DTS CORPORATION and Consolidated Subsidiaries

Unaudited Semiannual Consolidated Financial Statements for the Six Months Ended September 30, 2007 and 2006

DTS CORPORATION and Consolidated Subsidiaries

Semiannual Consolidated Balance Sheets
September 30, 2007 and 2006—Unaudited

ASSETS	Millions of Yen 2007	Millions of Yen 2006	Thousands of U.S. Dollars (Note 1) 2007
CURRENT ASSETS:			
Cash and cash equivalents	¥ 8,662	¥ 8,431	$ 75,041
Time deposits other than cash equivalents (Note 5)	64		554
Notes and accounts receivable:			
Trade	8,583	6,888	74,357
Other	279	22	2,417
Allowance for doubtful receivables	(186)	(9)	(1,611)
Inventories (Note 3)	1,799	954	15,585
Deferred tax assets (Note 7)	1,041	946	9,019
Prepaid expenses and other current assets	330	281	2,859
Total current assets	20,572	17,513	178,221
PROPERTY AND EQUIPMENT (Note 5):			
Land	6,432	6,320	55,722
Buildings and structures	4,864	4,638	42,138
Furniture and fixtures	1,351	1,231	11,704
Other	24	24	208
Total	12,671	12,213	109,772
Accumulated depreciation	(3,187)	(2,917)	(27,610)
Net property and equipment	9,484	9,296	82,162
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	2,467	3,437	21,372
Investments in associated companies	272	340	2,356
Software	3,284	3,404	28,450
Goodwill	4,073	244	35,286
Guarantee deposit	312	148	2,703
Deferred tax assets (Note 7)	111	36	962
Other assets	472	473	4,089
Total investments and other assets	10,991	8,082	95,218
TOTAL	¥41,047	¥34,891	$355,601

LIABILITIES AND EQUITY	Millions of Yen 2007	Millions of Yen 2006	Thousands of U.S. Dollars (Note 1) 2007
CURRENT LIABILITIES:			
Short-term bank loans (Note 5)	¥ 884	¥ 112	$ 7,658
Current portion of long-term debt (Note 5)	571	67	4,947
Payables:			
Trade accounts	1,973	1,559	17,093
Other	1,311	1,108	11,357
Income taxes payable	969	864	8,395
Accrued expenses	2,667	2,166	23,105
Other current liabilities	1,027	745	8,897
Total current liabilities	9,402	6,621	81,452
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	1,028	128	8,906
Liability for employees' retirement benefits	437	74	3,786
Retirement allowances for directors and corporate auditors	345	174	2,989
Other long-term liabilities (Note 7)	47	200	407
Total long-term liabilities	1,857	576	16,088
EQUITY (Note 6):			
Common stock—authorized, 50,000,000 shares; issued, 12,611,133 shares in 2007 and 2006	6,113	6,113	52,959
Capital surplus	6,191	6,191	53,634
Retained earnings	17,026	15,241	147,501
Net unrealized gain on available-for-sale securities	392	623	3,396
Treasury stock—at cost, 360,091 shares in 2007 and 385,920 shares in 2006	(1,020)	(1,093)	(8,837)
Total	28,702	27,075	248,653
Minority interests	1,086	619	9,408
Total equity	29,788	27,694	258,061
TOTAL	¥41,047	¥34,891	$355,601

See notes to semiannual consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Semiannual Consolidated Statements of Income
Six Months Ended September 30, 2007 and 2006—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
NET SALES	¥28,985	¥23,333	$251,105
COST OF SALES (Note 8)	23,748	19,106	205,735
Gross profit	5,237	4,227	45,370
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 8)	2,997	1,960	25,964
Operating income	2,240	2,267	19,406
OTHER INCOME (EXPENSES):			
Interest and dividends income	49	46	424
Interest expense	(19)	(2)	(165)
Other—net	120	(9)	1,040
Other income—net	150	35	1,299
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	2,390	2,302	20,705
INCOME TAXES (Note 7):			
Current	922	823	7,988
Deferred	163	145	1,412
Total income taxes	1,085	968	9,400
MINORITY INTERESTS IN NET INCOME	79	65	684
NET INCOME	¥ 1,226	¥ 1,269	$ 10,621

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.r and 11):			
Basic net income	¥100.14	¥104.06	$0.87
Diluted net income	99.73	103.32	0.86

See notes to semiannual consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Semiannual Consolidated Statements of Changes in Equity
Six Months Ended September 30, 2007 (Unaudited) and Year Ended March 31, 2007

	Outstanding Number of Shares of Common Stock	Millions of Yen							
		Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2006	12,183,217	¥6,113	¥6,195	¥14,550	¥902	¥(1,212)	¥26,548		¥26,548
Reclassified balance as of March 31, 2006 (Note 2.k)								¥ 573	573
Net income				2,565			2,565		2,565
Cash dividends, ¥60 per share				(732)			(732)		(732)
Bonuses to directors and corporate auditors				(81)			(81)		(81)
Repurchase of treasury stock	(247)					(1)	(1)		(1)
Disposal of treasury stock—exercise of stock options	59,700		(4)	(12)		169	153		153
Net change in the year					(356)		(356)	158	(198)
BALANCE, MARCH 31, 2007	12,242,670	6,113	6,191	16,290	546	(1,044)	28,096	731	28,827
Net income				1,226			1,226		1,226
Cash dividends, ¥40 per share				(490)			(490)		(490)
Repurchase of treasury stock	(128)								
Disposal of treasury stock—exercise of stock options	8,500					24	24		24
Net change in the period					(154)		(154)	355	201
BALANCE, SEPTEMBER 30, 2007	12,251,042	¥6,113	¥6,191	¥17,026	¥392	¥(1,020)	¥28,702	¥1,086	¥29,788

	Thousands of U.S. Dollars (Note 1)							
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2007	$52,959	$53,634	$141,124	$4,730	$(9,045)	$243,402	$6,333	$249,735
Net income			10,621			10,621		10,621
Cash dividends, $0.35 per share			(4,244)			(4,244)		(4,244)
Disposal of treasury stock—exercise of stock options					208	208		208
Net change in the period				(1,334)		(1,334)	3,075	1,741
BALANCE, SEPTEMBER 30, 2007	$52,959	$53,634	$147,501	$3,396	$(8,837)	$248,653	$9,408	$258,061

See notes to semiannual consolidated financial statements.

DTS CORPORATION and Consolidated Subsidiaries

Semiannual Consolidated Statements of Cash Flows
Six Months Ended September 30, 2007 and 2006—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥2,390	¥2,302	$20,705
Adjustments for:			
Income taxes paid	(1,624)	(1,380)	(14,069)
Depreciation and amortization	882	433	7,641
Changes in assets and liabilities:			
Decrease in receivables	828	1,243	7,173
Increase in inventories	(844)	(250)	(7,311)
Increase in other assets	(66)	(61)	(572)
Decrease in payables	(787)	(423)	(6,818)
Increase in accrued expenses	335	299	2,902
Increase (decrease) in other current liabilities	1	(10)	9
Increase (decrease) in liability for retirement benefits	15	(145)	130
Other—net	(9)	(43)	(78)
Total adjustments	(1,269)	(337)	(10,993)
Net cash provided by operating activities	1,121	1,965	9,712
INVESTING ACTIVITIES:			
Increase in time deposits other than cash equivalents	(7)		(61)
Decrease in time deposits other than cash equivalents	23		199
Payment for purchases of property and equipment	(155)	(66)	(1,343)
Payment for purchases of investment securities	(2)		(17)
Proceeds from sales of investment securities	38		329
Proceeds from redemption of investment securities	500		4,332
Payment for purchases of newly consolidated subsidiaries		(30)	
Payment for purchases of software	(310)	(195)	(2,686)
Net decrease in other assets	43	84	373
Net cash provided by (used in) investing activities	130	(207)	1,126
FINANCING ACTIVITIES:			
Increase in short-term bank loans	574		4,973
Proceeds from short-term bank loans		162	
Repayment of short-term bank loans		(50)	
Proceeds from long-term debt	60	200	520
Repayment of long-term debt	(1,064)	(349)	(9,218)
Proceeds from issuing shares for minority shareholders	416		3,604
Dividends paid	(522)	(499)	(4,522)
Disposal of treasury stock	24	106	208
Other—net	(13)		(113)
Net cash used in financing activities	(525)	(430)	(4,548)
NET INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥ 726	¥1,328	$ 6,290

(Continued)

DTS CORPORATION and Consolidated Subsidiaries

Semiannual Consolidated Statements of Cash Flows
Six Months Ended September 30, 2007 and 2006—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
NET INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥ 726	¥1,328	$ 6,290
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	7,936	7,103	68,751
CASH AND CASH EQUIVALENTS, END OF PERIOD	¥8,662	¥8,431	$75,041

See notes to semiannual consolidated financial statements.

(Concluded)

1. BASIS OF PRESENTING SEMIANNUAL CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited semiannual consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

On December 27, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under Japanese GAAP and has been renamed "the consolidated statement of changes in equity" in the current fiscal year.

In preparing these unaudited semiannual consolidated financial statements, certain reclassifications and rearrangements have been made to the unaudited semiannual consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2006 unaudited semiannual consolidated financial statements to conform to the classifications used in 2007.

The unaudited semiannual 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 ¥115.43 to $1, the approximate rate of exchange at September 30, 2007. 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 unaudited semiannual consolidated financial statements as of September 30, 2007 include the accounts of the Company and its nine (five in 2006) 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 all associated companies are accounted for by the equity method.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. ***Cash Equivalents***—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include demand deposits, time deposits and other short-term investments, all of which mature or become due within three months of the date of acquisition.

c. ***Inventories***—Merchandise is mainly stated at cost determined by the moving-average method. Work in process is stated at cost determined by the specific identification method. Supplies are stated at the most recent purchase price which approximates cost determined by the first-in, first-out method.

d. ***Property and Equipment***—Property and equipment are stated at cost. Depreciation is computed by the declining-balance method for most assets at rates based on the estimated useful lives of the assets except for buildings acquired after April 1, 1998, to which the straight-line method is applied. The range of useful lives is principally from 3 to 50 years for buildings and structures, 15 years for machinery and equipment and from 2 to 20 years for furniture and fixtures.

Assets with an acquisition cost of ¥100,000 to ¥200,000 are mainly depreciated by the straight-line method over 3 years.

Depreciation of property and equipment acquired on and after April 1, 2007 is computed by the revised depreciation method under the revised Japanese Corporate Tax Law effective April 1, 2007. The effect of this on the unaudited semiannual consolidated financial statements was not material. In accordance with the revised Japanese Corporate Tax Law, residual value of property and equipment acquired on or before March 31, 2007 has been depreciated as depreciation costs over a period of 5 years from the following fiscal year after these assets are already depreciated to residual value. The effect of this on the unaudited semiannual consolidated financial statements was not material.

e. ***Long-lived Assets***—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

f. ***Software Costs***

(1) *Software for sale*—Software development costs, incurred through the completion of a Beta version of specific software for sale, are charged to income when incurred. Such costs incurred subsequent to the completion of the Beta version are capitalized and amortized at the greater of either the amount to be amortized in proportion to the actual sales volume and revenue of the software during the current year to the estimated total sales volume and revenue over the estimated sales life of the software up to 3 years or the amount to be amortized by the straight-line method over such sales life.

(2) *Software for internal use*—Software costs for the purpose of rendering services to clients under specific license contracts are amortized by the straight-line method over the relevant contract period (mainly 8 years). Most other purchased software costs are charged to income as incurred because of the uncertainty that such costs will be recovered from related future economic benefits.

g. ***Investment Securities***—Based on management's intent, all investment securities are classified as available-for-sale securities. Available-for-sale securities with readily determinable market values are stated at fair value at each balance sheet date, with unrealized gains and losses, net of tax, reported in a separate component of equity. The cost of securities sold is determined based on the moving-average method.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

h. ***Goodwill***—The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is recorded as goodwill. Goodwill is amortized using the straight-line method from 5 to 10 years.

i. ***Employees' Retirement and Pension Plans***—The Company and some consolidated subsidiaries have a contributory funded 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 Company and the subsidiaries charge the contributions for a contributory funded pension plan and a defined contribution pension plan to income when paid.

The Company and the subsidiaries account for the liability for retirement benefits based on the amounts that would be required if their operating officers retired at each balance sheet date.

A subsidiary has an unfunded retirement benefit plan covering substantially all of its employees. The subsidiary accounts for the liability for retirement benefits based on projected benefit obligations at the balance sheet date.

j. ***Retirement Allowances for Directors and Corporate Auditors***—Directors and corporate auditors are generally entitled to receive lump-sum payments based on compensation at the time of retirement and the number of years of service when they retire from the Company. The accrued provisions are not funded and any amounts payable to directors and corporate auditors upon retirement are subject to the approval of the shareholders. The provision for severance payments is calculated to state the severance liability at the amount that would be payable if all directors and corporate auditors were to retire at the balance sheet date.

k. ***Presentation of Equity***—On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

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

m. ***Leases***—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

n. ***Bonuses to Directors and Corporate Auditors***—Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force ("PITF") No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

The Company adopted the new accounting standard for bonuses to directors and corporate auditors from the six months ended September 30, 2006.

o. ***Income Taxes***—The provision for income taxes is computed based on income before income taxes and minority interests. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

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

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 unaudited semiannual 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.

s. ***New Accounting Pronouncements***

Measurement of Inventories—Under Japanese GAAP, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories," which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting—On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. 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.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ PITF No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new task force prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. INVENTORIES

Inventories at September 30, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Merchandise	¥ 130	¥ 71	$ 1,126
Work in process	1,658	864	14,364
Supplies	11	19	95
Total	¥1,799	¥954	$15,585

4. INVESTMENT SECURITIES

Investment securities as of September 30, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Non-current:			
Equity securities	¥2,300	¥3,269	$19,925
Debt securities	167	168	1,447
Total	¥2,467	¥3,437	$21,372

The carrying amounts and aggregate fair values of investment securities at September 30, 2007 and 2006, were as follows:

	Millions of Yen			
September 30, 2007	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥995	¥ 711	¥27	¥1,679
Debt securities	193		26	167
September 30, 2006				
Equity securities	982	1,073		2,055
Debt securities	193		25	168

	Thousands of U.S. Dollars			
September 30, 2007	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	$8,620	$6,160	$234	$14,546
Debt securities	1,672		225	1,447

Available-for-sale securities whose fair value is not readily determinable as of September 30, 2007 and 2006, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Available-for-sale equity securities	¥621	¥1,214	$5,379

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

Short-term bank loans at September 30, 2007 and 2006, consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 1.21% to 2.00% at September 30, 2007, and they were 1.38% at September 30, 2006.

Long-term debt at September 30, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Unsecured loan from bank, due serially through 2009 with interest rate of 1.68%		¥195	
Loans from banks, due serially through 2012 with interest rates ranging from 1.20% to 3.70%:			
Collateralized	¥1,190		$10,309
Unsecured	409		3,544
Total	1,599	195	13,853
Less current portion	(571)	(67)	(4,947)
Long-term debt, less current portion	¥1,028	¥128	$ 8,906

Annual maturities of long-term debt at September 30, 2007, were as follows:

Period Ending September 30	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 571	$ 4,947
2009	387	3,353
2010	403	3,491
2011	224	1,941
2012	8	69
2013 and thereafter	6	52
Total	¥1,599	$13,853

The carrying amounts of assets pledged as collateral for the above collateralized long-term debt September 30, 2007 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Time deposits other than cash equivalents	¥ 30	$ 260
Land	112	970
Buildings and structures—net of accumulated depreciation	119	1,031
Total	¥261	$2,261

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligations that become due and, in case of default and certain other specified events, against all other debts payable to the banks. The Company has never been requested to provide any additional collateral.

6. EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. *Dividends*

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

On November 13, 2007, the Board of Directors approved interim dividends of ¥20 per share to the shareholders on record as of September 30, 2007.

b. *Increases/Decreases and Transfer of Common Stock, Reserve and Surplus*

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. *Treasury Stock and Treasury Stock Acquisition Rights*

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

7. 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 periods ended September 30, 2007 and 2006.

8. LEASES

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

Total rental expenses for the periods ended September 30, 2007 and 2006 were ¥59 million ($511 thousand) and ¥23 million, respectively, including ¥21 million ($182 thousand) and ¥9 million of lease payments under finance leases, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease and depreciation expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the periods ended September 30, 2007 and 2006, was as follows:

	Millions of Yen					
	2007			2006		
	Furniture and Fixtures	Software	Total	Furniture and Fixtures	Software	Total
Acquisition cost	¥116	¥90	¥206	¥52	¥31	¥83
Accumulated depreciation	42	43	85	38	20	58
Net leased property	¥ 74	¥47	¥121	¥14	¥11	¥25

	Thousands of U.S. Dollars		
	2007		
	Furniture and Fixtures	Software	Total
Acquisition cost	$1,005	$779	$1,784
Accumulated depreciation	364	372	736
Net leased property	$ 641	$407	$1,048

Acquisition costs and obligations include the imputed interest expense portion.

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥ 39	¥13	$ 338
Due after one year	82	12	710
Total	¥121	¥25	$1,048

Depreciation expense including imputed interest expense under finance leases was ¥21 million ($182 thousand) and ¥9 million for the periods ended September 30, 2007 and 2006, respectively.

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

9. 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 September 30, 2007:

	Millions of Yen		
	2007		
	Contract Amount	Fair Value	Unrealized Loss
Interest rate swaps—Fixed rate payment, floating rate receipt	¥864	¥(26)	¥(26)

	Thousands of U.S. Dollars		
	2007		
	Contract Amount	Fair Value	Unrealized Loss
Interest rate swaps—Fixed rate payment, floating rate receipt	$7,485	$(225)	$(225)

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.

10. SEGMENT INFORMATION

The Group is mainly engaged in the information service industry segment. The sales or operating income of that segment accounted for more than 90% of the total consolidated sales or operating income. Other sales or operating income were not significant compared to the above segment. Therefore, information about operations in different industry segments has been omitted. Information about geographical segments has been omitted because sales in Japan accounted for more than 90% of the total consolidated sales. As the Group had no sales to foreign customers, information about sales to foreign customers was not disclosed.

11. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the periods ended September 30, 2007 and 2006 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Period Ended September 30, 2007	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥1,226	12,244	¥100.14	$0.87
Effect of dilutive securities—Warrants		50		
Diluted EPS—Net income for computation	¥1,226	12,294	¥ 99.73	$0.86
Period Ended September 30, 2006				
Basic EPS—Net income available to common shareholders	¥1,269	12,192	¥104.06	
Effect of dilutive securities—Warrants		88		
Diluted EPS—Net income for computation	¥1,269	12,280	¥103.32	

12. SUBSEQUENT EVENTS

a. *Stock Split*

On August 30, 2007, the Board of Directors declared a 2-for-1 stock split of the common stock effective on October 1, 2007 to shareholders of record on September 30, 2007. This stock split resulted in the issuance of 12,611,133 additional shares of common stock. Pro forma earnings per share amounts on a post-split basis for the periods ended September 30, 2007 and 2006 would be as follows:

	Yen		U.S. Dollars
	2007	2006	2007
Basic net income	¥50.07	¥52.03	$0.43
Diluted net income	49.87	51.66	0.43

b. *Foundation of a Chinese Subsidiary*

On August 30, 2007, the Board of Directors of the Company passed a resolution to establish a new Chinese subsidiary for the purpose of starting business in China.

The new subsidiary was established on October 29, 2007.

The outline of the new company is as follows:

Name: DTS (Shanghai) CORPORATION
Common stock: ¥77 million ($667 thousand)
Ownership ratio: 100%

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