

Non-consolidated Interim Report for the First Half of the Fiscal Year Ending March 31, 2006

November 14, 2005

Company name: Advanced Media, Inc.

Listing: TSE Mothers

Code Number: 3773

Headquarters: Tokyo

URL: <http://www.advanced-media.co.jp>

President and CEO: Kiyoyuki Suzuki

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Date of the board resolution approving the statement of accounts for the period: November 14, 2005

Interim dividend system in place: Yes

Interim dividend payment commencement date: None

Trading unit (*tangen*) system adopted: No

1. Business results for the interim period ended September 30, 2005 (April 1, 2005 through September 30, 2005)

(1) Business results

Note: Figures are rounded down to the nearest million yen.

	Net sales		Operating income		Ordinary income	
	¥ million	%	¥ million	%	¥ million	%
First half ended September 30, 2005	914	79.5	48	—	48	—
First half ended September 30, 2004	509	—	-126	—	-125	—
Fiscal year ended March 31, 2005	1,498		90		70	

	Net income		Earnings per share	Diluted EPS
	¥ million	%	¥	¥
First half ended September 30, 2005	47	—	474.81	452.94
First half ended September 30, 2004	-125	—	-1,408.43	—
Fiscal year ended March 31, 2005	68		764.38	—

Notes:

1. Gains/losses on equity method investment:

First half ended September 30, 2005: ¥21 million loss

First half ended September 30, 2004: ¥12 million loss

Fiscal year ended March 31, 2005: ¥23 million loss

2. Average number of shares outstanding:

First half ended September 30, 2005: 99,095

First half ended September 30, 2004: 89,000

Fiscal year ended March 31, 2005: 89,210

3. Change of accounting method: None.

4. Percentages given for net sales, operating income, ordinary income, and net income are calculated in comparison with the preceding interim figure.

(2) Dividends

	Interim dividend per share	Dividend per share for the year
	¥	¥
First half ended September 30, 2005	0.00	—
First half ended September 30, 2004	0.00	—
Fiscal year ended March 31, 2005	—	0.00

(3) Financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	¥ million	¥ million	%	¥
First half ended September 30, 2005	5,507	4,800	87.2	44,123.73
First half ended September 30, 2004	1,908	1,759	92.2	19,769.41
Fiscal year ended March 31, 2005	2,834	2,053	72.4	22,938.76

Notes:

1. Number of shares outstanding at end of period:
First half ended September 30, 2005: 108,807
First half ended September 30, 2004: 89,000
Fiscal year ended March 31, 2005: 89,500
2. Treasury stock at end of period:
First half ended September 30, 2005: –
First half ended September 30, 2004: –
Fiscal year ended March 31, 2005: –

(4) Cash flows

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash and cash equivalents at end of period
	¥ million	¥ million	¥ million	¥ million
First half ended September 30, 2005	53	-271	2,691	3,553
First half ended September 30, 2004	40	-240	–	657
Fiscal year ended March 31, 2005	49	-384	550	1,073

2. Forecast of performance for the fiscal year ending March 30, 2006 (April 1, 2005 through March 31, 2006)

	Net sales	Ordinary income	Net income	Dividend per share for the year	
				End of FY	
	¥ million	¥ million	¥ million	¥	¥
Fiscal year ending March 31, 2006	2,400	499	497	0.00	0.00

Note:

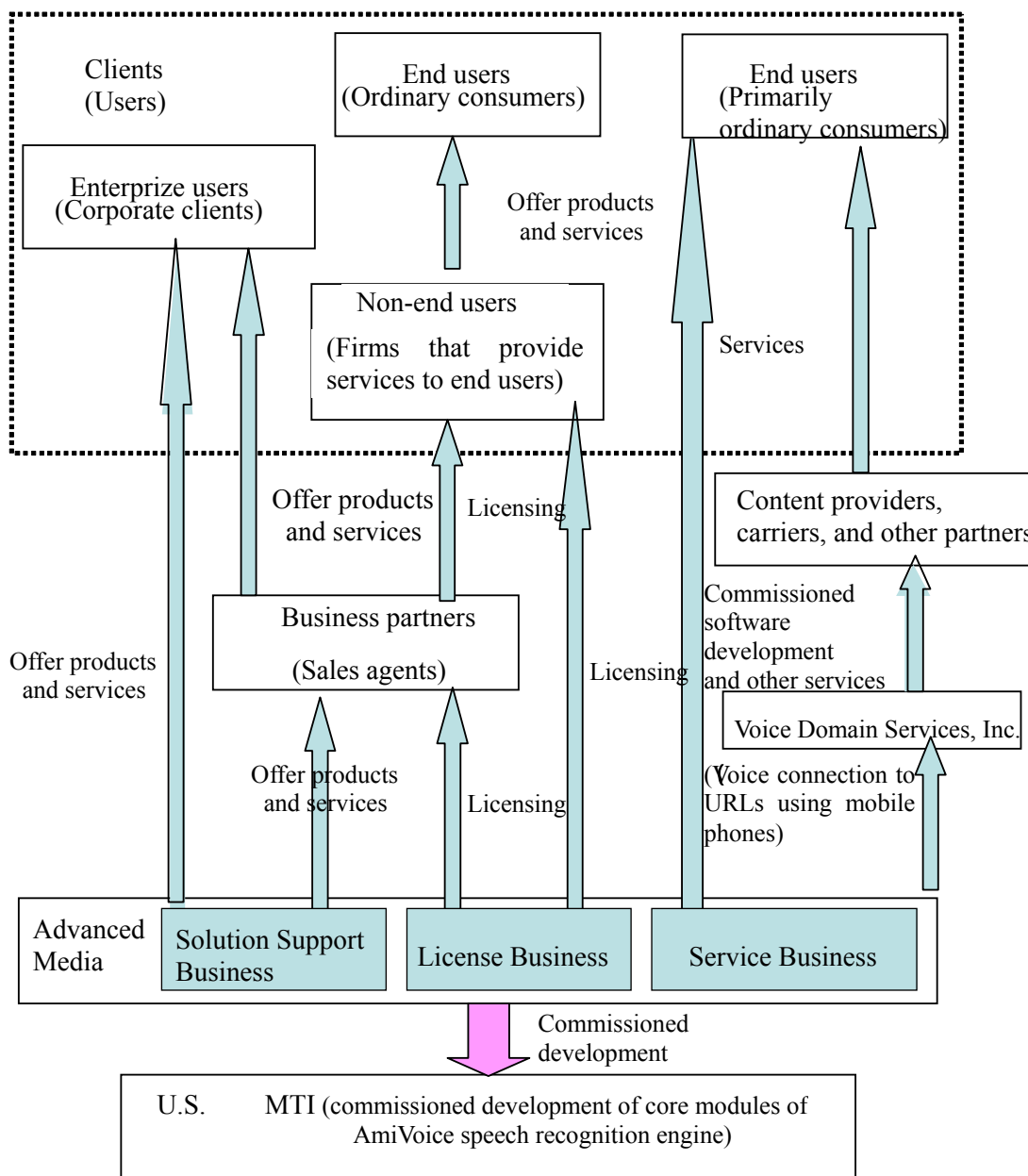
Net earnings per share for the fiscal year are forecast at ¥4,526.12.

This forecast is based on information available as of the date of publication, and reflects the best judgment of the company's management. However, actual outcome and results are subject to certain risks and uncertainties, and may differ materially from what is expressed. For further information on performance forecasts, see page 7 and 8 of the attached document.

I. The Corporate Group

Advanced Media’s corporate group is composed of Advantage Media and two affiliated firms: Voice Domain Service, Inc., and Multimodal Technologies, Inc. (hereinafter, “MTI”). The Group’s core business operations are licensing of speech recognition systems based on *AmiVoice*® speech recognition, and development, consulting, and services related to the use of speech recognition systems.

The following diagram illustrates the business relationships discussed above.



II. Management Policies

1. Basic management policy

Advanced Media creates new value by offering practical, customer-driven speech recognition solutions, which allow normal conversation to be converted to text format (i.e., making speech visible), for business and private use, and is using speech recognition to create and expand markets.

Over the past few years, market creation has gotten well underway in our operating environment. To accelerate the building of the market, we think it necessary to go beyond the simple marketing of speech recognition engines, and to introduce corporate speech recognition solutions that are useful, convenient, and valuable to customer operations.

In parallel with this, we are strengthening our business base through continuous development and expanded sales of speech recognition solutions for corporations.

2. Basic earnings distribution policy

Since the company's founding, it has conducted vigorous investment in research and development activities. Although Advanced Media has posted net income since the fiscal year ended March 31, 2004, due to retained losses on the books, the company was still unable to post dividends.

We have designated the return of gains to shareholders as one of our most important management issues, and are working to eliminate retained losses and begin paying dividends. Our business growth is proceeding according to plan, and presuming that we continue to post profits while proceeding satisfactorily with the elimination of retained losses, our policy will be to consider the distribution of profits to shareholders, drawing a balance between shareholder returns and the investments in research and development activities necessary to both sustained improvement in our financial position and the growth of our business.

3. Position and policy regarding reduction in the size of the trading unit (*tangen*)

Under our equity policy, increasing the number of our shareholders and the liquidity of our stock are important issues, and vigorous IR activities have resulted in an increase in the number of our shareholders to over 13,500 (as of September 30, 2005). We will consider future stock splits and reductions of the stock trading unit in light of the company's performance, trends in our stock price, and stock market conditions, while carefully considering their cost-effectiveness.

4. Target management indicators

The management indicators primarily targeted by the company are net sales and return on equity (ROE).

Although speech recognition technology is over 40 years old, the market for speech recognition is not yet developed. Therefore, the company is focused on the creation of the speech recognition market (which means expanding sales). We are shifting the emphasis in our business model from development of speech recognition solutions on commission to sales of licenses and speech recognition services. We think the resulting sales expansion will bring improvement in our gross profit margin and ROE.

5. Medium- and long-term management strategy

The company's strengths are predominantly technological capability in the area of speech recognition, and the ability and energy to serve as the core element in eliciting latent needs and creating this market. On the basis of these two strengths, we are contributing to convenience life for all by providing human-centered speech recognition, while commercializing this symbol of the society of the future.

To achieve these ends, Advanced Media is pursuing three businesses: (1) the Solution Support Business, in which it is forging close ties with enterprise users in specific fields, uncovering latent needs and meeting them; (2) the License Business, in which it offers enterprise users licenses to application packages that best meet the needs of the market, developed in the course of the Solution Support Business discussed above; and (3) the Service Business, in which we move beyond our business with enterprise users and expand sales to the general public.

To put it simply, the Solution Support Business involves meeting the exploratory needs of enterprise users, the License Business involves meeting the commercial needs of enterprise users, and the Service Business involves meeting the general needs of the public.

In business domains that apply cutting-edge technologies, this progression from the exploratory to the commercial, and then to general use, is the normal process. At Advanced Media, Inc., we are remaining abreast of the rapid changes in the technological and market environments, and ensuring that our business operations advance in tandem with both.

6. Significant issues facing the company

(1) Developing new business areas

Since its founding, the company has been engaged in the development of speech recognition solutions for enterprise users in specific fields, using speech recognition technology to evoke large-scale demand, and introducing the right speech recognition solutions to the market. In the development of speech recognition solutions, we identify a promising area of speech recognition technology, form a team composed of sales specialists and engineers to efficiently adapt it to customer needs, and speedily develop a market. We launched the Solution Support Business using the *AmiVoice*[®] system to plan, design, and develop the systems desired by customers. In our License Business, we market speech recognition solutions in the form of middleware application packages that users find useful, convenient, and valuable to their operations.

We will continue to operate our Solution Support Business and License Business for enterprise users in specific fields. In

addition, Advanced Media will continue to develop its Service Business, which targets ordinary consumers in the general-use field. We think that the growth of the Service Business will have the effect of promoting growth in the License Business.

(2) Making our organization stronger

Advanced Media is a venture company with a short history. Because it operates in the software industry, agile response to change is essential. This means we need to increase the organizational strength of the sales, development, and management divisions that must respond nimbly to management policies as they are adapted to changes in the business environment.

(3) Upgrading the skills of employees

As a result of the hurtling pace of change in network technology and other peripheral technologies, and by extension the environment for use of speech recognition, the company’s business format changes on a daily basis. It is vital to secure and train human resources that can deal with the speed of these changes. We are endeavoring to improve the knowledge and skills of both development and marketing personnel with regard to these peripheral technologies, as well as speech recognition technology.

7. Fundamental approach to corporate governance and status of implementation

(1) Fundamental approach to corporate governance

Advanced Media aspires to become a well-regarded firm known for the creation of value, with state-of-the-art technology and products using that technology as its mainstays.

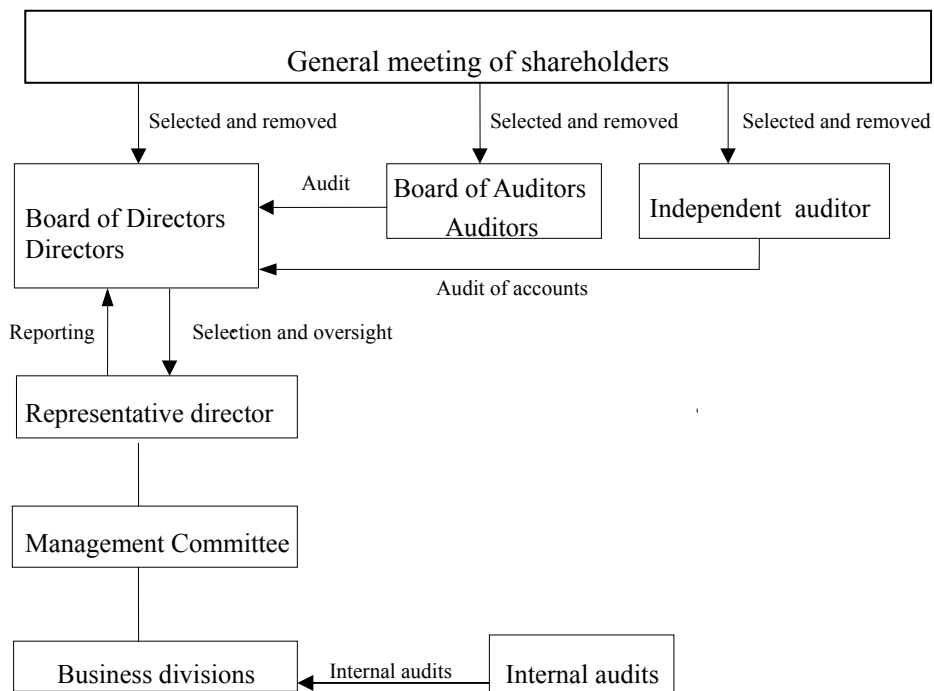
Recognizing that corporate governance is vital to efforts to maximize corporate value, the company endeavors to provide shareholders, who form an external governing system, with:

- a. Transparent and sound management.
- b. Clear lines of accountability and responsibility.
- c. Prompt and appropriate disclosure of information.

(2) Status of the implementation of corporate governance measures

1. Status of the company’s management structure for decision-making, enforcement, and oversight, and other corporate governance structures

The following is a chart of our corporate governance structure.



(i) Board of Directors

At the end of the six-month period under report, the company had seven directors. The board meets monthly and at other times as needed to provide oversight of the directors' performance of their duties. The board also makes reports, debates and decides on a wide variety of issues including those required by statute, the articles of incorporation, and regulations established by the Board of Directors.

At the ordinary general meeting of shareholders convened on June 29, 2005, two directors were added to the board, including one outside director, and on October 31, 2005, one director stepped down for personal reasons. As of the date of this report, the company had six directors.

(ii) Board of Auditors

Advanced Media employs the auditor system. Its Board of Auditors, which meets monthly, is composed of three full-time or part-time auditors, all of whom are outside auditors. Based on an annual audit plan prepared by the Board of Auditors, auditors attend important meetings, and audit directors' performance of duties through inspection of various actions, documents, and vouchers.

(iii) Management Committee

The Management Committee is composed of the managers of all business units, and meets twice a month on average to discuss and report on virtually every important issue that faces the company.

(iv) Internal audits

The Administration Department conducts internal audits as needed, on the basis of the company's internal control rules, and on the basis of these notifies and advises the various business units of areas that need improvement. This results in operational improvements and heightened efficiency, together with the identification and elimination of irregularities and errors.

(2) Auditing of accounts

By contract with Deloitte Touche Tohmatsu, the company undergoes audits of accounts required by the Commercial Code of Japan and the Securities and Exchange Law. Deloitte Touche Tohmatsu, an independent auditing firm, audits Advanced Media's financial statements from the standpoint of an independent third party. Upon receipt of the results of these audits, Advanced Media promptly discusses with Deloitte Touche Tohmatsu its internal controls and other issues of concern, and receives advice from the firm regarding areas for improvement.

The company's accounts for the six-month period under review were audited by the below-named certified public accountants, assisted at need by up to three assistant auditors.

Yoshio Aoki, Designated employee and managing partner

Jun Sato, Designated employee and managing partner

Because the combined continuous participation of these auditors is less than seven years, these figures are omitted.

(3) Personal, equity, business and other relationships between the company and its outside directors and auditors

Outside auditor (part time) Toshihito Mukaigawa owns 40 shares of Advanced Media stock (as of September 30, 2005), but has no business connection with or other interest in the company. With this exception, there are no personal, equity, business or other relationships between the company and its outside directors and auditors.

(4) Measures instituted to strengthen corporate governance during the six-month period under review

The company had not previously had an outside director, but at the ordinary general meeting of shareholders convened on June 29, 2005, an outside director was selected.

8. Items to report regarding parent company

None.

9. Other important management information

Advanced Media holds a 30.2% stake in MTI, and shares two directors with that company. Advanced Media commissions development and capability enhancement of speech recognition engines to MTI.

.Business conditions and financial position

1. Business conditions

(1) Overview of the interim period

During the six-month period under review, the recovery of the Japanese economy continued. At the same time, however, consumer spending and the instability of the yen remained matters for concern. It is still too early for optimism regarding a full-scale economic recovery.

Under these circumstances, Advanced Media is engaged in: (1) the Solution Support Business, in which it is forging close ties with enterprise users in specific fields through research and development operations, uncovering latent needs and meeting them; (2) the License Business, in which it offers enterprise users licenses to application packages that meet the needs of the market, developed in the course of the Solution Support Business; and (3) the Service Business, in which the company moves beyond its business with enterprise users and expand sales to the general public. In the past, the company advanced its business by demonstrating usable speech recognition, and, together with this, developing high-added-value speech recognition solutions for enterprises users, employing the **AmiVoice®** speech recognition engine.

Specifically, we have expanded sales channels for AmiVoice Ex Clinic speech recognition software for electronic medical records by reducing the price, released Light Office groupware for the elderly and the handicapped (jointly with Argobrain Co., Ltd.), and released AmiVoice Reporter for Smart Phone, a sales force automation (SFA) tool for mobile phones that uses a high-accuracy distributed speech recognition system.

We also took initial steps to enter the mobile services field with the launch of AmiVoice Reporter for Mobile Contents, a high-accuracy distributed speech recognition system specialized for content for mobile telephones, and the establishment of subsidiary Voice Domain Service, Inc.

At the 2005 World Exposition, held in Aichi, Japan, the media had extremely high praise for the Actroid customer service robot (developed jointly with Kokoro Company, Ltd.), which incorporates Advanced Media's **AmiVoice®**. Following up on this, we conducted an analysis of the speech characteristics of the general public in anticipation of our advance into the general consumer domain.

Business conditions by field are as follows.

In the medical field, the use of **AmiVoice®** in radiological image diagnostics and electronic medical records continues to increase, reaching 539 clinics and hospitals by September 30, 2005, while our medical software packages were in use at over 1,000 locations. In addition, 589 dispensing pharmacies across the country have installed our drug profile input system that uses speech recognition.

In the Entertainment & Education (E&E) field, sales of AmiVoice CALL – pronunciation, an application that assists Japanese students to correct their English pronunciation, which incorporates JEnglish (an English speech recognition engine that assists Japanese people to correct their English pronunciation) and ErrorTracer (an engine that recognizes and points out English pronunciation errors commonly made by Japanese people), as well as Japanese-language study applications with audible pronunciation guides and interactive English conversation practice applications remained healthy.

In the computer telephony integration (CTI) field, we introduced the AmiVoice Assist and AmiVoice CallScriber next-generation call-center solutions for enterprise users.

In the government and public sector, the Hokkaido Prefectural Assembly and other local legislatures have adopted the AmiVoice Rewriter, and we are also marketing this product to private enterprises as a support tool for the preparation of conference proceedings.

In the business support field, sales of the AmiVoice Reporter sales force automation (SFA) tool and AmiReception, which increases the efficiency of office operations, continued the strong performance established in the preceding term.

As a result of the foregoing, net sales for the six-month period under review grew 79.5% year-on-year to ¥914,466,000, more than offsetting an increase in personnel expenses due to the expansion of our operations and an increase in administrative expenses in connection with the company's public listing. The company posted operating income of ¥48,119,000 (compared to -¥126,418,000 in the corresponding period of the previous fiscal year), ordinary income of ¥48,114,000 (compared to -¥125,013,000), and net income of ¥47,052,000 (compared to -¥125,350,000), showing a significant improvement over performance in the corresponding period of the previous fiscal year.

Results by business are as follows.

The Solution Support Business received orders for commissioned software development utilizing existing application package products in: (1) the business support field, which features the AmiReception automated reception device, the AmiVoice Dialer automated internal/external line connector, and the AmiVoice Reporter operating report creation support tool; (2) the computer telephony integration (CTI) field; and (3) the conference proceedings area. In addition, the company is promoting new commissioned software development of speech recognition solutions to meet specific user needs. Net sales in the Solution Support Business declined 7.4% year-on-year to ¥342,874,000.

In the License Business, steady sales of speech recognition applications for electronic medical records in the medical field, and Entertainment & Education applications were posted. This, together with healthy sales in the computer telephony integration (CTI) field, brought a 311.9% surge in the License Business's net sales, to ¥568,033,000.

In the Service Business, the marketing of address-change reception services using telephone answering ASP and other consumer services was strong, driving a 150.0% gain in the Service Business's net sales, to ¥3,558,000.

(2) Forecast for the full fiscal year (April 1, 2005 through March 31, 2006)

Although corporate earnings are on an upward trend, the rising prices of crude oil and other raw materials, a growing tax burden, the delay of recovery in consumer spending, and other factors will have an effect on business confidence and the economy at large.

In response to this economic environment, Advanced Media is deploying an agile marketing organization, working to sustain steady growth in the Solution Support Business and License Business, while fostering the Service Business (offering speech recognition solutions to consumers on the open market) as the company's future business foundation.

In this connection, we have introduced AmiVoice DSR for Mobile Contents, a distributed speech recognition (DSR) application for mobile phones. In addition, we have established a subsidiary, Voice Domain Service, Inc., to pursue the Voice Domain registration/operation service. This service allows connection to URLs by voice command over a mobile telephone, and is our first step in the Mobile Service Business.

In the second half of fiscal 2006, the company will continue to strive for expansion and to achieve further increases in corporate value. The performance targets announced at the beginning of the fiscal year remain unchanged. In view of the circumstances described above, and considering the future economic environment, our forecast of non-consolidated performance is as follows.

Forecast of business results for the full fiscal year (non-consolidated)

Net sales	¥2,400 million (up 60.2%)
Ordinary income	¥499 million (up 612.9%)
Net income	¥497 million (up 630.9%)
Net income per share	¥4,526.12

Note: The above figure for net income per share is calculated on the basis of the issue of 732 new shares in connection with the stock swap on November 29, 2005, and a projected number of shares issued and outstanding of 109,807 as of November 30, 2005.

As announced on October 21, 2005, MC2, Ltd., became a subsidiary of Advanced Media after the end of the six-month period under review. Advanced Media commenced the preparation of consolidated financial statements beginning with the third quarter. Our forecast of consolidated business results for the full fiscal year will be released under separate cover.

* This forecast is based on information available as of the date of publication, and reflects the best judgment of the company's management. However, actual outcome and results are subject to certain risks, uncertainties and assumptions, and may differ materially from what is expressed. Please refrain from making investment decisions relying only on this information.

2. Financial position

Status of cash flows during the six-month period under review

As a result of a capital increase through a public offering and a capital increase through third-party allocation in connection with the company's June 27, 2005 listing on the TSE Mothers exchange, cash and cash equivalents at the end of the six-month period under review increased 440.5% to ¥3,553,982,000, an increase of ¥2,896,387,000 in comparison with the corresponding period of the previous fiscal year.

Cash flows during the six-month period under review were as follows.

Cash flow from operating activities

Net cash provided by operating activities rose 32.5% year-on-year to ¥53,091,000. Principal factors in this were net income before taxes of ¥48,205,000 and depreciation expenses of ¥98,031,000.

Cash flow from investing activities

Net cash provided by investing activities declined 13.0% to -¥271,562,000. This was primarily in the form of investments of ¥149,022,000 in the acquisition of software, and investments of ¥90,000,000 in the acquisition of shares in subsidiaries and affiliates.

Cash flow from financing activities

Net cash provided by financing activities was ¥2,691,391,000 (in comparison to zero in the corresponding period of the previous fiscal year). This represents the issue of new shares in that amount in connection with the company's stock exchange listing.

The following table shows trends in the company's cash flow indicators.

	First half ended September 30, 2004	First half ended September 30, 2005	Fiscal year ended March 31, 2005
Shareholders' equity ratio	92.2%	87.2%	72.4%
Shareholders' equity on market value basis	-	1,428.3%	-
Number of years for amortization of debt	-	8.5 years	9.0 years
Interest coverage ratio	-	22.9 times	55.1 times

Notes:

1. All indicators are calculated from figures in the company's financial statements.

2. Formulas for calculation of indicators are as follows.

Shareholders' equity ratio: (shareholders' equity) / (total assets)

Shareholders' equity ratio on market value basis: (market capitalization) / (total assets)

Number of years for amortization of debt: (interest-bearing liabilities) / (operating cash flow)

Interest coverage ratio: (operating cash flow) / (interest payments)

3. Market capitalization is calculated as follows: (closing price at end of interim period) x (number of issued shares at end of interim period).

4. Because of the company's June 27, 2005 stock market listing, shareholders' equity ratio on market value basis for the six-month period ended September 30, 2005 and the fiscal year ended March 31, 2005 were not recorded.

5. Interest-bearing liabilities include all liabilities posted on the balance sheet on which interest is being paid.

6. Because the company had no interest-bearing liabilities or interest payments during the six-month period ended September 30, 2005, number of years for amortization of debt and interest coverage ratio for that period are not shown.

3. Business risk

Numerous factors could arise and exert a significant influence on the company's performance.

Below we discuss what we regard as the primary sources of risk in the course of the company's business operations. These include external factors not under the company's control, and risks in the course of the company's business that may not have a high probability of materializing, and we endeavor to disclose all factors that are of importance to investors in their investment decisions. It is Advanced Media's policy to avoid or otherwise manage such risks as may emerge, as we become aware of them. We think it necessary for the company to carefully consider the points discussed below when making judgments as to the status of the company's management or future business prospects. Among the points listed below are forward-looking statements that represent the company's best judgment as of the date of this publication. This discussion does not cover all factors that could represent risks with regard to investment in the company's securities.

(1) The development of core elements of our speech recognition technology is conducted outside the company

The company's relationship with MTI

A portion of the speech recognition technology used by Advanced Media was developed by MTI. Under contract with Advanced Media, MTI is engaged in refining and improving Japanese speech recognition technology, and Advanced Media is engaged in the integration of the software thus developed into its products and retains exclusive worldwide rights to sales of the resulting products (including indirect sales through sublicensing). After the expiration of the period of this contract, Advantage Media will have the right to non-exclusive sales of the aforesaid products incorporating technology developed by MTI, but will retain exclusive rights to market this software for a period not to exceed three years from the expiration of the contract.

Although the technology developed by MTI has matured, Advanced Media will by policy request that MTI perform such additional development as may be required to improve these products. However, should this contract be cancelled or for other reason be rendered void, or should MTI become unable to continue such software development operations as a result of insolvency or other factor, needed improvements to the software may not be accomplished in a timely fashion. This could have an effect on Advantage Media's business development and performance. The contract discussed above gives Advanced Media exclusive rights to market products that incorporate speech recognition technology developed by MTI. However, although Advanced Media's technological and commercial advantages would remain if for any reason the company's monopoly on this technology should be broken, the possibility exists that this could have an effect on the company's business development and performance over the long term.

(2) Development of new products and technology

At present, we have completed basic development and are already marketing applications including speech input for electronic medical records and radiogram analysis report generation in the medical area, support for the preparation of conference proceedings to local assemblies, support for transcription of recorded speech, and support for the preparation of daily sales reports using mobile phones. However, the technological level of this software must be raised. To be perceived by users of speech interfaces as usable, useful, and indispensable will require more than merely improving the accuracy of speech recognition. We will need to improve capabilities for dealing with conversations and recognizing colloquial speech, and to develop broad and extensive dictionaries and language models. If this software development should require more money or time than is assumed, this could have an effect on the company's business development and performance.

(3) Developing revolutionary technology

Speech recognition technology is constantly advancing, and through technological progress Advanced Media's speech recognition technology has come to be known for a high recognition rate, fast recognition processing, freedom from the need to register the user's voice and "train" the software prior to use, flexible response to the speed of speech, ability to deal with different intonations and accents, and noise tolerance. If the company should lose these technological advantages, if another company offering products with equivalent capabilities at lower prices should emerge and the company become unable to pursue its strategy of maintaining a clear competitive advantage, this could have an effect on the company's performance.

(4) The possibility of competition putting pressure on earnings

ViaVoice by International Business Machines Corporation (IBM) and Dragon Naturally Speaking by ScanSoft, Inc. are two of the products in competition with Advanced Media software. We think our products are differentiated in both domestic and overseas markets because they offer a high recognition rate and fast recognition processing, eliminate the need to register the user's voice and "train" the software prior to use, offer flexible response to the speed of speech, boast the ability to deal with different intonations and accents, and have excellent noise tolerance. However, there is no guarantee that a competitor with strong technological and R&D capabilities will not emerge in the future, and if intense competition should erode the company's competitive advantage, this could have an effect on the company's performance.

(5) Pertinent legal restrictions and trade practices

There are at present no legal restrictions that have an adverse effect on the company's business, but no guarantees exist that such restrictions will not be imposed in the future. If legal restrictions should be imposed, or if vague or ambiguous legal restrictions should be imposed, this could have an effect on the company's performance, or could adversely affect the speed of the company's business expansion.

(6) Intellectual property rights

There is a possibility that the company will infringe on the intellectual property rights of a third party, or that the company will be unable to acquire intellectual property in a business area it enters in the future, or that the company will be unable to obtain a needed license from a third party. Advanced Media's speech recognition engine and speech recognition solutions employ a broad spectrum of technologies, and there is a possibility, however remote, that a third party will assert that our technology infringes on its intellectual property rights, with consequences that are impossible to predict. To minimize the risks described above, the company has established and is strengthening the staff of its intellectual property division.

(7) Changes in the speech recognition market

Speech recognition is over 40 years old, but has not yet been widely popularized among the general public due to technological limitations. For this reason, employing the technological differential represented by a speech recognition engine that can deal with unspecified speakers, Advanced Media has created a speech recognition market targeting enterprise users in specific fields. In the future, we will be building businesses targeting the general consuming public in specific fields, enterprise users in general, and the general consuming public. The company predicts growth in the speech recognition markets in the areas of Internet-related applications, PC application software, computer telephony integration (CTI), car navigation, mobile information and communications terminals, the medical field, home electronics, transcription, distribution and factory data terminals, entertainment & education, welfare and home care, and equipment for people with disabilities, etc. The company is engaged in the development and creation of businesses in these areas. However, the speech recognition market is being created by Advanced Media and its competitors, and if the creation of this market does not proceed as anticipated, there is a possibility that market creation will require a great deal of time. Further, our competitors may have a different vision for creating and pioneering speech recognition market, and the possibility exists that the company could be left behind.

(8) Fluctuations in business performance and current-term unappropriated losses

To develop the speech recognition market, the company has been making substantial anticipatory investments in research and development. As a result, the company posted net losses from the fiscal year ended November 30, 1999 through the fiscal year ended March 31, 2003. For the fiscal year ended March 31, 2004, the company posted current-term unappropriated losses of ¥2,058,471,000.

Subsequently, at the ordinary general meeting of shareholders held in June 2004, it was decided to use additional paid-in capital of ¥1,882,050,000 to offset the deficit. Then, the posting of net income of ¥68,190,000 for the fiscal year ended March 31, 2005 allowed current-term unappropriated losses to be reduced to ¥108,230,000.

These measures improved the company's financial position, but the expansion of operations requires investments in business development, research and development, and an augmented labor force. Accordingly, if the development of its business does not proceed according to plan, there is a possibility that net losses will again be posted in the future. If the company is unable to post net income, the elimination of current-term unappropriated losses might be delayed.

In the fiscal years ended March 31, 2004 and 2005, the company generated taxable income. However, losses for tax purposes offset taxable income. Loss for tax purposes to be carried forward to the next period is ¥1,573,392,000, however, if in the future losses carried forward do not offset taxable income, the company will be required to post corporate, residential and business taxes at the usual rates, and this could have an effect on net income or net loss.

(9) Seasonal fluctuations in performance

In the information services industry, to which the company belongs, shipments to clients and receipts tend to be concentrated in September and March. As a result, there are fluctuations in figures such as net sales and operating income in all four quarters of the fiscal year. This trend may persist in the future.

(10) Non-payment of dividends

To date, the company has not posted profits sufficient to allow the distribution of profits to shareholders. However, shareholder returns are one of the company's most important management issues, and the distribution of profits to shareholders, in balance with retained earnings sufficient to maintain its financial position and fund an ongoing research and development program, is the company's policy.

(11) Dependence on specific individuals

The progress of the company's business operations depends in large measure on President and CEO Kiyoyuki Suzuki, who also has a large influence on all facets of its business. More than a few elements of the company's research and development and marketing operations also depend on President Suzuki's presence. It is the company's policy to build a structure that is not excessively dependent on this one individual, and we are working to strengthen our management organization. However, it is expected that the company will remain heavily dependent on President Suzuki. Accordingly, if President Suzuki should leave the company, or should encounter difficulties in the company's management or the promotion of its business, this could have a large effect on the company's business development and performance.

(12) A small organization

As of September 30, 2005, the company was a small organization composed of seven directors, three auditors, and 73 employees. This is an optimal organization for the current stage of the company's business. At the same time, the units that make up the company's internal organization are small, and the various tasks have few employees assigned to them. This means that some operations depend on the skills and know-how of individual employees. For this reason, if the existing human resources in the various units leave the company or are absent for prolonged periods due to injury or

illness, this can interfere with the company's business activities, and the possibility exists that it could have an effect on the company's performance. Therefore, as an organization, the company promotes the sharing of skills and know-how among employees, while promoting continuous additions to the labor force proportionately to the expansion of the company's business, chiefly in the marketing and development fields.

(13) Securing human resources

The speech recognition business has a short history, and the acquisition of human resources with a high level of specialized knowledge and experience is the most important management issue for a company in this field. To attract capable, motivated employees, Advanced Media is striving to foster a corporate culture in which all employees can freely express their creativity. If in the future the company is unable to secure the human resources it needs when it needs them, and if it is unable to hire according to its personnel plan, this could have an effect on the company's performance. With regard to compensation, we have established a stock option system (with preemptive rights, etc.), conduct appropriate personnel evaluations, and are building a structure that can accommodate flexibility. However, if the skills of evaluators are inadequate, or if communication with subordinates is insufficient, and if employees therefore think that the company lacks understanding, these problems could hurt employee morale and lead to the loss of human resources.

(14) Grants of preemptive rights

Advanced Media strives to ensure that consciousness of the need for increases in shareholder value inform its management practices. Together with this, it has granted stock options (with preemptive rights, etc.) to further heighten the motivation of executives and employees to achieve improvements in the company's performance. In accordance with the provisions of the Commercial Code of Japan, eligible executives and employees were issued stock with preemptive rights upon resolution of the ordinary general meetings of shareholders. The grant of preemptive rights makes this stock particularly desirable. When preemptive rights are exercised, the value of a share of the company's stock is diluted, which can have an effect on the price of the company's stock. For the reasons discussed above, the company is studying the possibility of granting further stock options with preemptive rights to executives and employees in the future, but this entails the risk that the per-share value of the company's stock will be diluted.

(15) Depreciation period for software assets

To the present, the expenses for developing speech recognition engines, basic software, and applications have been disposed of as expenses. However, with the May 2003 release of AmiVoice SDK 5.0, basic software that can be used for development of speech recognition products on the versatile PC platform, since the fiscal year ended March 31, 2004, expenses in connection with developed applications, basic software, and extension of the functions of the AmiVoice engine have been posted as software assets. The depreciation period for applications developed using AmiVoice SDK 5.0 is five years, for the reasons set forth below.

Because the company ensures that the AmiVoice product is effective (usable, useful, and indispensable) for the client, the process to reach product installation at client sites and steps to increase the probability of receiving orders are unique. As a result, a relatively long period of time is required to market our applications in comparison to general-use applications. In addition, because the speech recognition market has had no technology that could sustain practical use, the market is not yet established. High technological hurdles make it difficult for new competitors to enter the field, which makes it hard to gain exposure to the waves of technological revolution. In addition, speech recognition applications are similar to dictionaries or language models in content. Consideration of these factors together with our long-term marketing plan led us to decide on a five-year depreciation period. This maintains consistency with the fact that, depending on the usage of the engine, our applications can be regarded as software for internal use.

However, based on the particular characteristics of the business development related to various applications, the depreciation period will be revisited every six months, and may be reduced. If such a change is made, the accumulated increase in software asset depreciation expenses may have an effect on net income or net losses.