DTS CORPORATION and Consolidated Subsidiaries

Consolidated Financial Statements for the Years Ended March 31, 2008 and 2007, and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
DTS CORPORATION:

We have audited the accompanying consolidated balance sheets of DTS CORPORATION and consolidated subsidiaries as of March 31, 2008 and 2007, 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, 2008 and 2007, 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 6, 2008

DTS CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheets
March 31, 2008 and 2007

ASSETS	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars (Note 1) 2008
CURRENT ASSETS:			
Cash and cash equivalents	¥11,242	¥ 7,936	$112,207
Notes and accounts receivable:			
Trade	9,756	9,398	97,375
Other	293	335	2,924
Allowance for doubtful receivables	(195)	(189)	(1,946)
Inventories (Note 3)	767	954	7,656
Deferred tax assets (Note 11)	1,206	1,172	12,037
Prepaid expenses and other current assets (Note 5)	361	346	3,603
Total current assets	23,430	19,952	233,856
PROPERTY AND EQUIPMENT (Note 5):			
Land	6,432	6,432	64,198
Buildings and structures	4,879	4,854	48,697
Furniture and fixtures	1,313	1,336	13,105
Other	23	24	230
Total	12,647	12,646	126,230
Accumulated depreciation	(3,239)	(3,095)	(32,329)
Net property and equipment	9,408	9,551	93,901
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	1,970	3,261	19,663
Investments in unconsolidated subsidiaries and associated companies	75	306	749
Software	3,298	3,317	32,918
Goodwill (Note 9)	3,668	4,475	36,610
Guarantee deposit	407	307	4,062
Life insurance premiums	250	295	2,495
Deferred tax assets (Note 11)	343	69	3,424
Other assets	185	181	1,846
Total investments and other assets	10,196	12,211	101,767
TOTAL	¥43,034	¥41,714	$429,524

LIABILITIES AND EQUITY	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars (Note 1) 2008
CURRENT LIABILITIES:			
Short-term bank loans (Note 5)	¥ 914	¥ 309	$ 9,123
Current portion of long-term debt (Note 5)	434	1,286	4,332
Payables:			
Trade accounts	2,212	2,216	22,078
Other	1,691	1,934	16,878
Income taxes payable	1,686	1,668	16,828
Accrued expenses	2,411	2,335	24,064
Other current liabilities	1,059	961	10,570
Total current liabilities	10,407	10,709	103,873
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	819	1,317	8,174
Liability for employees' retirement benefits (Note 6)	462	406	4,611
Retirement allowances for directors and corporate auditors	392	361	3,913
Deferred tax liabilities (Note 11)	2	35	20
Other long-term liabilities	45	59	449
Total long-term liabilities	1,720	2,178	17,167
EQUITY (Notes 7 and 16):			
Common stock—authorized, 100,000,000 shares; issued, 25,222,266 shares in 2008 and 12,611,133 shares in 2007	6,113	6,113	61,014
Capital surplus	6,191	6,191	61,793
Retained earnings	18,495	16,290	184,599
Net unrealized gain on available-for-sale securities	96	546	958
Treasury stock—at cost, 794,376 shares in 2008 and 368,463 shares in 2007	(1,178)	(1,044)	(11,757)
Total	29,717	28,096	296,607
Minority interests	1,190	731	11,877
Total equity	30,907	28,827	308,484
TOTAL	¥43,034	¥41,714	$429,524

See notes to consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
NET SALES	¥61,801	¥51,969	$616,838
COST OF SALES (Notes 6, 10 and 12)	50,105	42,291	500,100
Gross profit	11,696	9,678	116,738
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 6, 9, 10 and 12)	6,097	4,924	60,854
Operating income	5,599	4,754	55,884
OTHER INCOME (EXPENSES):			
Interest and dividends income	61	64	609
Interest expense	(36)	(34)	(359)
Other—net	28	122	279
Other income—net	53	152	529
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	5,652	4,906	56,413
INCOME TAXES (Note 11):			
Current	2,558	2,338	25,531
Deferred	(31)	(145)	(309)
Total income taxes	2,527	2,193	25,222
MINORITY INTERESTS IN NET INCOME	184	148	1,837
NET INCOME	¥ 2,941	¥ 2,565	$ 29,354

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.q and 15):			
Basic net income	¥120.22	¥105.04	$1.20
Diluted net income	119.75	104.33	1.20
Cash dividends applicable to the year	45.00	30.00	0.45

See notes to consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2008 and 2007

	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, 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
Net income				2,941			2,941		2,941
Cash dividends, ¥60 per share				(734)			(734)		(734)
Repurchase of treasury stock	(100,322)					(196)	(196)		(196)
Disposal of treasury stock—exercise of stock options	34,500			(2)		62	60		60
Stock split (Note 7)	12,251,042								
Net change in the year					(450)		(450)	459	9
BALANCE, MARCH 31, 2008	24,427,890	¥6,113	¥6,191	¥18,495	¥ 96	¥(1,178)	¥29,717	¥1,190	¥30,907

	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, 2007	$61,014	$61,793	$162,591	$5,449	$(10,420)	$280,427	$ 7,296	$287,723
Net income			29,354			29,354		29,354
Cash dividends, $0.60 per share			(7,326)			(7,326)		(7,326)
Repurchase of treasury stock					(1,956)	(1,956)		(1,956)
Disposal of treasury stock—exercise of stock options			(20)		619	599		599
Net change in the year				(4,491)		(4,491)	4,581	90
BALANCE, MARCH 31, 2008	$61,014	$61,793	$184,599	$ 958	$(11,757)	$296,607	$11,877	$308,484

See notes to consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥5,652	¥4,906	$56,413
Adjustments for:			
Income taxes paid	(2,561)	(2,106)	(25,561)
Depreciation and amortization	1,833	1,282	18,295
Changes in assets and liabilities:			
Increase in receivables	(366)	(569)	(3,653)
Decrease in inventories	187	80	1,866
(Increase) decrease in other assets	(6)	141	(60)
(Decrease) increase in payables	(179)	693	(1,787)
Increase in accrued expenses	82	70	819
Increase in other current liabilities	71	51	709
Increase (decrease) in liability for retirement benefits	87	(103)	868
Other—net	(18)	24	(180)
Total adjustments	(870)	(437)	(8,684)
Net cash provided by operating activities	4,782	4,469	47,729
INVESTING ACTIVITIES:			
Increase in time deposits other than cash equivalents	(57)	(12)	(569)
Decrease in time deposits other than cash equivalents	49	400	489
Payment for purchase of marketable securities		(100)	
Proceeds from the redemption of bonds		100	
Payment for purchases of property and equipment	(231)	(128)	(2,306)
Payment for purchases of investment securities	(6)	(10)	(60)
Proceeds from sales of investment securities	38	224	379
Proceeds from the redemption of investment securities	500		4,991
Payment for purchases of newly consolidated subsidiaries		(2,515)	
Proceeds from sales of investments in associated companies	218		2,176
Payment for purchases of software	(715)	(487)	(7,136)
Net (increase) decrease in other assets	(26)	3	(260)
Net cash used in investing activities	(230)	(2,525)	(2,296)
FINANCING ACTIVITIES:			
Increase in short-term bank loans—net	605	112	6,039
Proceeds from long-term debt	60	1,523	599
Repayment of long-term debt	(1,411)	(2,146)	(14,083)
Proceeds from issuing shares for minority shareholders	416		4,152
Dividends paid	(767)	(743)	(7,656)
Repurchase of treasury stock	(196)	(1)	(1,956)
Disposal of treasury stock	60	153	599
Other—net	(13)	(9)	(130)
Net cash used in financing activities	(1,246)	(1,111)	(12,436)
NET INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥3,306	¥ 833	$32,997

(Continued)

DTS CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
NET INCREASE IN CASH AND CASH EQUIVALENTS— (Forward)	¥ 3,306	¥ 833	$ 32,997
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,936	7,103	79,210
CASH AND CASH EQUIVALENTS, END OF YEAR	¥11,242	¥7,936	$112,207
ADDITIONAL INFORMATION RELATED TO PAYMENT FOR PURCHASE OF NEWLY CONSOLIDATED SUBSIDIARIES:			
Assets acquired		¥5,802	
Goodwill		3,197	
Liability assumed		(4,981)	
Minority interest		(28)	
Acquisition cost		3,990	
Cash and cash equivalents		(1,475)	
Payment for purchase of newly consolidated subsidiaries		¥2,515	

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 Financial Instruments and Exchange Law (formerly, 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.

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 2007 financial statements to conform to the classifications used in 2008.

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 ¥100.19 to $1, the approximate rate of exchange at March 31, 2008. 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, 2008 include the accounts of the Company and its 9 (9 in 2007) 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 the remaining unconsolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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, 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*—**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 defined benefit 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 contributions for a contributory funded defined benefit pension plan and a defined contribution pension plan are charged to income when paid.

The annual provision for an unfunded retirement benefit plan is calculated to state the liability at the amounts that would be required if all 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 retired at the balance sheet date.

k. ***Presentation of Equity***—On December 9, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities or assets, as the case may be, 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 was effective for fiscal years ending on or after May 1, 2006.

The balances of such items as of March 31, 2006 were reclassified as separate components of equity as of April 1, 2006 in the consolidated statement of changes in equity.

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***—Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

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. ***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.

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

r. ***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. 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.

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 shall be capitalized recognizing lease assets and lease obligations in the balance sheet.

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 its foreign subsidiaries which have been 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 Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new standard 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.

Construction Contracts—Under the current Japanese GAAP, either the completed-contract method or the percentage-of-completion method is permitted to account for construction contracts. On December 27, 2007, the ASBJ published a new accounting standard for construction contracts. Under this accounting standard, the construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method shall be applied. When it is probable that total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for loss on construction contracts. This standard is applicable to construction contracts and software development contracts and effective for fiscal years beginning on or after April 1, 2009 with early adoption permitted for fiscal years beginning on or before March 31, 2009 but after December 27, 2007.

3. INVENTORIES

Inventories at March 31, 2008 and 2007, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Merchandise	¥ 94	¥ 36	$ 938
Work in process	657	896	6,558
Supplies	16	22	160
Total	¥767	¥954	$7,656

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2008 and 2007, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Non-current:			
Equity securities	¥1,790	¥3,093	$17,866
Debt securities	180	168	1,797
Total	¥1,970	¥3,261	$19,663

The carrying amounts and aggregate fair values of investment securities at March 31, 2008 and 2007, were as follows:

	Millions of Yen			
March 31, 2008	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥998	¥358	¥187	¥1,169
Debt securities	194		14	180
March 31, 2007				
Equity securities	995	959	14	1,940
Debt securities	193		25	168

	Thousands of U.S. Dollars			
March 31, 2008	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	$9,961	$3,573	$1,866	$11,668
Debt securities	1,936		139	1,797

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2008 and 2007, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Available-for-sale equity securities	¥621	¥1,153	$6,198

Proceeds from sales of available-for-sale securities for the years ended March 31, 2008 and 2007 were ¥38 million ($379 thousand) and ¥224 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, for the years ended March 31, 2008 and 2007 were ¥4 million ($40 thousand) and ¥34 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2008 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Available-for-sale	Available-for-sale
Due after ten years	¥180	$1,797
Total	¥180	$1,797

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

Short-term bank loans at March 31, 2008 and 2007, consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 1.35% to 2.00% and 1.16% to 2.25% at March 31, 2008 and 2007, respectively.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Loans from banks, due serially to 2014 with interest rates ranging from 1.40% to 2.50% (from 1.20% to 3.45% in 2007):			
Collateralized	¥1,085	¥2,136	$10,829
Unsecured	168	467	1,677
Total	1,253	2,603	12,506
Less current portion	(434)	(1,286)	(4,332)
Long-term debt, less current portion	¥ 819	¥1,317	$ 8,174

Annual maturities of long-term debt at March 31, 2008, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	¥ 434	$ 4,332
2010	361	3,603
2011	439	4,381
2012	10	100
2013	5	50
2014 and thereafter	4	40
Total	¥1,253	$12,506

The carrying amounts of assets pledged as collateral for the above collateralized long-term debt at March 31, 2008 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Time deposits other than cash equivalents	¥ 30	$ 299
Land	112	1,118
Buildings and structures—net of accumulated depreciation	117	1,168
Total	¥259	$2,585

6. EMPLOYEES' RETIREMENT BENEFITS

The liability for employees' retirement benefits at March 31, 2008 and 2007, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Projected benefit obligation	¥465	¥408	$4,641
Unrecognized actuarial loss	(3)	(2)	(30)
Net liability	¥462	¥406	$4,611

The components of net periodic retirement benefit costs for the years ended March 31, 2008 and 2007, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Service cost	¥ 73	¥ 39	$ 728
Interest cost	8	4	80
Contributions mostly to the defined contribution pension plan	387	356	3,863
Net periodic retirement benefit costs	¥468	¥399	$4,671

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.

Assumptions used for the year ended March 31, 2008 are set forth as follows:

	2008
Discount rate	2.5%
Recognition period of actuarial gain/loss	13 years

7. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions 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.

On October 1, 2007, the Company made a 2-for-1 stock split by way of a free share distribution based on the resolution of the Board of Directors meeting held on August 30, 2007.

8. STOCK OPTIONS

The stock options outstanding as of March 31, 2008 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	200,000 shares	2002.9.17	¥1,600 ($16)	From October 1, 2002 to June 24, 2012
2003 Stock Option	7 directors 1 corporate auditor 5 operating officers 464 employees	205,000 shares	2003.8.20	¥1,338 ($13)	From October 1, 2003 to June 24, 2013
2004 Stock Option	9 directors 1 corporate auditor 6 operating officers 479 employees	218,200 shares	2004.9.10	¥1,195 ($12)	From October 1, 2004 to June 24, 2014
2005 Stock Option	8 directors 1 corporate auditor 11 operating officers 1,173 employees	462,400 shares	2005.12.8	¥1,989 ($20)	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
For the Year Ended March 31, 2008				
Vested:				
March 31, 2007—outstanding	55,100	48,700	62,700	221,800
Stock split	55,100	48,700	62,700	221,800
Exercised	16,000	12,800	13,200	1,000
Canceled	6,000	3,800	2,200	18,000
March 31, 2008—outstanding	88,200	80,800	110,000	424,600
Exercise price	¥1,600	¥1,338	¥1,195	¥1,989
	($16)	($13)	($12)	($20)
Average stock price at exercise	¥1,998	¥1,950	¥1,962	¥2,165
	($20)	($19)	($20)	($22)

Note: On October 1, 2007, the Company made a 2-for-1 stock split by way of a free share distribution. Exercise price and average stock price at exercise in the table above are adjusted for the stock split.

9. AMORTIZATION OF GOODWILL

Goodwill represents the excess of the cost of acquisitions over the fair value of net assets of the acquired subsidiaries. The amounts of amortization of goodwill included in selling, general and administrative expenses were ¥806 million ($8,045 thousand) and ¥387 million for the years ended March 31, 2008 and 2007, respectively.

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥117 million ($1,168 thousand) and ¥168 million for the years ended March 31, 2008 and 2007, respectively.

11. 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, 2008 and 2007.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2008 and 2007, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Deferred tax assets:			
Accrued bonuses	¥1,013	¥ 969	$10,111
Enterprise tax payable	145	138	1,447
Accrued social insurance premium	118	115	1,178
Allowance for doubtful receivables	78	72	779
Retirement allowances for directors and corporate auditors	162	148	1,617
Tax loss carryforwards	131	114	1,307
Liability for employees' retirement benefits	150	107	1,497
Membership right	53	53	529
Investment securities	61		609
Software	71	42	709
Other	122	178	1,218
Less valuation allowance	(548)	(447)	(5,470)
Total	1,556	1,489	15,531
Deferred tax liabilities:			
Work in process		21	
Investment securities	9	258	90
Other		4	
Total	9	283	90
Net deferred tax assets	¥1,547	¥1,206	$15,441

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2008 and 2007 is as follows:

	2008	2007
Normal effective statutory tax rate	40.7%	40.7%
Expenses not deductible for income tax purposes	0.9	1.1
Inhabitants taxes—per capita levy	0.5	0.4
Amortization of goodwill	2.5	1.3
Changes in valuation allowance for deferred tax assets	1.8	1.1
Equity in losses of associated companies	0.5	0.4
Equity fluctuation income	(0.8)	
Other—net	(1.4)	(0.3)
Actual effective tax rate	44.7%	44.7%

12. LEASES

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

Total rental expenses for the years ended March 31, 2008 and 2007 were ¥118 million ($1,178 thousand) and ¥73 million, respectively, including ¥41 million ($409 thousand) and ¥26 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, 2008 and 2007, was as follows:

	Millions of Yen					
	2008			2007		
	Furniture and Fixtures	Software	Total	Furniture and Fixtures	Software	Total
Acquisition cost	¥111	¥90	¥201	¥131	¥103	¥234
Accumulated depreciation	48	52	100	50	47	97
Net leased property	¥ 63	¥38	¥101	¥ 81	¥ 56	¥137

	Thousands of U.S. Dollars		
	2008		
	Furniture and Fixtures	Software	Total
Acquisition cost	$1,108	$898	$2,006
Accumulated depreciation	479	519	998
Net leased property	$ 629	$379	$1,008

Acquisition costs and obligations include the imputed interest expense portion.

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Due within one year	¥ 34	¥ 39	$ 339
Due after one year	67	98	669
Total	¥101	¥137	$1,008

Depreciation expense including imputed interest expense under finance leases was ¥41 million ($409 thousand) and ¥26 million for the years ended March 31, 2008 and 2007, respectively.

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

13. 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 contracts outstanding at March 31, 2008 and 2007:

	Millions of Yen					
	2008			2007		
	Contract Amount	Fair Value	Unrealized Gain/Loss	Contract Amount	Fair Value	Unrealized Gain/Loss
Interest rate swaps—						
Fixed rate payment,						
floating rate receipt	¥837	¥(27)	¥(27)	¥991	¥(31)	¥(31)

	Thousands of U.S. Dollars		
	2008		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Interest rate swaps—			
Fixed rate payment,			
floating rate receipt	$8,354	$(269)	$(269)

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.

14. 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 since sales or total assets in Japan accounted for more than 90% of the total consolidated sales or assets. Information about sales to foreign customers has been omitted since sales to foreign customers were less than 10% of the consolidated sales.

15. NET INCOME PER SHARE

On October 1, 2007, the Company made a 2-for-1 stock split by way of a free share distribution.

Reconciliation of the differences between basic and diluted net income per share ("EPS") retroactively adjusted for the stock split for the years ended March 31, 2008 and 2007 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2008	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥2,941	24,467	¥120.22	$1.20
Effect of dilutive securities—Warrants		95		
Diluted EPS—Net income for computation	¥2,941	24,562	¥119.75	$1.20
Year Ended March 31, 2007				
Basic EPS—Net income available to common shareholders	¥2,565	24,422	¥105.04	
Effect of dilutive securities—Warrants		166		
Diluted EPS—Net income for computation	¥2,565	24,588	¥104.33	

16. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2008 was approved at the Company's shareholders meeting held on June 20, 2008:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25 ($0.25) per share	¥611	$6,098

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