION and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 4,113	¥ 3,211	$ 38,300
Adjustments for:			
Income taxes paid	(1,329)	(1,688)	(12,375)
Depreciation and amortization	582	363	5,419
Loss on sale or disposal of property, plant and equipment	274	417	2,551
Changes in assets and liabilities:			
Decrease in receivables	488	294	4,544
Decrease (increase) in inventories	(188)	297	(1,751)
Decrease in other assets	29	164	270
Increase (decrease) in payables	(591)	133	(5,503)
Increase in accrued expenses	130	15	1,211
Increase (decrease) in other current liabilities	(32)	58	(298)
Increase (decrease) in liability for retirement benefits	47	(568)	438
Other—net	(23)	(6)	(214)
Total adjustments	(613)	(521)	(5,708)
Net cash provided by operating activities	3,500	2,690	32,592
INVESTING ACTIVITIES:			
Increase in time deposits other than cash equivalents	(20)		(186)
Payment for purchase of investment securities		(5)	
Proceeds from sales of investment securities in a subsidiary		104	
Payment for purchase of property, plant and equipment	(415)	(605)	(3,855)
Proceeds from sales of property, plant and equipment	335	229	3,119
Payment for purchase of software	(3,861)		(35,953)
Net decrease (increase) in other assets	87	(7)	801
Net cash used in investing activities	(3,874)	(284)	(36,074)
FINANCING ACTIVITIES:			
Proceeds from short-term bank loans	1,600		14,899
Repayment of short-term bank loans	(1,600)		(14,899)
Redemption of bonds		(700)	
Dividends paid	(488)	(616)	(4,544)
Repurchase of treasury stock	(2)	(363)	(19)
Other—net		(3)	
Net cash used in financing activities	(490)	(1,682)	(4,563)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(864)	724	(8,045)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,789	7,065	72,530
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 6,925	¥ 7,789	$ 64,485

See notes to consolidated financial statements.

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, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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 2004 financial statements to conform to the classifications used in 2005.

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 ¥107.39 to $1, the rate of exchange at March 31, 2005. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

The Company and a subsidiary accounted for the liability for retirement benefits based on the amounts that would be required if their operating officers or 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.

According to the enactment of the Defined Contribution Pension Plan Law in October 2001, the Company implemented a defined contribution pension plan in January 2004 by which the former qualified retirement benefit pension plan was terminated. The Company applied accounting treatments specified in the guidance issued by the Accounting Standards Board of Japan ("ASB"). The effect of this transfer increased income before income taxes and minority interests by ¥179 million and was recorded as a gain on settlement of qualified retirement benefit pension plan in the consolidated statement of income for the year ended March 31, 2004.

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 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 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 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.

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

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.

o. ***New Accounting Pronouncements—***In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 ASB issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are 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 new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that 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.

The Group expects to adopt these pronouncements as of April 1, 2005 and is currently in the process of assessing the effect of adoption of these pronouncements.

3. INVENTORIES

Inventories at March 31, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Merchandise	¥ 8	¥ 11	$ 75
Work in process	616	425	5,736
Supplies	10	10	93
Total	¥ 634	¥ 446	$ 5,904

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2005 and 2004, consisted of non-current equity securities.

The carrying amounts and aggregate fair value of investment securities at March 31, 2005 and 2004, were as follows:

	Millions of Yen			
March 31, 2005	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	¥ 183	¥ 653	¥ 14	¥ 822
March 31, 2004				
Securities classified as available-for-sale equity securities	184	465	10	639

	Thousands of U.S. Dollars			
March 31, 2005	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	$ 1,704	$6,081	$ 131	$ 7,654

Available-for-sale securities whose fair value was not readily determinable as of March 31, 2005 and 2004, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Securities classified as available-for-sale equity securities	¥ 1,214	¥ 1,215	$ 11,305

5. EMPLOYEES' RETIREMENT BENEFITS

The liability for employees' retirement benefits at March 31, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Projected benefit obligation	¥ 205	¥ 181	$ 1,909
Fair value of plan assets	(123)	(112)	(1,145)
Net liability	¥ 82	¥ 69	$ 764

The components of net periodic retirement benefit costs for the years ended March 31, 2005 and 2004, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Service cost	¥ 60	¥ 322	$ 559
Interest cost		54	
Expected return on plan assets		(14)	
Recognition of actuarial loss		82	
Contributions to the defined contribution pension plan, the benefit plan of advance retirement payment and the Smaller Enterprise Retirement Allowance Mutual Aid Plan	283	67	2,635
Net periodic retirement benefit costs	¥ 343	¥ 511	$ 3,194

The effect of the transfer to the defined contribution pension plan and the benefit plan of advance retirement payment was as follows:

	Millions of Yen
	2004
Decrease in projected benefit obligation	¥ 3,169
Transferred plan assets	(2,231)
Unrecognized actuarial loss	(299)
Decrease in liability for employees' retirement benefits	¥ 639

The contributory funded employees' pension plan, with companies in the same line of business, 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 employees' portion, which are charged to operations, amounted to ¥305 million ($2,840 thousand) and ¥295 million for the years ended March 31, 2005 and 2004, respectively. The amounts of plan assets as of March 31, 2005 and 2004, applicable to the Company based on its contribution to the fund, were ¥5,399 million ($50,275 thousand) and ¥4,893 million, respectively.

6. SHAREHOLDERS' EQUITY

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

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

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

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

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥11,110 million ($103,455 thousand) as of March 31, 2005, based on the amount recorded in the parent company's general books of account.

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 91,000 shares of common stock of the Company as of March 31, 2005. The exercise period for the options is from October 2002 to June 2012 and the exercise price of the options is ¥3,199.

On August 20, 2003, the Company issued additional stock acquisition rights as a stock option plan for the Company's directors, corporate auditors and key employees. The number of shares to be issued is 100,100 shares of common stock of the Company as of March 31, 2005. The exercise period for the options is from October 2003 to June 2013 and the exercise price of the options is ¥2,675.

On September 10, 2004, the Company issued stock acquisition rights as a stock option plan for the Company's directors, corporate auditors and key employees. The number of shares to be issued is 109,100 shares of common stock of the Company as of March 31, 2005. The exercise period for the options is from October 2004 to June 2014 and the exercise price of the options is ¥2,390.

7. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥94 million ($875 thousand) and ¥89 million for the years ended March 31, 2005 and 2004, respectively.

8. INCOME TAXES

The Company and subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 41% and 42% for the years ended March 31, 2005 and 2004, respectively.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Deferred tax assets:			
Accrued bonuses	¥ 784	¥ 741	$ 7,301
Accrued social insurance premium	96	86	894
Enterprise tax payable	111	62	1,034
Software	81	84	754
Retirement allowances for directors and corporate auditors	88	73	819
Membership right	53	52	494
Allowance for doubtful receivable		41	
Liability for employees' retirement benefits	33	27	307
Other	24	23	223
Total	1,270	1,189	11,826
Deferred tax liabilities:			
Investment securities	140	65	1,304
Special reserve for tax-purpose depreciation for personal computers	22	30	205
Other	2	1	18
Total	164	96	1,527
Net deferred tax assets	¥ 1,106	¥ 1,093	$ 10,299

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate for the years ended March 31, 2005 and 2004, is not disclosed as the difference between them was less than 5% of the normal effective statutory tax rate.

9. LEASES

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

Total rental expenses for the years ended March 31, 2005 and 2004 were ¥50 million ($466 thousand) and ¥56 million, respectively, including ¥40 million ($372 thousand) and ¥43 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 years ended March 31, 2005 and 2004, was as follows:

	Millions of Yen					
	2005			2004		
	Furniture and Fixtures	Software	Total	Furniture and Fixtures	Software	Total
Acquisition cost	¥ 79	¥ 25	¥ 104	¥ 76	¥ 25	¥ 101
Accumulated depreciation	47	15	62	34	9	43
Net leased property	¥ 32	¥ 10	¥ 42	¥ 42	¥ 16	¥ 58

	Thousands of U.S. Dollars		
	2005		
	Furniture and Fixtures	Software	Total
Acquisition cost	$ 736	$ 233	$ 969
Accumulated depreciation	438	140	578
Net leased property	$ 298	$ 93	$ 391

Acquisition costs and obligations include the imputed interest expense portion.

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	¥ 19	¥ 22	$ 177
Due after one year	23	36	214
Total	¥ 42	¥ 58	$ 391

Depreciation expense including imputed interest expense under finance leases was ¥24 million ($223 thousand) and ¥20 million for the years ended March 31, 2005 and 2004, respectively.

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

10. 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. As the Group had no foreign operations and sales to foreign customers, information about geographical segments and sales to foreign customers were not disclosed.

11. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended March 31, 2005 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2005	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥ 2,289	12,230	¥ 187.19	$ 1.74
Effect of dilutive securities—Warrants		2		
Diluted EPS—Net income for computation	¥ 2,289	12,232	¥ 187.14	$ 1.74

12. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2005, were approved at the Company's shareholders meeting held on June 24, 2005:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥40 ($0.37) per share	¥ 489	$ 4,553
Bonuses to directors and corporate auditors	69	643

b. Stock Option Plan

At the general shareholders meeting held on June 24, 2005, the Company's shareholders approved the following stock option plan for the Company's directors, corporate auditors and key employees. The plan provides for granting options to directors, corporate auditors and key employees to purchase up to 290,000 shares of the Company's common stock in the period from June 2005 to June 2015. The options will be granted at an exercise price of 105% of the average fair market value of the Company's common stock at the date from 45 days to 16 days before the date of option grant.

c. Purchase of Treasury Stock

At the meeting of the Board of Directors held on June 24, 2005, the Company decided to purchase up to 130 thousand shares of the Company's common stock (aggregate amount of ¥400 million) as treasury stock from June 27, 2005 until July 22, 2005.

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