
***DTS CORPORATION and
Consolidated Subsidiaries***

*Consolidated Financial Statements for the
Years Ended March 31, 2010 and 2009,
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, 2010 and 2009, 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, 2010 and 2009, 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, 2010

DTS CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheets
March 31, 2010 and 2009

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010		2010	2009	2010
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents (Note 15)	¥ 9,367	¥10,740	\$100,677	Short-term bank loans (Notes 6 and 15)	¥ 412	¥ 45	\$ 4,428
Notes and accounts receivable (Note 15):				Current portion of long-term debt (Notes 6 and 15)	550	345	5,912
Trade	9,521	8,681	102,332	Payables (Note 15):			
Other	410	290	4,407	Trade accounts	2,293	1,998	24,645
Allowance for doubtful receivables	(203)	(197)	(2,182)	Other	1,644	1,328	17,670
Inventories (Note 4)	1,221	1,320	13,123	Advances received	1,020	61	10,963
Deferred tax assets (Note 13)	1,017	1,169	10,931	Income taxes payable (Note 15)	340	845	3,654
Prepaid expenses and other current assets	1,366	326	14,682	Accrued expenses	2,372	2,728	25,495
				Other current liabilities	792	881	8,512
Total current assets	<u>22,699</u>	<u>22,329</u>	<u>243,970</u>	Total current liabilities	<u>9,423</u>	<u>8,231</u>	<u>101,279</u>
PROPERTY AND EQUIPMENT:				LONG-TERM LIABILITIES:			
Land	6,432	6,432	69,131	Long-term debt (Notes 6 and 15)	359	454	3,858
Buildings and structures	5,006	4,913	53,805	Liability for employees' retirement benefits (Note 7)	500	473	5,374
Furniture and fixtures	1,382	1,392	14,854	Retirement allowances for directors and corporate auditors	241	364	2,590
Other	24	23	258	Other long-term liabilities	179	28	1,924
Total	<u>12,844</u>	<u>12,760</u>	<u>138,048</u>	Total long-term liabilities	<u>1,279</u>	<u>1,319</u>	<u>13,746</u>
Accumulated depreciation	<u>(3,635)</u>	<u>(3,481)</u>	<u>(39,069)</u>	EQUITY (Notes 8 and 18):			
Net property and equipment	<u>9,209</u>	<u>9,279</u>	<u>98,979</u>	Common stock—authorized, 100,000,000 shares; issued, 25,222,266 shares in 2010 and 2009	6,113	6,113	65,703
INVESTMENTS AND OTHER ASSETS:				Capital surplus	6,191	6,193	66,541
Investment securities (Notes 5 and 15)	1,507	1,531	16,197	Retained earnings	18,463	19,031	198,442
Investments in unconsolidated subsidiaries and associated companies	204	204	2,193	Net unrealized loss on available-for-sale securities	(53)	(64)	(569)
Software	2,925	3,148	31,438	Treasury stock—at cost, 1,446,580 shares in 2010 and 1,558,263 shares in 2009	<u>(1,493)</u>	<u>(1,608)</u>	<u>(16,047)</u>
Goodwill (Note 10)	2,701	2,741	29,031	Total	<u>29,221</u>	<u>29,665</u>	<u>314,070</u>
Deferred tax assets (Note 13)	907	290	9,748	Minority interests	<u>1,348</u>	<u>1,301</u>	<u>14,488</u>
Other assets	1,159	994	12,457	Total equity	<u>30,569</u>	<u>30,966</u>	<u>328,558</u>
Allowance for doubtful receivables	<u>(40)</u>		<u>(430)</u>	TOTAL			
Total investments and other assets	<u>9,363</u>	<u>8,908</u>	<u>100,634</u>	¥41,271	¥40,516	\$443,583	¥41,271
TOTAL	<u>¥41,271</u>	<u>¥40,516</u>	<u>\$443,583</u>				

See notes to consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Income Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2010</u>	<u>2009</u>	<u>2010</u>
NET SALES	¥52,503	¥59,996	\$ 564,305
COST OF SALES (Notes 7 and 14)	<u>45,768</u>	<u>50,328</u>	<u>491,917</u>
Gross profit	6,735	9,668	72,388
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 7, 10, 11 and 14)	<u>5,565</u>	<u>6,186</u>	<u>59,813</u>
Operating income	<u>1,170</u>	<u>3,482</u>	<u>12,575</u>
OTHER INCOME (EXPENSES):			
Interest and dividends income	44	75	473
Interest expense	(11)	(20)	(118)
Subsidy income	128		1,376
Loss from prior year adjustments	(208)		(2,236)
Other—net	<u>(73)</u>	<u>(86)</u>	<u>(785)</u>
Other expenses—net	<u>(120)</u>	<u>(31)</u>	<u>(1,290)</u>
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>1,050</u>	<u>3,451</u>	<u>11,285</u>
INCOME TAXES (Note 13):			
Current	540	1,599	5,804
Deferred	<u>131</u>	<u>164</u>	<u>1,408</u>
Total income taxes	<u>671</u>	<u>1,763</u>	<u>7,212</u>
MINORITY INTERESTS IN NET INCOME	<u>101</u>	<u>175</u>	<u>1,085</u>
NET INCOME	<u>¥ 278</u>	<u>¥ 1,513</u>	<u>\$ 2,988</u>
	<u>Yen</u>		<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK (Notes 2.r and 17):			
Basic net income	¥11.76	¥62.02	\$0.13
Diluted net income		62.00	
Cash dividends applicable to the year	35.00	35.00	0.38

See notes to consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2010 and 2009

	Outstanding Number of Shares of Common Stock	Millions of Yen							Minority Interests	Total Equity
		Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	Total			
BALANCE, APRIL 1, 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	
Net income				278			278		278	
Cash dividends, ¥35 per share				(828)			(828)		(828)	
Repurchase of treasury stock	(117)									
Disposal of treasury stock—exercise of stock options	111,800		(2)	(18)		115	95		95	
Net change in the year					11		11	47	58	
BALANCE, MARCH 31, 2010	<u>23,775,686</u>	<u>¥6,113</u>	<u>¥6,191</u>	<u>¥18,463</u>	<u>¥ (53)</u>	<u>¥(1,493)</u>	<u>¥29,221</u>	<u>¥1,348</u>	<u>¥30,569</u>	

	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, 2009	\$65,703	\$66,563	\$204,546	\$(687)	\$(17,283)	\$318,842	\$13,983	\$332,825
Net income			2,988			2,988		2,988
Cash dividends, \$0.38 per share			(8,899)			(8,899)		(8,899)
Repurchase of treasury stock								
Disposal of treasury stock—exercise of stock options		(22)	(193)		1,236	1,021		1,021
Net change in the year				118		118	505	623
BALANCE, MARCH 31, 2010	<u>\$65,703</u>	<u>\$66,541</u>	<u>\$198,442</u>	<u>\$(569)</u>	<u>\$(16,047)</u>	<u>\$314,070</u>	<u>\$14,488</u>	<u>\$328,558</u>

See notes to consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Cash Flows Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 1,050	¥3,451	\$ 11,285
Adjustments for:			
Income taxes paid	(1,052)	(2,431)	(11,307)
Depreciation and amortization	2,118	2,098	22,764
Changes in assets and liabilities:			
Decrease in trade notes and accounts receivable	114	1,081	1,225
Decrease (increase) in inventories	599	(553)	6,438
Decrease (increase) in other current assets	157	(27)	1,687
Decrease in accounts payable	(423)	(569)	(4,546)
(Decrease) increase in accrued expenses	(465)	317	(4,998)
Decrease in other current liabilities	(185)	(204)	(1,988)
Decrease in liability for employees' retirement benefits and retirement allowances for directors and corporate auditors	(175)	(16)	(1,881)
Other—net	184	(91)	1,979
Total adjustments	872	(395)	9,373
Net cash provided by operating activities	1,922	3,056	20,658
INVESTING ACTIVITIES:			
Increase in time deposits other than cash equivalents	(325)	(33)	(3,493)
Decrease in time deposits other than cash equivalents	30	111	322
Payment for purchases of property and equipment	(115)	(192)	(1,236)
Payment for purchases of investment securities	(1)	(301)	(11)
Proceeds from redemption of investment securities		500	
Payment for purchases of software	(1,022)	(726)	(10,985)
Payments for transfer of business (Note 3)	(700)		(7,524)
Payments for investments in unconsolidated subsidiaries and affiliates		(129)	
Net increase in other assets	(1)	(4)	(10)
Net cash used in investing activities	(2,134)	(774)	(22,937)
FINANCING ACTIVITIES:			
Decrease in short-term bank loans—net	(17)	(869)	(183)
Redemption of bonds	(10)		(107)
Repayment of long-term debt	(349)	(454)	(3,751)
Dividends paid	(880)	(1,033)	(9,458)
Repurchase of treasury stock		(485)	
Disposal of treasury stock	95	57	1,021
Net cash used in financing activities	(1,161)	(2,784)	(12,478)
NET DECREASE IN CASH AND CASH EQUIVALENTS— (Forward)	¥(1,373)	¥ (502)	\$ (14,757)

DTS CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Cash Flows Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2010</u>	<u>2009</u>	<u>2010</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS— (Forward)	¥ (1,373)	¥ (502)	\$ (14,757)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>10,740</u>	<u>11,242</u>	<u>115,434</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 9,367</u>	<u>¥10,740</u>	<u>\$100,677</u>
ADDITIONAL INFORMATION RELATED TO PAYMENTS FOR TRANSFER OF BUSINESS:			
Current assets	¥ 2,381		\$ 25,591
Non-current assets	812		8,727
Goodwill	791		8,502
Current liabilities	(2,721)		(29,245)
Non-current liabilities	<u>(429)</u>		<u>(4,611)</u>
Acquisition cost	834		8,964
Accounts payable—non trade	<u>(134)</u>		<u>(1,440)</u>
Payments for transfer of business	<u>¥ 700</u>		<u>\$ 7,524</u>

See notes to consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements Years Ended March 31, 2010 and 2009

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 2009 financial statements to conform to the classifications used in 2010.

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 ¥93.04 to \$1, the approximate rate of exchange at March 31, 2010. 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, 2010 include the accounts of the Company and its nine (nine in 2009) 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. Business Combinations*—In October 2003, the Business Accounting Council (BAC) issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures," and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures."

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

The Company acquired 100% of the net assets of the SI businesses of DIGITAL TECHNOLOGIES CORPORATION ("DTC") on December 1, 2009 and accounted for it by the purchase method of accounting. The related goodwill is systematically amortized over 9 years.

- c. 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.
- d. Inventories**—Merchandise and work in process are stated at the lower of cost, determined by the moving-average method for merchandise, and by the specific identification method for work in process, or net selling value. Supplies are stated at the most recent purchase price which approximates cost determined by the first-in, first-out method.
- e. 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.

- f. Long-Lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstances 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.

g. 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 salable years of the software or the amount to be amortized by the straight-line method over 3 or 5 years.
- (2) *Software for internal use*—Software costs for the purpose of rendering services to clients under specific license contracts are amortized by the straight-line method over the relevant contract period (mainly 8 years). Most 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.

- h. 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.

- i. 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.
- j. 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.

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

Effective May 14, 2009, the Company terminated its retirement benefit plan for operating officers. The outstanding balance of the retirement benefits to operating officers of ¥61 million (\$656 thousand) was reclassified and included in the other long-term liabilities in the year ended March 31, 2010.

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.

- k. Retirement Allowances for Directors and Corporate Auditors**—Directors and corporate auditors of part of consolidated subsidiaries 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. 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.

Effective June 25, 2009, the Company terminated its retirement benefit plan for directors and corporate auditors. The outstanding balance of the retirement allowances for directors and corporate auditors of ¥103 million (\$1,107 thousand) was reclassified and included in the other long-term liabilities in the year ended March 31, 2010.

- l. Research and Development Costs**—Research and development costs are charged to income as incurred.
- m. 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 notes 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.

All other leases are accounted for as operating leases.

- 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. Construction Contracts*—In December 2007, the ASBJ issued ASBJ Statement No. 15 "Accounting Standard for Construction Contracts" and ASBJ Guidance No. 18 "Guidance on Accounting Standard for Construction Contracts." Under the previous Japanese GAAP, either the completed-contract method or the percentage-of-completion method was permitted to account 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 should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a 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. The Company applied the new accounting standard effective April 1, 2009. The effect of this change was to increase operating income by ¥331 million (\$3,558 thousand) and income before income taxes and minority interests by ¥84 million (\$903 thousand), respectively, for the year ended March 31, 2010.
- p. 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.
- q. Derivatives and Hedging Activities*—The Group uses derivative financial instruments, such as interest rate swaps, to manage its exposures to fluctuations in interest rates. Interest rate swaps are utilized by the Group to reduce interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income.
- r. Per Share Information*—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if warrants or stock options were exercised. Diluted net income per share of common stock assumes full exercise of the outstanding warrants and stock options at the beginning of the year.

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

s. *New Accounting Pronouncements*

Business Combinations—In December 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 combinations 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.

Asset Retirement Obligations—In March 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 the 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.

Accounting Changes and Error Corrections—In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

(1) *Changes in accounting policies*

When a new accounting policy is applied with a revision of accounting standards, a new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) *Changes in presentation*

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) *Changes in accounting estimates*

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) *Corrections of prior period errors*

When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

Segment Information Disclosures—In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No. 20 "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

3. BUSINESS COMBINATION

On December 1, 2009, the Company acquired the SI business of DTC, which engages in the business of system consulting, system infrastructure construction (OS, middleware), and the purchase and sales of system devices (servers, work stations, storages, security). The acquisition was made to enhance the Group's solution by transferring and taking over a certain part of DTC's business which maintains wide-range procurement capability regarding OS storage networks, as well as, technology of building system infrastructures.

The Company accounted for this business combination by the purchase method of accounting. The acquisition cost was ¥834 million (\$8,964 thousand), consisting of ¥830 million (\$8,921 thousand) in cash in accordance with the acquisition contract dated December 1, 2009, and ¥4 million (\$43 thousand) of direct costs such as advisory fees. The total cost of acquisition has been allocated to the assets acquired and the liabilities assumed based on their respective fair values. Goodwill from this acquisition, amounting to ¥791 million (\$8,502 thousand), is to be amortized over nine years using the straight-line method.

The estimated fair values of the assets acquired and the liabilities assumed at the acquisition date are as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Current assets	¥2,381	\$25,591
Non-current assets	812	8,727
Goodwill	<u>791</u>	<u>8,502</u>
The assets acquired	<u>3,984</u>	<u>42,820</u>
Current liabilities	(2,721)	(29,245)
Non-current liabilities	<u>(429)</u>	<u>(4,611)</u>
The liabilities assumed	<u>(3,150)</u>	<u>(33,856)</u>
Net assets acquired	<u>¥ 834</u>	<u>\$ 8,964</u>

As a certain part of DTC's business was acquired, it is very difficult to estimate the impact on consolidated statement of income for the year ended March 31, 2010, as if this business combination had been completed at the beginning of the fiscal year. Thus, the Company has omitted the estimate and disclosure of such impact.

4. INVENTORIES

Inventories at March 31, 2010 and 2009, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Merchandise	¥ 367	¥ 23	\$ 3,945
Work in process	836	1,275	8,985
Supplies	<u>18</u>	<u>22</u>	<u>193</u>
Total	<u>¥1,221</u>	<u>¥1,320</u>	<u>\$13,123</u>

5. INVESTMENT SECURITIES

Investment securities as of March 31, 2010 and 2009, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Non-current:			
Equity securities	¥1,013	¥1,054	\$10,887
Debt securities	<u>494</u>	<u>477</u>	<u>5,310</u>
Total	<u>¥1,507</u>	<u>¥1,531</u>	<u>\$16,197</u>

The carrying amounts and aggregate fair values of investment securities at March 31, 2010 and 2009, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<u>March 31, 2010</u>				
Equity securities	¥998	¥138	¥205	¥931
Debt securities	495	9	10	494
<u>March 31, 2009</u>				
Equity securities	¥999	¥109	¥174	¥934
Debt securities	494		17	477

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<u>March 31, 2010</u>				
Equity securities	\$10,726	\$1,483	\$2,203	\$10,006
Debt securities	5,320	97	107	5,310

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2010 and 2009, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Available-for-sale equity securities	¥81	¥120	\$871

No available-for-sale securities were sold for the years ended March 31, 2010 and 2009. The impairment losses on available-for-sale equity securities for the years ended March 31, 2010 and 2009 were ¥40 million (\$430 thousand) and ¥1 million, respectively.

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

Short-term bank loans at March 31, 2010 and 2009, consisted of notes to banks and bank overdrafts. The annual interest rate applicable to the short-term loans ranged from 1.48% to 3.00% and 2.00% at March 31, 2010 and 2009, respectively.

Long-term debt at March 31, 2010 and 2009, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Loans from banks, due serially to 2014 with interest rates ranging from 1.14% to 2.50% (from 1.22% to 2.50% in 2009)—Unsecured	¥449	¥799	\$4,826
Unsecured 1.3% bonds, due December 2012	60		645
Unsecured 0.7% bonds, due September 2013	400		4,299
Total	909	799	9,770
Less current portion	(550)	(345)	(5,912)
Long-term debt, less current portion	<u>¥359</u>	<u>¥454</u>	<u>\$3,858</u>

Annual maturities of long-term debt at March 31, 2010, were as follows:

<u>Year Ending March 31</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
2011	¥550	\$5,912
2012	130	1,397
2013	125	1,343
2014	103	1,107
2015	1	11
2016 and thereafter	—	—
Total	<u>¥909</u>	<u>\$9,770</u>

7. EMPLOYEES' RETIREMENT BENEFITS

The liability for employees' retirement benefits at March 31, 2010 and 2009, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Projected benefit obligation	¥550	¥566	\$5,911
Unrecognized actuarial loss	(43)	(85)	(462)
Unrecognized prior service cost	(7)	(8)	(75)
Net liability	<u>¥500</u>	<u>¥473</u>	<u>\$5,374</u>

The components of net periodic retirement benefit costs for the years ended March 31, 2010 and 2009, were as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Service cost	¥ 45	¥ 74	\$ 484
Interest cost	7	9	75
Recognized actuarial loss	7		75
Amortization of prior service cost	(11)	1	(118)
Contributions mostly to the defined contribution pension plan	<u>452</u>	<u>418</u>	<u>4,858</u>
Net periodic retirement benefit costs	<u>¥500</u>	<u>¥502</u>	<u>\$5,374</u>

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 years ended March 31, 2010 and 2009 are set forth as follows:

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

8. EQUITY

Japanese companies are 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 a Board of Directors, (2) having independent auditors, (3) having a 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 aggregate amount of the 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 a 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.

9. STOCK OPTIONS

The stock options outstanding as of March 31, 2010 were as follows:

<u>Stock Option</u>	<u>Persons Granted</u>	<u>Number of Options Granted</u>	<u>Date of Grant</u>	<u>Exercise Price</u>	<u>Exercise Period</u>
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 (\$13)	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 (\$21)	From December 9, 2005 to June 23, 2015

The stock option activity was as follows:

	<u>2003 Stock Option</u>	<u>2004 Stock Option</u>	<u>2005 Stock Option</u>
		(Shares)	
<u>Year Ended March 31, 2009</u>			
<u>Vested</u>			
March 31, 2008—Outstanding	80,800	110,000	424,600
Exercised	400	5,000	
Canceled	2,600	1,400	12,200
March 31, 2009—Outstanding	77,800	103,600	412,400
<u>Year Ended March 31, 2010</u>			
<u>Vested</u>			
March 31, 2009—Outstanding	77,800	103,600	412,400
Exercised			
Canceled	77,800	17,800	30,600
March 31, 2010—Outstanding		85,800	381,800
Exercise price	¥1,338 (\$14)	¥1,195 (\$13)	¥1,989 (\$21)

10. AMORTIZATION OF GOODWILL

Goodwill represents the excess of the cost of acquisitions over the fair value of net assets of the acquired subsidiaries. The amount of amortization of goodwill included in selling, general and administrative expenses was ¥803 million (\$8,631 thousand) and ¥927 million for the years ended March 31, 2010 and 2009, respectively.

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥75 million (\$806 thousand) and ¥98 million for the years ended March 31, 2010 and 2009, respectively.

12. LOSS FROM PRIOR YEAR ADJUSTMENTS

Loss from prior year adjustments of ¥208 million (\$2,236 thousand) attributable to adjustments of unrealized income on intangible assets was recognized for the year ended March 31, 2010.

13. 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, 2010 and 2009.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2010 and 2009, were as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u> <u>U.S. Dollars</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Deferred tax assets:			
Accrued bonuses	¥ 846	¥ 974	\$ 9,093
Accrued social insurance premium	116	126	1,247
Enterprise tax payable	47	83	505
Allowance for doubtful receivables	94	79	1,010
Provision for loss on order received	22	67	237
Liability for employees' retirement benefits	176	173	1,892
Tax loss carryforwards	301	158	3,235
Retirement allowances for directors and corporate auditors	99	151	1,064
Software	97	96	1,043
Deductible temporary differences pertaining to investments in consolidated subsidiaries		78	
Membership right	59	59	634
Investments in associated companies	46	48	494
Investment securities	55	43	591
Asset adjustment account	559		6,008
Long-term accounts payable—other	67		720
Unrealized profit of software	92		989
Other	50	41	537
Less valuation allowance	<u>(797)</u>	<u>(714)</u>	<u>(8,566)</u>
Total	<u>1,929</u>	<u>1,462</u>	<u>20,733</u>
Deferred tax liabilities—Investment securities	<u>5</u>	<u>3</u>	<u>54</u>
Total	<u>5</u>	<u>3</u>	<u>54</u>
Net deferred tax assets	<u>¥1,924</u>	<u>¥1,459</u>	<u>\$20,679</u>

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, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Normal effective statutory tax rate	40.7%	40.7%
Expenses not deductible for income tax purposes	3.9	3.0
Inhabitants taxes—per capita levy	2.5	0.8
Amortization of goodwill	13.6	5.5
Changes in valuation allowance for deferred tax assets	8.3	4.2
Loss on revaluation of investments in subsidiaries	(4.5)	
Deductible temporary differences pertaining to investments in consolidated subsidiaries		(2.3)
Other—net	<u>(0.6)</u>	<u>(0.8)</u>
Actual effective tax rate	<u>63.9%</u>	<u>51.1%</u>

14. LEASES

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

Total rental expenses for the years ended March 31, 2010 and 2009 were ¥545 million (\$5,858 thousand) and ¥602 million, respectively, including ¥28 million (\$301 thousand) and ¥36 million of lease payments under finance leases, respectively.

Pro forma Information of Leased Property Whose Lease Inception Was before March 31, 2008

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. However, ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee whose lease inception was before March 31, 2008 to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the financial statements. The Company applied ASBJ Statement No. 13 effective April 1, 2008 and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before March 31, 2008 such as acquisition cost, accumulated depreciation, obligations under finance leases and depreciation expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis was as follows:

	Millions of Yen					
	<u>2010</u>			<u>2009</u>		
	<u>Furniture and Fixtures</u>	<u>Software</u>	<u>Total</u>	<u>Furniture and Fixtures</u>	<u>Software</u>	<u>Total</u>
Acquisition cost	¥84	¥50	¥134	¥94	¥63	¥157
Accumulated depreciation	<u>50</u>	<u>39</u>	<u>89</u>	<u>41</u>	<u>41</u>	<u>82</u>
Net leased property	<u>¥34</u>	<u>¥11</u>	<u>¥ 45</u>	<u>¥53</u>	<u>¥22</u>	<u>¥ 75</u>

	Thousands of U.S. Dollars		
	2010		
	Furniture and Fixtures	Software	Total
Acquisition cost	\$903	\$537	\$1,440
Accumulated depreciation	<u>537</u>	<u>419</u>	<u>956</u>
Net leased property	<u>\$366</u>	<u>\$118</u>	<u>\$ 484</u>

Acquisition costs and obligations include the imputed interest expense portion.

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Due within one year	¥24	¥29	\$258
Due after one year	<u>21</u>	<u>46</u>	<u>226</u>
Total	<u>¥45</u>	<u>¥75</u>	<u>\$484</u>

Depreciation expense including imputed interest expense under finance leases was ¥28 million (\$301 thousand) and ¥36 million for the years ended March 31, 2010 and 2009, respectively.

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

15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

In March 2008, the ASBJ revised ASBJ Statement No. 10, "Accounting Standard for Financial Instruments," and issued ASBJ Guidance No. 19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

(1) *The Group's Policy for Financial Instruments*

As a basic policy, the Group invests in low risk financial assets, and obtains funds mainly from bank loans when necessary. Derivative transactions are used only for the purpose of managing financial risks. The Group does not enter derivative transactions for trading or speculative purposes.

(2) *Nature and Extent of Risks Arising from Financial Instruments*

Notes and accounts receivable are exposed to customer credit risk.

Investment securities, mainly equity securities and corporate bonds issued by companies with business relationship or capital tie-up, are exposed to the risk of market price fluctuations.

Accounts payable is all due within one year. Loans and debts are mainly made to obtain funds for capital expenditures. Loans and debts with floating interest rates are exposed to the risk of interest rate fluctuations. The Group enters into interest rate swap contracts to manage its interest rate exposures on long-term debts.

(3) Risk Management for Financial Instruments

Credit risk—For notes and accounts receivable, credit risk is mitigated by monitoring the due date and outstanding balance of receivables by each customer in accordance with internal policies, and also by monitoring the customers' financial positions by credit investigation.

The counterparties to these derivatives are limited to major international financial institutions, in order to mitigate credit risk.

Market risk—Investment securities are managed by monitoring the market values and financial position of issuers on a regular basis. The Group continuously reviews the holding status based upon the business relationship with issuers. Derivative transactions are executed and managed in accordance with internal policies which regulate the authorization, and results and balances of transactions are periodically monitored.

Liquidity risk—Liquidity risk is managed by maintaining liquidity on hand through preparation and on update of the cash management plan on a timely basis.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on a quoted price in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Also, please see Note 16 for the detail of fair value for derivatives.

(a) Fair values of financial instruments

<u>March 31, 2010</u>	Millions of Yen		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	¥ 9,367	¥ 9,367	
Notes and accounts receivable	9,728	9,728	
Investment securities	<u>1,426</u>	<u>1,426</u>	—
Total	<u>¥20,521</u>	<u>¥20,521</u>	=
Short-term bank loans	¥ 412	¥ 412	
Payables	3,937	3,937	
Income taxes payable	340	340	
Long-term debt	<u>909</u>	<u>910</u>	<u>¥1</u>
Total	<u>¥ 5,598</u>	<u>¥ 5,599</u>	<u>¥1</u>

<u>March 31, 2010</u>	Thousands of U.S. Dollars		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	\$ 100,677	\$ 100,677	
Notes and accounts receivable	104,557	104,557	
Investment securities	<u>15,327</u>	<u>15,327</u>	—
Total	<u>\$ 220,561</u>	<u>\$ 220,561</u>	—
Short-term bank loans	\$ 4,428	\$ 4,428	
Payables	42,315	42,315	
Income taxes payable	3,654	3,654	
Long-term debt	<u>9,770</u>	<u>9,781</u>	<u>\$ 11</u>
Total	<u>\$ 60,167</u>	<u>\$ 60,178</u>	<u>\$ 11</u>

Cash and Cash Equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Notes and Accounts Receivable

The carrying values of notes and accounts receivable approximate fair value because of their short maturities.

Investment Securities

The fair value of investment securities is measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The information of the fair value for investment securities by classification is included in Note 5.

Short-Term Bank Loans, Payables and Income Taxes Payable

The carrying values of these accounts approximate fair value because of their short maturities.

Long-Term Debt

The fair value of bonds payable issued by consolidated subsidiaries is measured at present value obtained by discounting the combined total of principle and interest at a rate with term to maturity and credit risk taken into account.

The fair value of loans from banks is measured at present value obtained by discounting the combined total of principle and interest at an assumed rate for new similar borrowings.

Derivatives

The information of the fair value for derivatives is included in Note 16.

(b) *Financial instruments whose fair value cannot be reliably determined*

<u>March 31, 2010</u>	<u>Carrying Amount</u>	
	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Investments in equity instruments that do not have a quoted market price in an active market	¥81	\$871

(5) *Maturity Analysis for Financial Assets and Securities with Contractual Maturities*

<u>March 31, 2010</u>	<u>Millions of Yen</u>			
	<u>Due in 1 Year or Less</u>	<u>Due after 1 Year through 5 Years</u>	<u>Due after 5 Years through 10 Years</u>	<u>Due after 10 Years</u>
Cash and cash equivalents	¥ 9,367			
Receivables	9,728			
Investment securities—				
Available-for-sale securities with contractual maturities			¥400	¥100
Total	¥19,095		¥400	¥100

<u>March 31, 2010</u>	<u>Thousands of U.S. Dollars</u>			
	<u>Due in 1 Year or Less</u>	<u>Due after 1 Year through 5 Years</u>	<u>Due after 5 Years through 10 Years</u>	<u>Due after 10 Years</u>
Cash and cash equivalents	\$100,677			
Receivables	104,557			
Investment securities—				
Available-for-sale securities with contractual maturities			\$4,299	\$1,075
Total	\$205,234		\$4,299	\$1,075

Please see Note 6 for annual maturities of long-term debt.

16. 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.

As noted in Note 15, the Group applied ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." The accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010; therefore, the required information is disclosed only for 2010.

Derivative Transactions to Which Hedge Accounting Is Not Applied at March 31, 2010

	Millions of Yen		
	2010		
	<u>Contract Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Interest rate swaps—Fixed rate payment, floating rate receipt	¥93	¥(1)	¥(1)

	Thousands of U.S. Dollars		
	2010		
	<u>Contract Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Interest rate swaps—Fixed rate payment, floating rate receipt	\$1,000	\$(11)	\$(11)

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

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.

17. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2010 and 2009 is as follows:

<u>Year Ended March 31, 2010</u>	<u>Millions of Yen</u> <u>Net Income</u>	<u>Thousands of Shares</u> <u>Weighted-Average Shares</u>	<u>Yen</u>	<u>U.S. Dollars</u> <u>EPS</u>
Basic EPS—Net income available to common shareholders	<u>¥278</u>	<u>23,666</u>	<u>¥11.76</u>	<u>\$0.13</u>

Diluted EPS is not disclosed because it is anti-dilutive for the year ended March 31, 2010.

<u>Year Ended March 31, 2009</u>	<u>Millions of Yen</u> <u>Net Income</u>	<u>Thousands of Shares</u> <u>Weighted-Average Shares</u>	<u>Yen</u> <u>EPS</u>
Basic EPS—Net income available to common shareholders	¥1,513	24,409	<u>¥62.02</u>
Effect of dilutive securities—Warrants	—	<u>5</u>	
Diluted EPS—Net income for computation	<u>¥1,513</u>	<u>24,414</u>	<u>¥62.00</u>

18. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2010 was approved at the Company's shareholders meeting held on June 25, 2010:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Year-end cash dividends, ¥20 (\$0.22) per share	¥476	\$5,116

19. 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, 2010 and 2009 was as follows:

(1) *Industry Segments*

a. Sales and Operating Income

	<u>Millions of Yen</u>			
	<u>2010</u>			
	<u>Information Service</u>	<u>Other</u>	<u>Eliminations/ Corporate</u>	<u>Consolidated</u>
Sales to customers	¥46,063	¥6,440		¥52,503
Intersegment sales	<u>14</u>	<u>580</u>	¥ (594)	<u> </u>
Total sales	46,077	7,020	(594)	52,503
Operating expenses	<u>41,918</u>	<u>6,520</u>	<u>2,895</u>	<u>51,333</u>
Operating income	<u>¥ 4,159</u>	<u>¥ 500</u>	<u>¥(3,489)</u>	<u>¥ 1,170</u>

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen			
	2010			
	Information Service	Other	Eliminations/Corporate	Consolidated
Total assets	¥27,128	¥2,338	¥11,805	¥41,271
Depreciation	1,204	13	98	1,315
Capital expenditures	1,067	20	72	1,159

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			
	2010			
	Information Service	Other	Eliminations/Corporate	Consolidated
Sales to customers	\$495,088	\$69,217		\$564,305
Intersegment sales	150	6,234	\$ (6,384)	
Total sales	495,238	75,451	(6,384)	564,305
Operating expenses	450,537	70,077	31,116	551,730
Operating income	\$ 44,701	\$ 5,374	\$(37,500)	\$ 12,575

b. Total Assets, Depreciation and Capital Expenditures

	Thousands of U.S. Dollars			
	2010			
	Information Service	Other	Eliminations/ Corporate	Consolidated
Total assets	\$291,574	\$25,128	\$126,881	\$443,583
Depreciation	12,941	140	1,053	14,134
Capital expenditures	11,468	215	774	12,457

(2) Geographical Segments

Information about geographical segments for the years ended March 31, 2010 and 2009 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, 2010 and 2009 has been omitted since sales to foreign customers were less than 10% of the consolidated sales.

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