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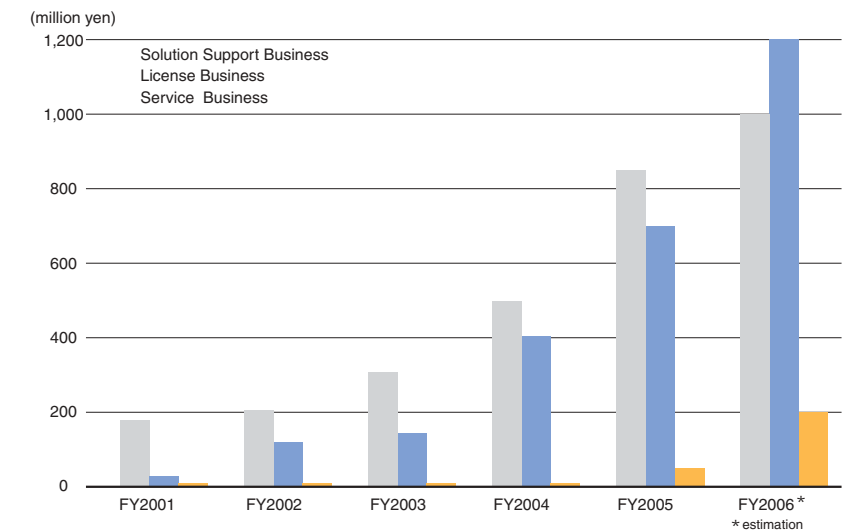
Annual report contents

Among Advanced Media's current plans, strategies, convictions and other information contained within this annual report, any statements which are not historical facts are forward-looking statements. These statements are based on business calculations and assumptions. Actual results, performances and events may differ due to known or unknown risks and uncertainties. These risks and uncertainties include, but are not limited to, the following:

- | | |
|--|---|
| (1) The advent of revolutionary speech technology. | (9) Uncertainties relating to the use of certain intellectual property rights. Uncertainties relating to the defense of certain intellectual property rights. |
| (2) The possibility of profit pressure due to the emergence of competitors. | (10) Uncertainties relating to the performance of our company's strategic joint ventures. |
| (3) The possibility that changes in particular legal regulations or trade practices may affect business performance. | (11) The effects of losses our company may suffer due to delay or failure in recovering receivables from client businesses that are performing poorly, etc. |
| (4) Changes in the speech recognition market for services or products our company offers. | (12) Exchange rate fluctuation risks. |
| (5) Rapid technological changes. Fierce price competition in the speech recognition market. | (13) New product and technology developments, and the effects when time and capital invested in said developments is greater than expected. |
| (6) Operations depending on specific individuals. | |
| (7) Being a small organization. | |
| (8) Personnel securement. | |

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Sales Volume by Business



Expanding the market while enhancing our business areas.

Development Phase (1997~2003)

From Advanced Media's first fiscal year through the fiscal year ending in March 2003, it established a business foundation centered on its Solution Support Business.

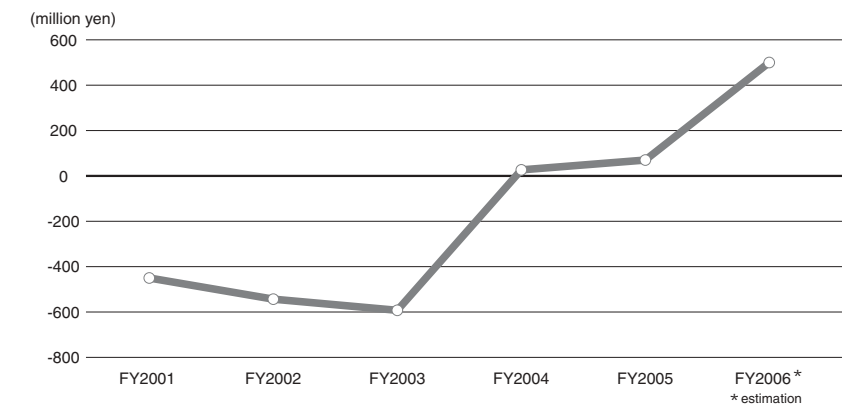
Deployment Phase 1 (2003~2005)

Advanced Media established a basis for growth in its License Business that offers licenses for package products.

Deployment Phase 2 (2005~)

By offering speech recognition systems that are "usable" and "convenient" for end users in nonspecific fields while continuing B to B business in specific fields through its License Business, Advanced Media has been achieving more than 50% annual growth.

Ordinary Profits



Proves speech recognition to be a profitable business.

Advanced Media achieved a profit in fiscal 2004 thanks to expansion in its License Business on top of its Solution Support Business which has been underway since the company's founding. Advanced Media was one of the very few companies specializing in speech recognition software operations to generate profitability in a single fiscal year, changing the view of the speech recognition industry.



Top Message

Cutting edge technology and innovative solutions: Advanced Media's "only one" strength

A pioneer in the speech recognition market

Advanced Media was founded in December 1997 as a company specializing in speech recognition. Speech recognition is a technology that uses computers to recognize human speech, and was under development as early as the sixties. Back then, only isolated words could be recognized. It wasn't until the nineties that spontaneous speech became recognizable. Following that breakthrough, speech recognition increasingly gained people's attention, and the world's top IT companies released numerous speech recognition products one after another.

However, since these general-consumer oriented products required speaker voices to be enrolled prior to use, the market was slow to adopt and several businesses withdrew after suffering losses. In 2003, amidst this turbulent market, Advanced Media started marketing value-added applications leveraging the strength of AmiVoice—a revolutionary speaker-independent speech recognition system that follows changes in intonation, accent and difference in speaking speed without requiring any prior enrollment. AmiVoice applications opened the door to the practical use of speech recognition.

Proving speech recognition as a profitable business:

Several companies across the globe are undertaking speech recognition, but Advanced Media is one of the very few companies that have achieved profitability in speech recognition business. This success was obtained owing to Advanced Media's expertise in developing attractive speech recognition applications. Advanced Media does not sell a speech recognition engine as a stand alone product, but rather pursues a value-added approach of an integrated business of planning, developing, consulting, selling and after-following solutions incorporating speech recognition targeted to specific markets. The reason that Advanced Media has targeted specific markets is that the accuracy of speech recognition increases with the limited sphere of speech content in each market, making its products more "usable", "convenient" and "valuable" to users. Such markets include radiological image diagnostic reports, electronic medical records and the production of meeting minutes and conference proceedings. Advanced Media has since expanded its target markets to the general public, improved its performance steadily, and was listed on the Mothers board of the Tokyo Stock Exchange, the market for high-growth and emerging stocks, in June 2005.



Founder
President and CEO, Advanced Media, Inc.
Kiyoyuki Suzuki

Human Communication Integration (HCI)

Speech recognition is a key technology to achieving a truly ubiquitous society. Advanced Media is building the future for people and society.

Expanding operations from specific fields to the mass market.

Advanced Media has cultivated the market by developing and offering innovative solutions to specific fields leveraging its speaker-independent speech recognition system. For instance, it has approached enterprises whose operations should improve by using speech recognition, and offered them “usable,” “convenient” and “valuable” systems customized to meet their individual needs. Advanced Media has been performing these operations from its founding, and they have formed the foundation of its Solution Support Business today. Advanced Media’s License Business involves packaging the know-how fostered in its Solution Support Business and offering them as products. Advanced Media is currently developing its License Business in the five areas of medical, entertainment & education (E & E), computer telephony integration (CTI), conference proceedings, and business. Moreover, Advanced Media is now focusing its attention also on its Service Business, which market we believe has strong growth potential. In its Service Business, Advanced Media will expand its target market from the specific fields it has been focusing on so far to general fields, and offer usable, convenient and valuable speech recognition systems to the consumer public.

Creating the future with HCI as a vision.

Advanced Media aims at creation of a new society where humans and machines can communicate naturally and sophisticatedly. Speech recognition – visualization of speech – will play a key role in this society. The concept of such communication, which we call “Human Communication Integration” (HCI) is to realize that anybody can feel “usable,” “convenient” and “valuable” via communications with machines, anytime, anywhere. Mobile phones are anticipated to be a key device enabling HCI, with introduction of web-like functions (searching and browsing web-pages), but we do not think adoption of the general public has really reached its potential with one of the key reasons being that the need for detail operations within a tiny keyboard makes user experience a difficult one for many. Advanced Media announced Voice Domain Service (VDS) that overcomes the problem by enabling web search via voice, not using fingers, offering a much enhanced user interface. In March 2006, VDS will be launched in full-scale in Japan. This voice-based Internet search service for mobile phones will spare users from having to enter troublesome URLs, and reduce the time and effort involved in performing searches. It attracts attentions of enterprises and end-users as it dramatically expands the possibilities of mobile phones, by replacing traditional two-dimensional QR codes and enabling new method of advertising.

Advanced Media, through its speech recognition operations, wishes to build a richer future. We look forward to your continued guidance and support.



Advanced Media's Businesses

Anytime, anywhere, anybody: Achieving the “visualization of natural speech.”
Creating new value for society through Advanced Media’s original speech recognition businesses.

Developing three businesses centered on the AmiVoice.

Advanced Media has focused on developing its businesses toward creating new value for society by offering speech recognition systems using “natural speech visualization” AmiVoice to the businesses and lifestyles of people. Currently, Advanced Media has a wide variety of businesses. Its Solution Support Business plans, consults, designs and develops speech recognition solutions; its License Business offers package products that answer market needs cultivated in its Solution Support Business as licenses; and its Service Business offers speech recognition services to workplace users and general consumers. Through close collaboration, these three businesses create a synergistic effect that promotes mutual growth.

Fiscal 2005 Performance

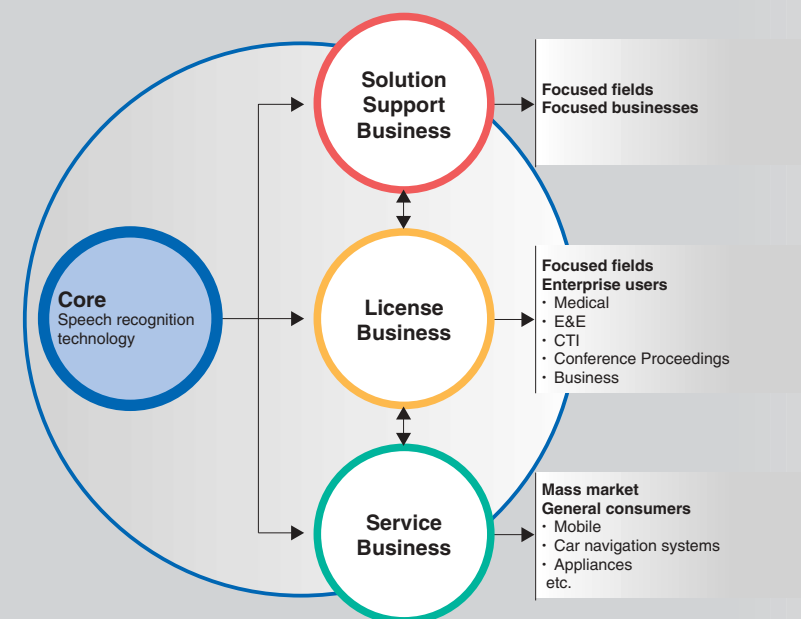
In fiscal 2005, Advanced Media developed high value-added speech recognition solutions employing AmiVoice for industries, and succeeded in the development of new products. Moreover, from fiscal 2004 Advanced Media has reorganized its business organization to clarify its business unit’s response to target market segments and have increased sales. Performance results for each business are listed below.

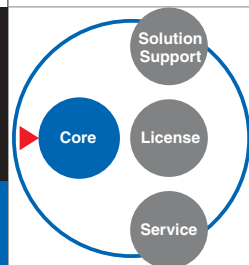
Owing to demand for the customization of existing package products in the business, computer telephony integration (CTI) and conference proceedings areas, sales in Advanced Media’s Solution Support Business totaled 719,825,000 yen (a 9.2% increase over the previous fiscal year).

Sales in Advanced Media’s License Business totaled 776,771,000 yen (a 242.9% increase over the previous fiscal year) benefiting from favorable sales of applications in the medical, entertainment & education (E & E) and business areas.

Advanced Media’s Service Business totaled 2,091,000 yen in sales (a 14.0% increase over the previous fiscal year), thanks to a strong showing of general consumer services in the CTI area.

Outline of Businesses





AmiVoice Advantage

Making speech recognition practically usable in full-scale.

Pioneer in "soft communication", natural communication with speech between humans and computers.

The basic concept and technology of speech recognition began in the 1960's. This era is historically referred to as the "first generation" of speech recognition, in which recognition of isolated words became possible. Later, the technology to recognize spontaneously spoken sentences was developed in the 90's, ushering in the second generation of speech recognition, during which time leading American computer-related companies entered the speech recognition market. However, the products these businesses offered were speaker-dependent, requiring users to enroll their voices in the software prior to use. The market was slow to adapt to these products. This was because the products could achieve only "hard communication" that forces users to learn and adjust to computers, like using keyboard and mouse.

Amidst these circumstances, Advanced Media introduced a speaker-independent AmiVoice system that can process differences in speaking rates, intonations and accents and does not require enrollment. Advanced Media did not sell the engine in standalone. Advanced Media created revolutionary and innovative solution packages exploiting capability of this system. As a result, Advanced Media succeeded to create many reference cases in which users can naturally communicate with computers, and can feel the "usable," "convenient" and "valuable". The world is moving toward the age humans and computers communicate human-centeredly, i.e. communicate comfortably without learning or adjusting. We are working hard to pioneer and contribute to this "soft communication" era.

About AmiVoice engine

Speech recognition is a technology that uses computers to recognize human speech, and is defined as inputted speech being outputted as text. At the core of AMI systems/solution lies a world's leading speech recognition engine, developed in close collaboration with its US partner, Multimodal Technologies, Inc. A speech recognition engine is integrated software that transforms speech to text, and is comprised of acoustical analysis, recognition decoder, and acoustic model, dictionary, and language model software components. The fundamental process involves first extracting necessary information as features for voice analysis, then using the recognition decoder to comprehensively evaluate these features and convert them to text. A sophisticated process employing sound and language information to convert speech to text comprises the core technology of speech recognition. In particular, acoustic models, dictionaries and language models play a crucial role in refining the accuracy of speech technology. Leveraging these leading technologies in these software components, Advanced Media leads the world in creating "soft communication" era.

Advanced Media's core strength is its proven capability and accumulated knowledge in speech recognition that makes it the leading expert in delivering innovative high performance applications meeting market demand.

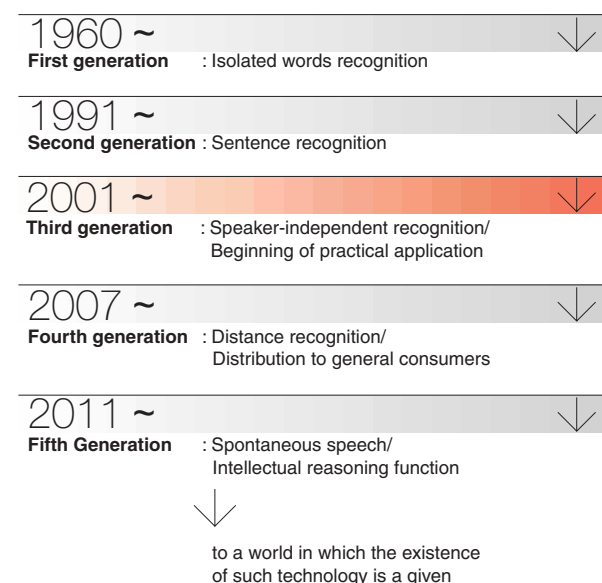
Bringing speech recognition of the spontaneously spoken level to actual use.

One factor that gives Advanced Media its edge is its speech recognition technology. The AmiVoice engine can recognize anybody's speech without having to pre-learn it, and can handle speed variations, accent differences, intonations and unnecessary speech utterances such as "uh" and "um." Compared to speech recognition products that are at the isolated word recognition level, the world that AmiVoice creates can be said to be the leading practical software that operates on the spontaneously spoken level.

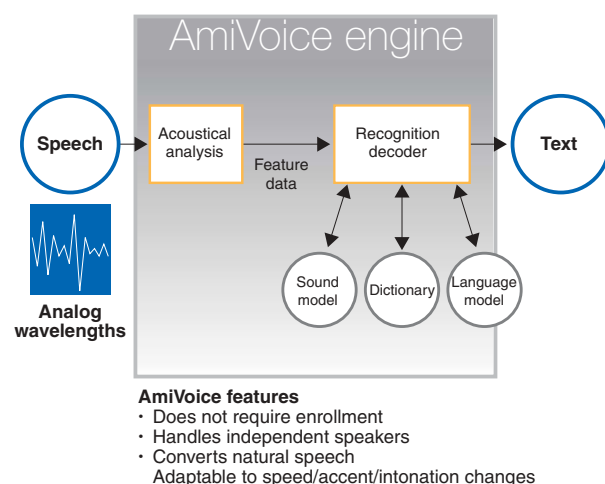
Proving speech recognition as a profitable business, using unique approaches

The key factor that gives Advanced Media its edge is its approach to business and its strength in marketing. Rather than selling the speech recognition engine as a stand alone product, Advanced Media is focusing its business on offering innovative application packages and solutions leveraging the AmiVoice speech recognition system. Moreover, by focusing its business fields and tailoring user-friendly solutions to enterprise users in specific fields such as medical and education, Advanced Media has created further added value. These business approaches have enabled Advanced Media to create profitable business in the speech recognition product and service, and secure its market leadership.

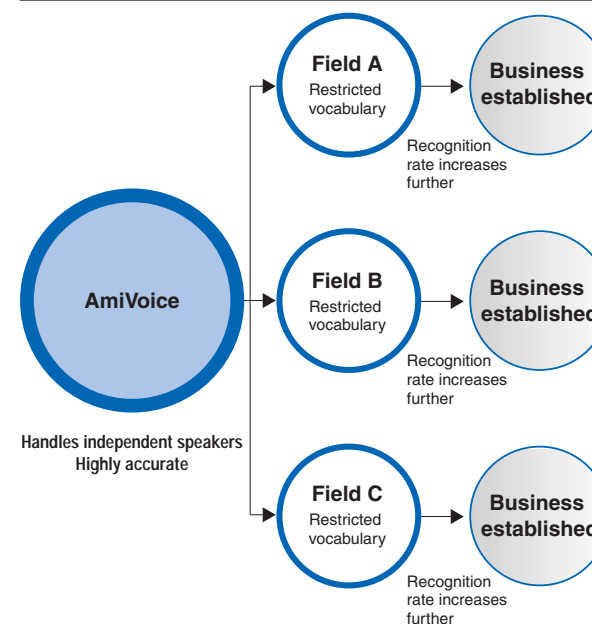
Speech recognition roadmap



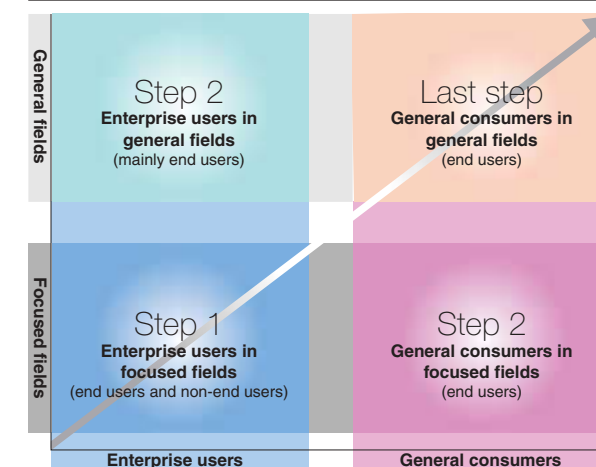
AmiVoice engine composition and features

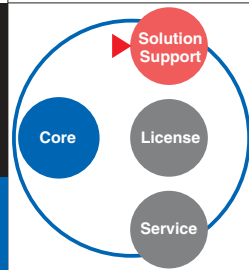


Advanced Media's marketing



Business strategies





Solution Support Business

Offering speech recognition solutions centered on AmiVoice. Transforming “only ifs” into tangible market needs.

Delivering attractive solutions

Since it was founded, Advance Media has focused its businesses on offering innovative speech recognition solutions incorporating speech recognition engines. Its Solution Support Business, which plans, consults, designs and develops speech recognition solutions, comprises the core of this focus, and continues to bear an important role for Advanced Media today. Advanced Media has developed and offered optimized speech recognition solutions to enterprise users in focused fields, in which the utilization of speech recognition sparks demand. To offer solutions, Advanced Media identifies speech recognition technology fields, creates units comprised of engineers and marketing specialists, and efficiently adopts customer needs. This approach leads Advanced Media to speedily building markets.

Advanced Media's Solution Support Business also responds to the various needs of enterprise users who have installed its package products, and is taking on an increasingly important role as Advanced Media's License Business expands.

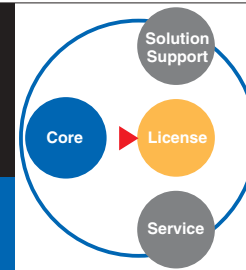
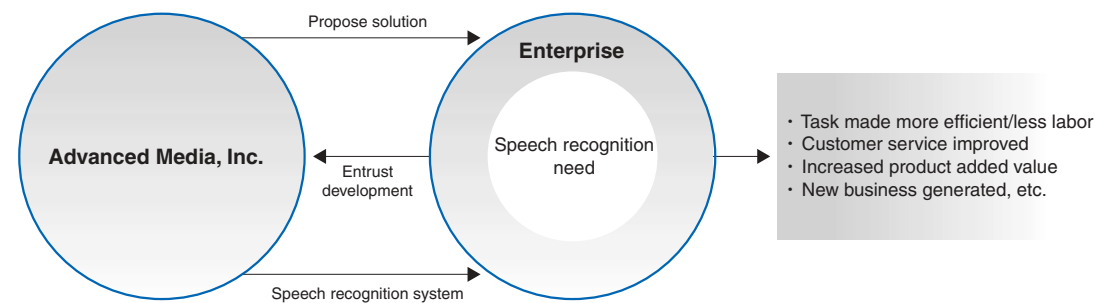
Working with enterprise users to make “only ifs” a reality.

At the 2005 World Exposition, held in Aichi, Japan from March through September 2005, the “Actroid” robot attracted many people's attention. Commissioned by New Energy and Industrial Technology Development Organization (NEDO), Advanced Media collaborated with a robot maker to develop Actroid. Actroid's most remarkable feature is its ability to converse with anybody in Japanese, English, Chinese and Korean. Advanced Media's speaker-independent speech recognition technology made this reception robot possible.



Commissioned by NEDO, the reception robot “Actroid” is equipped with Advanced Media's speech recognition engine (jointly developed with KOKORO CO., Ltd.).

Solution Support Business concept



License Business

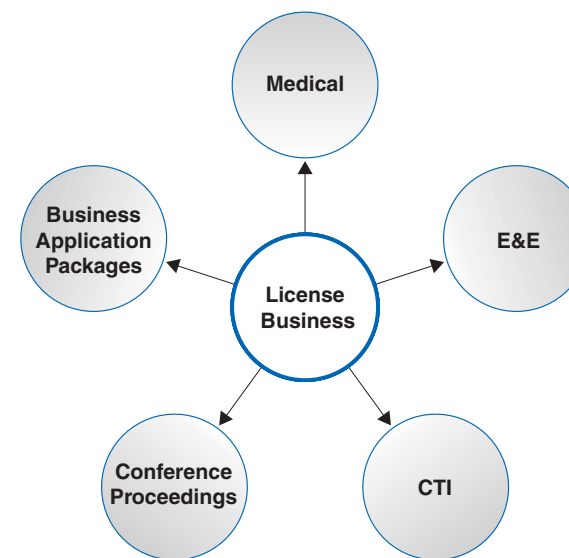
Offering value added application packages. Speech recognition proves its value in a wide variety of business settings.

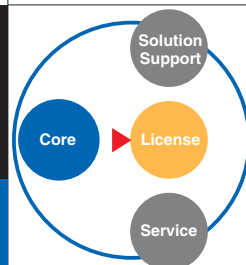
Offering package products to enterprise users in specific fields.

Advanced Media's License Business offers package products optimized to customer needs as licenses in markets initially cultivated by Advanced Media's Solution Support Business. Advanced Media has focused on enterprise users in specific fields, rather than the mass market, for cultivation in its License Business as well. This is because in speech recognition, accuracy is easier to increase the more speech content is limited. That is why, for example, in the medical area, Advanced Media has concentrated its operations on such products as speech input systems for radiological diagnostic reports, accumulating know-how in that area and educating customers on speech recognition. Advanced Media is currently expanding the number of business areas, which now encompass medical, entertainment and education (E & E), computer telephony integration (CTI), conference proceedings and business areas. By offering comfortable and convenient speech recognition application packages, Advanced Media strongly supports its enterprise users' businesses.



The five areas of our License Business





License Business fields

Offering the “visualization of natural speech” anytime, anywhere and by anybody, contributing to the creation of more comfortable and convenient business environments.

Medical

The efficiency of medical operations

This is the first area Advanced Media focused on, in which it has accumulated a wide variety of know-how and achievements. Advanced Media has developed a medical dictionary containing 50,000 technical terms, and has achieved a high-level accuracy in which real workplace expressions are converted with over 95% accuracy. In addition to electronic medical records, Advanced Media offers speech input software for usage like radiology and pathology, and supports the computerization of the medical area and the efficiency of medical operations.

The leading supplier to the Japanese medical market

Electronic medical records are in the initial stage of being installed in the medical field under the guidance of the Ministry of Health, Labor and Welfare.

However, the task of entering information in these electronic medical records is complicated. We believe the wide spread usage becomes practical only when "speech" input is made possible.

Advanced Media's speech input products are compatible with most available brand's electronic medical records.

Already a clear market leader with over 90% share in the Japan hospital Radiology applications market, Advanced Media is best positioned to become a leader in this mass growth medical records market.

Medical Package Products

- Speech recognition system for hospital electronic medical records: AmiVoice Ex Hospital
- Speech recognition system for radiological image diagnostic reports: AmiVoice Ex Rad
- Pathological diagnostic speech recognition system: AmiVoice Ex Path
- Emergency medical care speech recognition system: AmiVoice Ex ER
- Speech recognition system for clinics: AmiVoice Ex Clinic
- Speech recognition system for pharmacies: AmiVoice Ex Pharmacy

Topics on medical operations

- (*Figures are as of end of January 2006.)
- Speech recognition systems were fully installed at 734 pharmacies.
 - AmiVoice Ex Clinic and AmiVoice Ex Hospital, electronic medical record speech recognition software for hospitals/clinics were installed at 705 facilities.
 - The total number of medical packages installed broke the 1,400-facility mark.

Entertainment and Education (E & E)

Backing up the production of “cool” products.

In the entertainment and education area, Advanced Media is targeting consumers such as game users and students for its speech recognition products. In short, people who think speech recognition products are “cool,” and want to try them out.

Advanced Media's objective is to further cultivate such customers' desires to touch and try, and offers such products as English pronunciation training software and games employing speech.

Speech recognition technology is changing English education

Pronunciation is considered to be a vital part of English education, but there is a shortage of educators capable of pronouncing English naturally. Speech recognition is expected to change English education in Japan. Not only can it check proper pronunciation, but it can also point out which parts of words are being mispronounced, making it capable of becoming the ultimate English pronunciation educator. Advanced Media's technology will solve the shortage of teaching resources in the classroom.

E & E Package Products

- English pronunciation training software for Japanese: AmiVoice CALL - pronunciation-Uses a computer to effectively correct English pronunciation mistakes commonly made by Japanese speakers.

Topics on E & E operations

- Favorable sales of English pronunciation assessment systems
- Satisfactory development/promotion of English education software for publishing

Computer Telephony Integration (CTI)

Speech recognition technology long awaited in the CTI area.

Computer Telephony Integration (CTI) is a technology in which computers and telecommunications are integrated. An example of a field using CTI technology is corporate call centers and customer centers. By offering practical speech recognition solutions, Advanced Media supports the realization of the strategic operation of call centers.

Realizing next-generation call centers.

Call centers are important centers where enterprises collect live customer voices, and they are also an extremely difficult field in which to balance quality and efficiency.

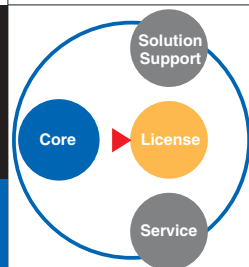
In answer to this, Advanced Media uses speech recognition technology to support the realization of “next-generation call centers,” which excel at quality and efficiency in attendance and “statistics”—the principal tasks of call centers.

CTI Package Products

- Recorded conversation text converter: AmiVoice CallScriber
Records and textifies conversations with customers—valuable sources of business opportunities—
- Speedy telephone operator assistant: AmiVoice Assist
Analyzes telephone operator speech and actively displays the information customers seek.

Topics on CTI operations

- Sales of CTI package products to pharmaceutical wholesalers and finance/securities firms.
- Consultation and system integration for operation.



License Business fields

Conference Proceedings

Keeping abreast of social trends, focusing on the conference proceedings area.

In these days when information disclosure is growing in importance, not only are the proceedings of plenary sessions of assemblies to be disclosed, but so are the minutes of various committees—and not just summaries of what was said, but more and more verbatim recordings faithful to the statements are being sought after. Advanced Media is developing and offering package products for conference proceedings which are capable of processing any speaker without prior training.

Backing up the speedy creation of conference proceedings.

Accompanying the social trend of information disclosure, conference proceedings are expected to be created with minimal turnaround time. However, traditional ways to create conference proceedings are time consuming; to listen to cassette tape recordings and write down the proceedings, or to commission a shorthand company. Advanced Media has shortened the time required to draw up conference proceedings, making the process more efficient.

Conference Proceeding Package Products

- Conference proceedings creation support system versed in assembly procedures: AmiVoice Rewriter
Speaker-independent and equipped with a specialized dictionary of proceeding terms, boasting a high conversion rate.

Topics on conference proceeding operations

- Hokkaido Prefectural Assembly began its operation in June 2005.
- Izu City /Numazu City Assemblies (Shizuoka Prefecture), Toda City Assembly (Saitama Prefecture) are currently using package product.
- Installed by Nagoya University Law School for mock trials
- Developing/operating conference proceedings support system for trading companies, banks, securities firms, etc.

Business Application Packages

Supporting operational effectiveness and service improvements.

Speech recognition is easing the personnel burden caused by reception, telephone assistance and operating reports. This makes business more efficient, improves service, and reduces costs. Advanced Media also offers contract-based development as Solution Support Business to respond to customer requests for additional tasks to be handled by speech recognition.

Contributing to improve the corporate image while reducing costs.

Due to the Personal Information Protection Law, office telephone extension lists containing individual names have become difficult to provide. On the other hand, the costs needed for receptionists are considerable. Advanced Media's automated reception system solves this dilemma. Speech recognition automatically intermediates between visitors and office extensions, making reception services more efficient while allowing reductions in personnel expenses and training costs.

Business Application Packages

- Automated reception device: AmiReception
Speech recognition automatically intermediates between visitors and office extensions.
- Automated internal/external line connector: AmiVoice Dialer
Allows callers to dial office extensions without listing phone numbers in an extension book.
- Operating report draw up support : AmiVoice Reporter
Saves operation report data and negotiations with clients in audio and text formats.

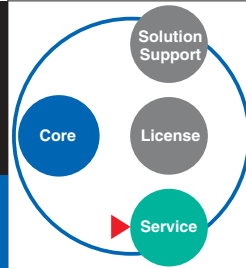
Topics on business operations

(*Figures are as of end of January 2006.)

- 200 AmiReception automated reception devices sold to date

The potential to handle other language spaces.

Advanced Media's business potential is not restricted to the Japanese language alone. Advanced Media has experience in development in other languages, such as Chinese, Korean and others. Advanced Media has a track record of developing a Mandarin Chinese speech recognition prototype in only few months and demonstrating its practical usability. The strength was also exploited in Advanced Media's developing an English-Japanese hybrid speech recognition system which recognizes English with accents typical to native Japanese speakers, and detects typical pronunciation errors by Japanese speakers. This has been the basis of our English Education Software package which opened up a new paradigm in English education in Japan.



Service Business

Leading the world in the speech recognition Service Business.
Bringing comfortable and convenient environments to general consumers.

Entering the mobile phone market with ASP speech recognition services.

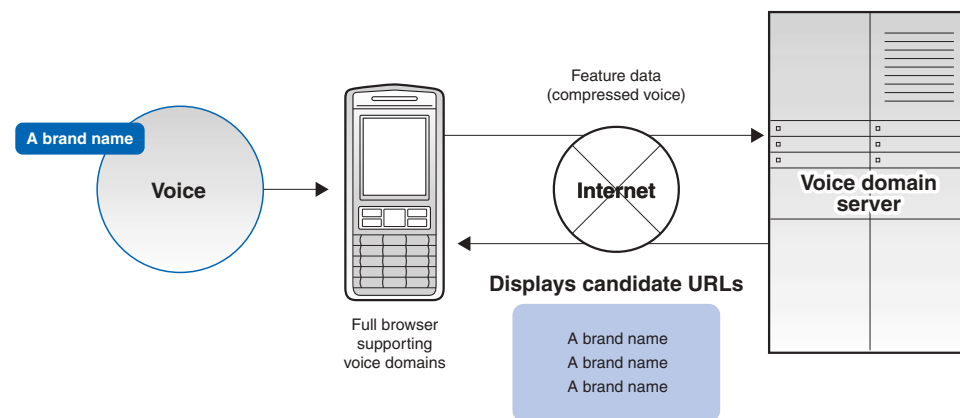
Advanced Media has expanded its businesses from Solution Support to Licensing, offering its accumulated know-how to enterprise users in the areas it has focused on to date. Now, Advanced Media is stepping into a new dimension. It has begun Service Business targeting general consumers. Advanced Media's goal is to adapt various systems employing speech recognition technology in order to offer ASP services. One promising service is for the mobile phone market.

Mobile phones have many features that can be shouldered by speech recognition systems, such as search keyword entries and message creation, making them a highly potential field for its Service Business. Through numerous services and systems employing speech recognition technology, Advanced Media will offer comfortable and convenient environments to people and society.

Voice Domain Service (VDS): evolving mobile phones usage

VDS is a voice-based Internet search service for mobile phones. When a voice domain (the name of a company, product, service, etc.) indicating a target site is spoken into a mobile phone, it will be converted into text and a link will be shown leading to that site. Users can then access the target site by clicking on that link. This service will spare mobile phone users the annoying task of entering URLs and reduce the time and trouble involved in performing searches, while offering businesses an effective advertising means to guide users to their sites. Voice domain enrollment and server operation costs will be collected from businesses, allowing users to use this service free of charge. Advanced Media has established a subsidiary, Voice Domain Service through which it will launch this new service in March 2006.

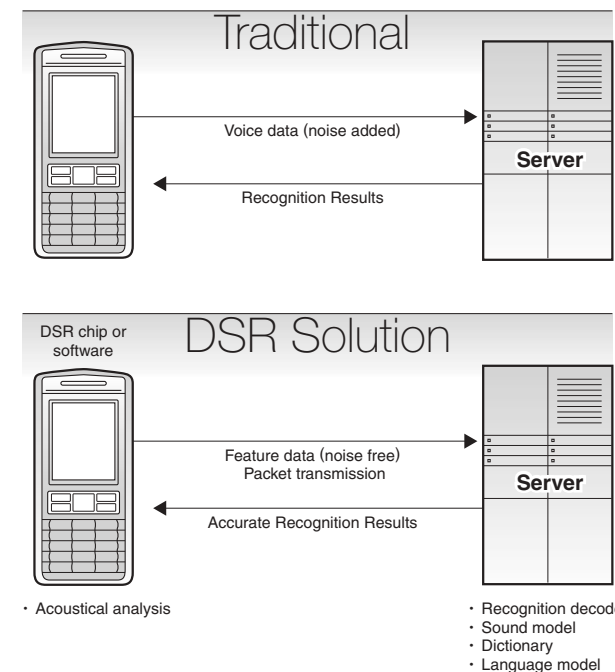
VDS outline



New system enables numerous mobile phone services.

The AmiVoice Distributed Speech Recognition (DSR) system further enhances the speech user interface experience for mobile applications. DSR is a distributed speech recognition system in which acoustical analysis is first performed by mobile phones, after which the features are transmitted to the server, where they are processed by a recognition decoder and are converted to text. Since DSR extracts from voice data only features needed to recognize speech and transmits them to servers using packet communications, Advanced Media has achieved highly accurate and refined speech recognition with minimal transmission quantities. This DSR technology makes speech recognition possible at the tens of thousands of words level, allowing users to do what was never possible before and enter nation-wide addresses, station names in train route searches, messages and more. Advanced Media's speech recognition technology is playing a major role in expanding the uses of mobile phones as information terminals.

DSR solution outline



Note: This annual report is FY2005. But text parts put the latest data.

Non-Consolidated Balance Sheets

March 31, 2004 and 2005

ASSETS

	thousands of yen		Millions of U.S. dollars (Note 3)
	2004	2005	2005
Current assets:			
Cash and deposits	¥ 855,706	¥ 1,073,795	\$ 9,997
Notes receivable—trade	3,648	570	5
Accounts receivable—trade	486,121	773,839	7,205
Products	2,226	30,745	286
Work in process	10,820	5,432	51
Prepaid expenses (Note 1)	12,568	13,363	124
Accrued earnings (Note 1)	181	—	—
Short-term loans to affiliated companies	10,361	—	—
Accrued revenue	9	20,489	191
Other	195	923	9
Allowance for doubtful receivables	(5,465)	(10,265)	(96)
Total current assets	1,376,374	1,908,891	17,772
Fixed assets:			
Tangible fixed assets			
Buildings	25,845	50,983	475
Accumulated depreciation	(10,825)	(15,386)	(143)
Tools, jigs and fixtures	29,221	44,265	412
Accumulated depreciation	(19,587)	(25,328)	(236)
Total tangible fixed assets	24,655	54,533	508
Intangible fixed assets			
Software	389,373	565,200	5,262
Total intangible fixed assets	389,373	565,200	5,262
Investments and other assets			
Marketable securities	8,000	8,000	74
Shares in affiliated companies	216,205	216,205	2,013
Capital	500	—	—
Long-term loans for restructuring of bankruptcy	4,772	—	—
Security deposits	51,264	80,496	749
Other	646	783	7
Allowance for doubtful receivables	(5,272)	—	—
Total investments and other assets	276,116	305,484	2,844
Total fixed assets	690,144	925,219	8,614
Total assets	¥ 2,066,519	¥ 2,834,110	\$ 26,386

LIABILITIES

	thousands of yen		Millions of U.S. dollars (Note 3)
	2004	2005	2005
Current liabilities:			
Accounts payable—trade (Notes 1)	¥ 62,300	¥ 173,432	\$ 1,615
Short-term borrowings	—	450,000	4,190
Other accounts payable (Notes 1)	86,994	48,237	449
Accrued expenses	2,870	8,678	81
Accrued income taxes	2,286	9,938	93
Advance payments received	10,997	51,867	483
Deposits received	3,204	4,024	37
Other	13,036	20,570	192
Total current liabilities	181,690	766,748	7,139
Fixed liabilities:			
Exchange contracts and other liabilities	—	14,343	134
Total fixed liabilities	—	14,343	134
Total liabilities	181,690	781,091	7,272
CAPITAL			
Capital stock (Notes 2)	2,061,250	2,111,250	19,656
Capital surplus:			
Additional paid-in capital	1,882,050	50,000	466
Total capital surplus	1,882,050	50,000	466
Earned surplus:			
Current-term unappropriated losses	2,058,471	108,230	1,008
Total earned surplus	(2,058,471)	(108,230)	(1,008)
Total capital	1,884,828	2,053,019	19,114
Total capital liabilities	¥ 2,066,519	¥ 2,834,110	\$ 26,386

Notes:

	Year ending March 31,	thousands of yen (Millions of U.S. dollars)	
		2004	2005
1 Assets and liabilities of affiliated companies not listed in the categories above are as shown at right.	Prepaid expenses	¥7,358	—
	Accrued earnings	¥181	—
	Accounts payable—trade	¥24,131	¥48,368 (\$450)
	Other accounts payable	¥31,638	¥20,673 (\$192)
2 Number of shares issued by the Company	Common shares	250,000	250,000
	Number of shares issued and outstanding	Common shares	89,000

3 The US dollar equivalents of the amounts in Japanese yen are presented solely for the convenience of the reader. The equivalents were calculated using the rate of ¥107.41/dollar in effect on March 31, 2005.

Profit and loss statement

For the years ended March 31, 2004 and 2005

	thousands of yen		Millions of U.S. dollars (Note 7)
	2004	2005	2005
Net sales	¥ 887,558	¥ 1,498,688	\$ 13,953
Cost of sales (Note 2)	330,410	583,110	5,429
Gross income from sales	557,148	915,577	8,524
Selling, general and administrative expenses (Notes 2 and 3)	521,123	825,404	7,685
Operating income	36,024	90,173	840
Non-operating income:			
Interest and dividends received (Note 1)	1,106	314	3
Miscellaneous income	70	510	5
Non-operating expenses:			
Interest paid	—	394	4
Loss on foreign exchange	10,999	12,479	116
Stock offering expenses	—	7,594	71
Ordinary income	26,201	70,529	657
Extraordinary losses:			
Loss from elimination of fixed assets (Note 4)	99	49	0
Income before taxes	26,102	70,480	656
Corporate, residential and business taxes	2,290	2,290	21
Current-term net income	23,812	68,190	635
Losses brought forward from previous term	2,082,283	176,421	1,643
Current-term unappropriated losses	¥ 2,058,471	¥ 108,230	\$ 1,008

Detailed Statement of Cost of Sales (Note 6) :

	¥	¥	\$
Current-period product inventory	2,032	2,226	21
Current-period value of goods	79,208	63,747	593
Current-period manufacturing cost			
Cost of materials	32,100	172,424	1,605
Labor cost	50,810	53,759	501
Expenses (Note 5)	178,929	316,309	2,945
Current-period gross manufacturing cost (Note 2)	261,839	542,493	5,051
Current-period value of work in process	376	10,820	101
Total	262,216	553,313	5,151
Value of work in process at end of period	10,820	5,432	51
Value of goods laid in at end of period	2,226	30,745	286
Current-period sales cost	¥ 330,410	¥ 583,110	\$ 5,429

Notes:	Year ending March 31,	thousands of yen (Millions of U.S. dollars)	
		2004	2005
1	The affiliated companies included in each item are as listed at right.	Interest and dividends received.....	¥1,041 ¥283 (\$3)
2	The research and development expenses included in the general and administrative expenses and the current-period manufacturing cost are as presented at right. The research and development expenses included in the general and administrative expenses and the current-period manufacturing cost for FY 2004 are significantly lower than those for fiscal 2003 because from FY 2004 onward, software for market sale valued at ¥423,542,000 is appropriated as an intangible fixed asset.	Research and development expenses....	¥13,169 ¥102,140 (\$951)
3	Selling expenses account for about 4% of the selling, general, and administrative expenses. Accordingly, general and administrative expenses account for the remaining 96%. The principal expenses and their amounts are as listed at right. Since research and development expenses were not significant in FY2004, they have been omitted.	Payroll..... Payment handling charges..... Research and development expenses.... Officers' remuneration..... Rent..... Allowance for doubtful receivables ... Depreciation.....	¥232,845 ¥291,693 (\$2,716) ¥113,174 ¥178,768 (\$1,664) — ¥102,140 (\$951) ¥48,300 ¥53,100 (\$494) ¥30,228 ¥40,869 (\$380) ¥2,205 ¥4,572 (\$43) ¥4,635 ¥6,765 (\$63)
4	Breakdown of elimination of fixed assets	Tools, jigs and fixtures.....	¥99 ¥49
5	Breakdown of expenses	Outside processing cost Depreciation of software Royalties	¥88,895 ¥78,735 (\$733) ¥34,294 ¥116,612 (\$1,086) ¥35,863 ¥76,063 (\$708)
6	The Company calculates costs on an individual-cost basis, using actual costs.		
7	The US dollar equivalents of the amounts in Japanese yen are presented solely for the convenience of the reader. The equivalents were calculated using the rate of ¥107.41/dollar in effect on March 31, 2005.		

Cash flow statement

For the years ended March 31, 2004 and 2005

	thousands of yen		Millions of U.S. dollars (Note 2)
	2004	2005	2005
Cash flow from operating activities:			
Income before taxes	¥ 26,102	¥ 70,480	\$ 656
Depreciation	41,680	127,815	1,190
Increase/decrease in allowance for doubtful receivables	2,205	(472)	(4)
Interest and dividends received	(1,106)	(314)	(3)
Interest paid	—	394	4
Exchange-rate losses	11,906	11,642	108
Depreciation of fixed assets	99	49	0
Increase in sales credits	(255,395)	(284,639)	(2,650)
Increase in inventory assets	(10,637)	(23,130)	(215)
Increase in purchasing debts	13,195	111,131	1,035
Other increase (decrease) in assets	25,821	(16,354)	(152)
Other increase/decrease in liabilities	(6,658)	56,004	521
Subtotal	(152,786)	52,608	490
Interest and dividends received	1,323	495	5
Interest paid	—	(905)	(8)
Corporate and other taxes paid	(2,286)	(2,288)	(21)
Cash flow from operating activities	(153,749)	49,909	465
Cash flow from investing activities:			
Expenditure for acquisition of tangible fixed assets	(6,739)	(40,900)	(381)
Expenditure for acquisition of intangible fixed assets	(367,371)	(324,751)	(3,023)
Expenditure for acquisition of investment securities	(8,000)	—	—
Revenue from recovery of loans to affiliated companies	10,451	10,611	99
Revenue from return of deposits	571	—	—
Expenditure from provision of deposits	—	(29,232)	(272)
Cash flow from investing activities	(371,087)	(384,272)	(3,578)
Cash flow from financing activities:			
Increase in short-term borrowings	—	450,000	4,190
Revenue from issue of shares	805,000	100,000	931
Cash flow from financing activities	805,000	550,000	5,121
Balance from conversion of cash and cash equivalents	(9,927)	2,451	23
Increase in cash and cash equivalents	270,235	218,088	2,030
Balance of cash and cash equivalents at start of period	585,471	855,706	7,967
Balance of cash and cash equivalents at end of period (Note 1)	¥ 855,706	¥ 1,073,795	\$ 9,997

Notes: 1 The balance of cash and cash equivalents as of March 31, 2003 and March 31, 2004, as represented by the "Cash and deposits" listed in the balance sheets, is ¥855,706,000 for 2003 and ¥1,073,795,000 (US\$9,997 million) for 2004.

2 The US dollar equivalents of the amounts in Japanese yen are presented solely for the convenience of the reader.
The equivalents were calculated using the rate of ¥107.41/dollar in effect on March 31, 2005.

Statement of appropriation of losses

June 29, 2004 and 2005

	thousands of yen		Millions of U.S. dollars (Note 1)
	2004	2005	2005
Current-term unappropriated losses	¥ 2,058,471	¥ 108,230	\$ 1,008
Appropriated losses:			
Amount eliminated from additional paid-in capital	1,882,050	—	—
Losses deferred to next period	¥ 176,421	¥ 108,230	\$ 1,008

Note 1 The US dollar equivalents of the amounts in Japanese yen are presented solely for the convenience of the reader.
The equivalents were calculated using the rate of ¥107.41/dollar in effect on March 31, 2005.

Kiyoyuki Suzuki

Founder
President and
CEO, Advanced Media, Inc.



Tetsuo Anzai
Director

Yasuhiko Fujita
Director

Hiroshi Kaneko
Director

Haruhiko Tobiyama
Director

Akitaka Kobayashi
Director

Kiyoyuki Suzuki has extensive experience in the artificial intelligence field before founding Advanced Media, Inc. (AMI) in 1997. He was CTO of the Intelligent Technology, Inc. (ITI) in Japan where he led the development of artificial intelligence applications, including financial planning, scheduling and diagnostic systems. He has developed unique systems such as trading and game applications with automatic learning and reasoning by using Holographic Neural Net technologies (HNNT). He was also responsible for the Research and Development relationship with ITI's partners such as the Carnegie Group, Inc. and Carnegie Mellon University. Before his career in ITI, he held various leadership positions at the Technology Research Center and System Development division of the Toyo Engineering Corporation. He earned his Master's degree in chemical engineering from the University of Kyoto.

Kouji Ishikawa
Auditor

Masaki Hirao
Outside Auditor

Toshihito Mukaigawa
Outside Auditor

(as of 2006. Jan.)

Company Name	● Advanced Media, Inc.
Established	● December, 1997
Capital	● 3,239,870,000 yen
Head office Address	● 48F Sunshine 60, 3-1-1 Higashi Ikebukuro, Toshima-ku, Tokyo Postal code 170-6048 TEL : 03-5958-1031 FAX : 03-5958-1032
Subsidiaries	● Voice Domain Service, Inc. MC2, Ltd.
Business Alliance with	● Multimodal Technologies, Inc. (Pittsburgh, USA)
Business Areas	● <ul style="list-style-type: none"> Development of and consulting for automatic speech recognition and/or voice verification/identification. Sales of package products developed by AmiVoice technologies. <ul style="list-style-type: none"> Medical Entertainment & Education Computer Telephony Integration Conference Proceedings Business Application Packages Mobile and/or Web based services utilized AmiVoice technologies.
Major Shareholders	● <ul style="list-style-type: none"> Kiyoyuki Suzuki Toyota Motor Corporation Poplar Publishing Co., Ltd. Softbank Internet Technology Fund No. 2 The Master Trust Bank of Japan, Ltd. (Trust Account) Fujitsu Limited Deutsche Bank AG London PB nontreaty clients 613 The Bank of New York, Treaty JASDEC Account Koichi Hamada Osaka Securities Finance Company, Ltd.

(as of 2006. Jan.)