DTS CORPORATION and Consolidated Subsidiaries

Consolidated Financial Statements for the Years Ended March 31, 2009 and 2008, 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, 2009 and 2008, 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, 2009 and 2008, 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 15, 2009

DTS CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheets
March 31, 2009 and 2008

ASSETS	Millions of Yen 2009	Millions of Yen 2008	Thousands of U.S. Dollars (Note 1) 2009
CURRENT ASSETS:			
Cash and cash equivalents	¥10,740	¥11,242	$109,335
Notes and accounts receivable:			
Trade	8,681	9,756	88,374
Other	290	293	2,952
Allowance for doubtful receivables	(197)	(195)	(2,006)
Inventories (Note 3)	1,320	767	13,438
Deferred tax assets (Note 11)	1,169	1,206	11,901
Prepaid expenses and other current assets	326	361	3,319
Total current assets	22,329	23,430	227,313
PROPERTY AND EQUIPMENT:			
Land	6,432	6,432	65,479
Buildings and structures	4,913	4,879	50,015
Furniture and fixtures	1,392	1,313	14,171
Other	23	23	234
Total	12,760	12,647	129,899
Accumulated depreciation	(3,481)	(3,239)	(35,437)
Net property and equipment	9,279	9,408	94,462
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	1,531	1,970	15,586
Investments in unconsolidated subsidiaries and associated companies	204	75	2,077
Software	3,148	3,298	32,047
Goodwill (Note 9)	2,741	3,668	27,904
Deferred tax assets (Note 11)	290	343	2,952
Other assets	994	842	10,119
Total investments and other assets	8,908	10,196	90,685
TOTAL	¥40,516	¥43,034	$412,460

LIABILITIES AND EQUITY	Millions of Yen 2009	Millions of Yen 2008	Thousands of U.S. Dollars (Note 1) 2009
CURRENT LIABILITIES:			
Short-term bank loans (Note 5)	¥ 45	¥ 914	$ 458
Current portion of long-term debt (Note 5)	345	434	3,512
Payables:			
Trade accounts	1,998	2,212	20,340
Other	1,328	1,691	13,519
Income taxes payable	845	1,686	8,602
Accrued expenses	2,728	2,411	27,772
Other current liabilities	942	1,059	9,590
Total current liabilities	8,231	10,407	83,793
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	454	819	4,622
Liability for employees' retirement benefits (Note 6)	473	462	4,815
Retirement allowances for directors and corporate auditors	364	392	3,706
Deferred tax liabilities (Note 11)		2	
Other long-term liabilities	28	45	285
Total long-term liabilities	1,319	1,720	13,428
EQUITY (Notes 7 and 15):			
Common stock—authorized, 100,000,000 shares; issued, 25,222,266 shares in 2009 and 2008	6,113	6,113	62,232
Capital surplus	6,193	6,191	63,046
Retained earnings	19,031	18,495	193,739
Net unrealized (loss) gain on available-for-sale securities	(64)	96	(652)
Treasury stock—at cost, 1,558,263 shares in 2009 and 794,376 shares in 2008	(1,608)	(1,178)	(16,370)
Total	29,665	29,717	301,995
Minority interests	1,301	1,190	13,244
Total equity	30,966	30,907	315,239
TOTAL	¥40,516	¥43,034	$412,460

See notes to consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
NET SALES	¥59,996	¥61,801	$610,771
COST OF SALES (Notes 6, 10 and 12)	50,328	50,105	512,349
Gross profit	9,668	11,696	98,422
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 6, 9, 10 and 12)	6,186	6,097	62,975
Operating income	3,482	5,599	35,447
OTHER (EXPENSES) INCOME:			
Interest and dividends income	75	61	764
Interest expense	(20)	(36)	(204)
Other—net	(86)	28	(875)
Other (expenses) income—net	(31)	53	(315)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	3,451	5,652	35,132
INCOME TAXES (Note 11):			
Current	1,599	2,558	16,278
Deferred	164	(31)	1,670
Total income taxes	1,763	2,527	17,948
MINORITY INTERESTS IN NET INCOME	175	184	1,781
NET INCOME	¥ 1,513	¥ 2,941	$ 15,403

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.p and 14):			
Basic net income	¥62.02	¥120.22	$0.63
Diluted net income	62.00	119.75	0.63
Cash dividends applicable to the year	35.00	45.00	0.36

See notes to consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2009 and 2008

	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	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 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
Net income				1,513			1,513		1,513
Cash dividends, ¥40 per share				(977)			(977)		(977)
Repurchase of treasury stock	(800,687)					(485)	(485)		(485)
Disposal of treasury stock—exercise of stock options	36,800		2			55	57		57
Net change in the year					(160)		(160)	111	(49)
BALANCE, MARCH 31, 2009	23,664,003	¥6,113	¥6,193	¥19,031	¥ (64)	¥(1,608)	¥29,665	¥1,301	¥30,966

	Thousands of U.S. Dollars (Note 1): Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-sale Securities	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2008	$62,232	$63,026	$188,282	$ 977	$(11,992)	$302,525	$12,114	$314,639
Net income			15,403			15,403		15,403
Cash dividends, $0.41 per share			(9,946)			(9,946)		(9,946)
Repurchase of treasury stock					(4,938)	(4,938)		(4,938)
Disposal of treasury stock—exercise of stock options		20			560	580		580
Net change in the year				(1,629)		(1,629)	1,130	(499)
BALANCE, MARCH 31, 2009	$62,232	$63,046	$193,739	$ (652)	$(16,370)	$301,995	$13,244	$315,239

See notes to consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥3,451	¥5,652	$35,132
Adjustments for:			
Income taxes paid	(2,431)	(2,561)	(24,748)
Depreciation and amortization	2,098	1,833	21,358
Changes in assets and liabilities:			
Decrease (increase) in trade notes and accounts receivable	1,081	(366)	11,005
(Increase) decrease in inventories	(553)	187	(5,630)
Increase in other current assets	(27)	(6)	(275)
Decrease in accounts payable	(569)	(179)	(5,792)
Increase in accrued expenses	317	82	3,227
(Decrease) increase in other current liabilities	(204)	71	(2,077)
(Decrease) increase in liability for employees' retirement benefits and retirement allowances for directors and corporate auditors	(16)	87	(163)
Other—net	(91)	(18)	(926)
Total adjustments	(395)	(870)	(4,021)
Net cash provided by operating activities	3,056	4,782	31,111
INVESTING ACTIVITIES:			
Increase in time deposits other than cash equivalents	(33)	(57)	(336)
Decrease in time deposits other than cash equivalents	111	49	1,130
Payment for purchases of property and equipment	(192)	(231)	(1,955)
Payment for purchases of investment securities	(301)	(6)	(3,064)
Proceeds from sales of investment securities		38	
Proceeds from redemption of investment securities	500	500	5,090
Payment for purchases of software	(726)	(715)	(7,391)
Proceeds from sales of investments in associated companies		218	
Payments for investments in unconsolidated subsidiaries and affiliates	(129)	(74)	(1,313)
Net (increase) decrease in other assets	(4)	48	(41)
Net cash used in investing activities	(774)	(230)	(7,880)
FINANCING ACTIVITIES:			
(Decrease) increase in short-term bank loans—net	(869)	605	(8,847)
Proceeds from long-term debt		60	
Repayment of long-term debt	(454)	(1,411)	(4,622)
Proceeds from issuing shares for minority shareholders		416	
Dividends paid	(1,033)	(767)	(10,516)
Repurchase of treasury stock	(485)	(196)	(4,937)
Disposal of treasury stock	57	60	580
Other—net		(13)	
Net cash used in financing activities	(2,784)	(1,246)	(28,342)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥ (502)	¥3,306	$ (5,111)

(Continued)

DTS CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥ (502)	¥ 3,306	$ (5,111)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11,242	7,936	114,446
CASH AND CASH EQUIVALENTS, END OF YEAR	¥10,740	¥11,242	$109,335

See notes to consolidated financial statements.

(Concluded)

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act 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 2008 financial statements to conform to the classifications used in 2009.

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 ¥98.23 to $1, the approximate rate of exchange at March 31, 2009. 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, 2009 include the accounts of the Company and its 9 (9 in 2008) 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***—Prior to April 1, 2008, inventories were stated at cost. In July 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." 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 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this new accounting standard for measurement of inventories effective April 1, 2008. The adoption of this standard had no effect on net income for the year ended March 31, 2009.

Cost of merchandise is mainly determined by the moving-average method. Cost of work in process is determined by the specific identification method. Supplies were 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 on or 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, 10 years for machinery and equipment and from 2 to 20 years for furniture and fixtures.

Assets with an acquisition cost of ¥100,000 to less than ¥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 3 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.

On July 31, 2008, the ASBJ issued ASBJ Statement No. 19, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)." The objective of the accounting standard is to remove the treatment, which provides that an entity may use the discount rate determined taking into consideration fluctuations in the yield of bonds over a certain period, in Note 6 of Interpretive Notes to the Accounting Standard for Retirement Benefits. As this new standard is applicable to consolidated financial statements for fiscal years beginning on or before March 31, 2009, the Company adopted this new standard effective April 1, 2008.

The effect of this change on net income for the year ended March 31, 2009 was immaterial.

The unamortized balance of unfunded employees' projected retirement benefit obligation incurred in line with the adoption of this new standard was ¥40,957 thousand.

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

l. *Leases*—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 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 previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. The adoption of this standard had no effect on net income for the year ended March 31, 2009.

All other leases are accounted for as operating leases.

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

n. *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.

o. *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.

p. *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.

q. *New Accounting Pronouncements*

Business Combinations—On December 26, 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows:

(1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires to account for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.

(2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, an in-process research and development (IPR&D) acquired by the business combination is capitalized as an intangible asset.

(3) The current accounting standard accounts for a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method—The current accounting standard requires to unify accounting policies within the consolidation group. However, the current guidance allows to apply the equity method for the financial statements of its foreign associated company which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

On December 26, 2008, the ASBJ issued ASBJ Statement No. 16 (Revised 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: (1) amortization of goodwill; (2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (3) expensing capitalized development costs of R&D; (4) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; (5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and (6) exclusion of minority interests from net income, if contained.

This standard is applicable to equity method of accounting for investments effective on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Asset Retirement Obligations—On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

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. In December 2007, the ASBJ issued a new accounting standard for construction contracts. Under this new 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, 2009 and 2008, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Merchandise	¥ 23	¥ 94	$ 234
Work in process	1,275	657	12,980
Supplies	22	16	224
Total	¥1,320	¥767	$13,438

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2009 and 2008, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Non-current:			
Equity securities	¥1,054	¥1,790	$10,730
Debt securities	477	180	4,856
Total	¥1,531	¥1,970	$15,586

The carrying amounts and aggregate fair values of investment securities at March 31, 2009 and 2008, were as follows:

	Millions of Yen			
March 31, 2009	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥999	¥109	¥174	¥ 934
Debt securities	494		17	477
March 31, 2008				
Equity securities	998	358	187	1,169
Debt securities	194		14	180

	Thousands of U.S. Dollars			
March 31, 2009	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	$10,170	$1,109	$1,771	$9,508
Debt securities	5,029		173	4,856

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2009 and 2008, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Available-for-sale equity securities	¥120	¥621	$1,222

No available-for-sale securities were sold for the year ended March 31, 2009. Proceeds from sales of available-for-sale securities for the year ended March 31, 2008 were ¥38 million. Gross realized gains on these sales, computed on the moving average cost basis, for the year ended March 31, 2008 were ¥4 million.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2009 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Available-for-sale	Available-for-sale
Due after five years through ten years	¥392	$3,991
Due after ten years	85	865
Total	¥477	$4,856

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

Short-term bank loans at March 31, 2009 and 2008, consisted of notes to banks and bank overdrafts. The annual interest rate applicable to the short-term loans was 2.00% and ranged from 1.35% to 2.00% at March 31, 2009 and 2008, respectively.

Long-term debt at March 31, 2009 and 2008, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Loans from banks, due serially to 2015 with interest rates ranging from 1.22% to 2.50% (from 1.40% to 2.50% in 2008):			
Collateralized		¥1,085	
Unsecured	¥799	168	$8,134
Total	799	1,253	8,134
Less current portion	(345)	(434)	(3,512)
Long-term debt, less current portion	¥454	¥ 819	$4,622

Annual maturities of long-term debt at March 31, 2009, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2010	¥345	$3,512
2011	435	4,428
2012	10	102
2013	5	51
2014	3	31
2015 and thereafter	1	10
Total	¥799	$8,134

6. EMPLOYEES' RETIREMENT BENEFITS

The liability for employees' retirement benefits at March 31, 2009 and 2008, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Projected benefit obligation	¥566	¥465	$5,762
Unrecognized actuarial loss	(85)	(3)	(865)
Unrecognized prior service cost	(8)		(82)
Net liability	¥473	¥462	$4,815

The components of net periodic retirement benefit costs for the years ended March 31, 2009 and 2008, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Service cost	¥ 74	¥ 73	$ 753
Interest cost	9	8	92
Amortization of prior service cost	1		10
Contributions mostly to the defined contribution pension plan	418	387	4,255
Net periodic retirement benefit costs	¥502	¥468	$5,110

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, 2009 are set forth as follows:

	2009
Discount rate	1.5%
Amortization period of prior service cost	13 years
Recognition period of actuarial gain/loss	13 years

7. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. *Dividends*

Under the Companies Act, 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.

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 Companies Act 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 Companies Act 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 Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act 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 Companies Act 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 Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act 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, 2009 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 ($14)	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, 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
For the Year Ended March 31, 2009				
Vested:				
March 31, 2008—outstanding	88,200	80,800	110,000	424,600
Exercised	31,400	400	5,000	
Canceled	56,800	2,600	1,400	12,200
March 31, 2009—outstanding		77,800	103,600	412,400
Exercise price	¥1,600 ($16)	¥1,338 ($14)	¥1,195 ($12)	¥1,989 ($20)
Average stock price at exercise	¥1,960 ($20)	¥1,940 ($20)	¥1,940 ($20)	

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 ¥927 million ($9,437 thousand) and ¥806 million for the years ended March 31, 2009 and 2008, respectively.

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥98 million ($998 thousand) and ¥117 million for the years ended March 31, 2009 and 2008, 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, 2009 and 2008.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2009 and 2008, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Deferred tax assets:			
Accrued bonuses	¥ 974	¥1,013	$ 9,916
Accrued social insurance premium	126	118	1,283
Enterprise tax payable	83	145	845
Allowance for doubtful receivables	79	78	804
Provision for loss on order received	67		682
Liability for employees' retirement benefits	173	150	1,761
Tax loss carryforwards	158	131	1,608
Retirement allowances for directors and corporate auditors	151	162	1,537
Software	96	71	977
Deductible temporary differences pertaining to investments in consolidated subsidiaries	78		794
Membership right	59	53	601
Investments in associated companies	48	48	489
Investment securities	43	61	438
Other	41	74	417
Less valuation allowance	(714)	(548)	(7,269)
Total	1,462	1,556	14,883
Deferred tax liabilities—Investment securities	3	9	30
Total	3	9	30
Net deferred tax assets	¥1,459	¥1,547	$14,853

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, 2009 and 2008, was as follows:

	2009	2008
Normal effective statutory tax rate	40.7%	40.7%
Expenses not deductible for income tax purposes	3.0	0.9
Inhabitants taxes—per capita levy	0.8	0.5
Amortization of goodwill	5.5	2.5
Changes in valuation allowance for deferred tax assets	4.2	1.8
Equity in losses of associated companies		0.5
Equity fluctuation income		(0.8)
Deductible temporary differences pertaining to investments in consolidated subsidiaries	(2.3)	
Other—net	(0.8)	(1.4)
Actual effective tax rate	51.1%	44.7%

12. LEASES

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

Total rental expenses for the years ended March 31, 2009 and 2008 were ¥602 million ($6,128 thousand) and ¥487 million, respectively, including ¥36 million ($366 thousand) and ¥41 million of lease payments under finance leases, respectively.

As discussed in Note 2.l, the Company accounts for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

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, 2009 and 2008, was as follows:

	Millions of Yen					
	2009			2008		
	Furniture and Fixtures	Software	Total	Furniture and Fixtures	Software	Total
Acquisition cost	¥94	¥63	¥157	¥111	¥90	¥201
Accumulated depreciation	41	41	82	48	52	100
Net leased property	¥53	¥22	¥ 75	¥ 63	¥38	¥101

	Thousands of U.S. Dollars		
	2009		
	Furniture and Fixtures	Software	Total
Acquisition cost	$957	$641	$1,598
Accumulated depreciation	417	417	834
Net leased property	$540	$224	$ 764

Acquisition costs and obligations include the imputed interest expense portion.

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Due within one year	¥29	¥ 34	$295
Due after one year	46	67	469
Total	¥75	¥101	$764

Depreciation expense including imputed interest expense under finance leases was ¥36 million ($366 thousand) and ¥41 million for the years ended March 31, 2009 and 2008, 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, 2009 and 2008:

	Millions of Yen					
	2009			2008		
	Contract Amount	Fair Value	Unrealized Gain/Loss	Contract Amount	Fair Value	Unrealized Gain/Loss
Interest rate swaps— Fixed rate payment, floating rate receipt	¥165	¥(2)	¥(2)	¥837	¥(27)	¥(27)

	Thousands of U.S. Dollars		
	2009		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Interest rate swaps— Fixed rate payment, floating rate receipt	$1,680	$(20)	$(20)

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. 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, 2009 and 2008 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2009	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥1,513	24,409	¥ 62.02	$0.63
Effect of dilutive securities—Warrants		5		
Diluted EPS—Net income for computation	¥1,513	24,414	¥ 62.00	$0.63
Year Ended March 31, 2008				
Basic EPS—Net income available to common shareholders	¥2,941	24,467	¥120.22	
Effect of dilutive securities—Warrants		95		
Diluted EPS—Net income for computation	¥2,941	24,562	¥119.75	

15. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2009 was approved at the Company's shareholders meeting held on June 25, 2009:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥20 ($0.20) per share	¥473	$4,815

16. SEGMENT INFORMATION

The Company operates in the following industries:

- "Information service" consists of

  —consulting and integration services of information systems; design and construction of various networks and development of communication control software; and design, development and maintenance of consignment software and packaged software; and

  —operational management of computer facilities and information systems; and monitoring and maintenance of various networks.

- "Other" consists of

—sales of system products such as packaged software produced by other companies and information-related equipment such as computers;

—general worker dispatching business; and

—education business in the IT field.

Information about industry segments, geographical segments and sales to foreign customers for the years ended March 31, 2009 and 2008 was as follows:

(1) Industry Segments

a. Sales and Operating Income

	Millions of Yen			
	2009			
	Information Service	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥53,500	¥6,496		¥59,996
Intersegment sales	1	495	¥ (496)	
Total sales	53,501	6,991	(496)	59,996
Operating expenses	46,651	6,444	3,419	56,514
Operating income	¥ 6,850	¥ 547	¥(3,915)	¥ 3,482

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen			
	2009			
	Information Service	Other	Eliminations/ Corporate	Consolidated
Total assets	¥26,198	¥1,556	¥12,762	¥40,516
Depreciation	1,063	7	101	1,171
Capital expenditures	858	10	31	899

a. Sales and Operating Income

	Thousands of U.S. Dollars			
	2009			
	Information Service	Other	Eliminations/ Corporate	Consolidated
Sales to customers	$544,640	$66,131		$610,771
Intersegment sales	10	5,039	$ (5,049)	
Total sales	544,650	71,170	(5,049)	610,771
Operating expenses	474,916	65,601	34,807	575,324
Operating income	$ 69,734	$ 5,569	$(39,856)	$ 35,447

b. Total Assets, Depreciation and Capital Expenditures

	Thousands of U.S. Dollars			
	2009			
	Information Service	Other	Eliminations/ Corporate	Consolidated
Total assets	$266,701	$15,840	$129,919	$412,460
Depreciation	10,822	71	1,028	11,921
Capital expenditures	8,735	102	315	9,152

For the Year Ended March 31, 2008

The Group was 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.

(2) Geographical Segments

Information about geographical segments for the years ended March 31, 2009 and 2008 has been omitted since sales or total assets in Japan accounted for more than 90% of the total consolidated sales or total assets.

(3) Sales to Foreign Customers

Information about sales to foreign customers for the years ended March 31, 2009 and 2008 has been omitted since sales to foreign customers were less than 10% of the consolidated sales.

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