

4. Consolidated Financial Statements (Quarter)

4-1 Consolidated Balance Sheet (Quarter)

(Unit: Thousands of yen, Round down)

	December 31, 2005		December 31, 2006		Changes	
	Thousands of yen	%	Thousands of yen	%	Thousands of yen	%
Assets						
I Current assets						
Cash and cash equivalents	1,904,791		4,808,911			
Accounts receivable	3,576,943		4,666,334			
Investment securities	-		367,585			
Inventories	82,848		861,682			
Secured income receivable	-		356,896			
Others	532,880		616,528			
Allowance for doubtful accounts	(31,770)		(49,109)			
Total current assets	6,065,693	33.6	11,628,829	41.3	5,563,136	91.7
II Property and equipment						
Tangible fixed assets	335,890	1.9	535,465	1.9	199,574	59.4
Intangible fixed assets:						
Software	777,201		920,443			
Goodwill	69,896		11,689,002			
Goodwill	5,925,539		-			
Others	369,168		281,445			
Total intangible fixed assets	7,141,805	39.5	12,890,891	45.7	5,749,086	80.5
Investment and other assets:						
Investment securities	3,346,401		1,792,161			
Deposit with landlord	436,185		681,021			
Deferred tax assets	-		560,847			
Others	735,124		102,664			
Allowance for doubtful accounts	(3,202)		(13,100)			
Total investment and other assets	4,514,509	25.0	3,123,594	11.1	(1,390,915)	(30.8)
Total property and equipment	11,992,205	66.4	16,549,951	58.7	4,557,745	38.0
Total assets	18,057,899	100.0	28,178,781	100.0	10,120,882	56.0

(Unit: Thousands of yen, Round down)

	December 31, 2005		December 31, 2006		Changes	
	Thousands of yen	%	Thousands of yen	%	Thousands of yen	%
Liabilities						
I Current liabilities						
Accounts payable	1,422,515		2,291,887			
Current portion of Corporate bonds payable	50,000		45,000			
Short-term debt	287,330		2,988,433			
Accrued expenses	2,898,944		1,036,785			
Accrued income taxes	182,499		178,248			
Bonus payment reserve	30,198		82,626			
Allowance for sales promotions	-		76,992			
Allowance for compensation losses	-		12,033			
Others	116,917		485,038			
Total current liabilities	4,988,405	27.6	7,197,044	25.5	2,208,638	44.3
II Long-term liabilities						
Corporate bond	75,000		383,733			
Long-term debt	131,135		268,962			
Reserve for employee's retirement benefit	23,723		37,412			
Others	4,238		1,835			
Total fixed debt	234,097	1.3	691,942	2.5	457,845	195.6
Total liabilities	5,222,503	28.9	7,888,987	28.0	2,666,483	51.1
Minority interests						
Minority interests	381,673	2.1	-	-	-	-
Shareholders' Equity						
I Common stock	5,433,251	30.1	-	-	-	-
II Additional paid-in capital	5,489,946	30.4	-	-	-	-
III Retained earnings	1,723,163	9.5	-	-	-	-
IV Unrealized gain in available-for-sale securities	1,227	0.0	-	-	-	-
V Foreign currency transaction adjustment	(193,866)	(1.1)	-	-	-	-
Total shareholders' equity	12,453,722	69.0	-	-	-	-
Total	18,057,899	100.0	-	-	-	-
Net Assets						
I Shareholders' equity						
1 Common stock	-	-	5,503,317	19.5	-	-
2 Additional paid-in capital	-	-	14,469,049	51.4	-	-
3 Retained earnings	-	-	(653,655)	(2.3)	-	-
Total shareholders' equity	-	-	19,318,711	68.6	-	-
II Valuation and translation adjustments						
1 Unrealized gain in available-for-sale securities	-	-	24,678	0.1	-	-
2 Foreign currency translation adjustments	-	-	145,971	0.5	-	-
Total valuation and translation adjustments	-	-	170,650	0.6	-	-

III Subscription right	-	-	12,961	0.0	-	-
IV Minority interests	-	-	787,471	2.8	-	-
Total net assets	-	-	20,289,794	72.0	-	-
Total	-	-	28,178,781	100.0	-	-

4-2 Consolidated Income Statements (Quarter)

(Unit: Thousands of yen, Round down)

	3 rd Quarter FY ended March 31, 2006 (From October 1, 2005 To December 31, 2005)		3 rd Quarter FY ending March 31, 2007 (From October 1, 2006 To December 31, 2006)		Changes	
	Thousands of yen	%	Thousands of yen	%	Thousands of yen	%
Net Sales	3,823,509	100.0	7,608,694	100.0	3,785,185	99.0
Cost of sales	2,517,174	65.8	4,038,453	53.1	1,521,279	60.4
Gross Profit	1,306,334	34.2	3,570,240	46.9	2,263,905	173.3
Selling, general and administrative expenses	1,433,649	37.5	3,263,863	42.9	1,830,213	127.7
Operating Income (Loss)	(127,315)	(3.3)	306,377	4.0	433,692	-
Non-operating income	250,532	6.6	43,448	0.6	(207,084)	(82.7)
Non-operating expenses	2,352	0.1	93,627	1.2	91,275	-
Ordinary Profit	120,865	3.2	256,197	3.4	135,331	112.0
Extraordinary profit	22,142	0.6	8,778	0.1	(13,363)	(60.4)
Extraordinary loss	184	0.0	97,129	1.3	96,945	-
Income Before Income Taxes and minority Interests	142,823	3.7	167,847	2.2	25,023	17.5
Income Taxes	160,100	4.2	153,764	2.0	(6,335)	(4.0)
Prior Year Adjustments of income taxes	-	-	91,387	1.2	91,387	-
Profit (Loss) on minority interests	(47,999)	(1.2)	(30,098)	(0.4)	17,900	(37.3)
Net Income (Loss)	30,722	0.8	(47,206)	(0.6)	(77,928)	-

4-3 Consolidated Statement of Retained Earnings (Quarter)

(Unit: Thousands of yen, Round down)

	3 rd Quarter FY ended March 31, 2006 (From October 1, 2005 To December 31, 2005)
	Thousands of yen
Additional paid-in capital:	
I Balance at the beginning of period	5,483,621
II Increase in additional paid-in capital	
1. Increase due to share issuance	6,325
III Balance at the end of period	5,489,946
Retained earnings:	
I Balance at the beginning of period	1,692,441
II Increase in retained earnings	
1. Net income (loss) for the quarter	30,722
III Balance at the end of period	1,723,163

4-4 Consolidated Statement of Changes in Shareholders' Equity (Quarter)

3rd Quarter of FY ending March 31, 2007 (From October 1, 2006 to December 31, 2006)

(Unit: thousands of yen, round down)

	Shareholders' equity			
	Common stock	Additional paid-in capital	Retained earnings	Total
Balance at September 30, 2006	5,503,317	5,560,012	(771,358)	10,291,971
Changes				
Share issue	-	8,909,037	-	8,909,037
Cash dividend	-	-	164,908	164,908
Net income	-	-	(47,206)	(47,206)
Net increase (decrease) except for items under shareholders' equity	-	-	-	-
Total	-	8,909,037	117,702	9,026,739
Balance at December 31, 2006	5,503,317	14,469,049	(653,655)	19,318,711

(Unit: thousands of yen, round down)

	Valuation / Translation Adjustment			Subscription right	Minority interests	Total
	Unrealized gain in available-for-sale securities	Foreign currency translation adjustments	Total			
Balance at September 30, 2006	10,316	(56,132)	(45,816)	3,555	770,082	11,019,793
Changes						
Share issue	-	-	-	-	-	8,909,037
Cash dividend	-	-	-	-	-	164,908
Net income	-	-	-	-	-	(47,206)
Net increase (decrease) except for items under shareholders' equity	14,362	202,104	216,466	9,405	17,388	243,261
Total	14,362	202,104	216,466	9,405	17,388	9,270,000
Balance at December 31, 2006	24,678	145,971	170,650	12,961	787,471	20,289,794

4-5 Consolidated Cash Flow Statements (Quarter)

(Unit: Thousands of yen, Round down)

	3 rd Quarter FY ended March 31, 2006 (From October 1, 2005 To December 31, 2005)	3 rd Quarter FY ending March 31, 2007 (From October 1, 2006 To December 31, 2006)
	thousands of yen	thousands of yen
I Operating activities:		
Income before income taxes and minority interest	142,823	167,847
Depreciation and amortization	258,977	169,536
Goodwill amortization	4,111	180,498
Increase (decrease) in allowance for doubtful accounts	1,352	951
Increase (decrease) in bonus payment reserve	(9,891)	(52,933)
Increase (decrease) in allowance for sales promotions	-	8,700
Increase (decrease) in allowance for compensation losses	-	(5,250)
Increase (decrease) in reserve for employee's retirement benefits	1,484	(1,261)
Interests and dividend earned	-	(57,184)
Interest expenses	2,300	38,825
(Increase) decrease in accounts receivable	64,640	251,673
(Increase) decrease in inventories	(39,628)	1,901
Increase (decrease) in accounts payable	(78,583)	180,387
Increase (decrease) in accrued expenses	239,934	(87,434)
Others	(318,806)	(270,262)
Total	318,115	525,996
Interests and dividends received	-	56,328
Interest paid	(1,632)	(38,894)
Income tax paid	(340,693)	(35,321)
Cash flow from operating activities	(24,210)	508,109
II Investing activities:		
Increase (decrease) in fixed deposit	751	9,611
Expenditures for purchase of investment securities	(20,000)	-
Proceeds from exchange stocks of new subsidiary	-	1,953,893
Expenditure for purchase of new subsidiary	-	(111,108)
Expenditures for property and equipment	(27,855)	(21,054)
Proceeds from sales of property and equipment	-	3,300
Expenditure for intangible fixed assets	(223,812)	(202,931)
Expenditure for short-term lending	(9,500)	-
Expenditures for deposits with landlord	(5,958)	(6,450)
Proceeds from deposits with landlord	-	2,510
Others	(31,812)	78,232
Cash flow from investing activities	(318,188)	1,706,002

III Financing activities:		
Proceeds from short-term debt	-	300,000
Repayment of short-term debt	(13,332)	(133,464)
Proceeds from long-term debt	-	50,000
Repayment of long-term debt	(29,263)	-
Proceeds from issuance of new shares	12,651	-
Dividends payment	(106)	(61,025)
Others	20,000	(20,000)
Cash flow from financing activities	(10,050)	135,510
IV Foreign currency translation adjustment of cash and cash equivalents	29,834	(14,751)
V Increase (decrease) in cash and cash equivalents	(322,614)	2,334,870
VI Cash and cash equivalents at the beginning of period	1,979,480	1,811,752
VII Cash and cash equivalents at the end of period	1,656,865	4,146,623

Notes to Consolidated Financial Statements

<p>1. Basis of Consolidation</p>	<p>(1) Number of Consolidated Companies: 16</p> <p>Names of Consolidated Companies: CYBIRD Co., Ltd. JIMOS CO., LTD. GiGAFLOPS Japan Inc. AXISSOFT Corporation CYB INVESTMENT INC. Airborne Entertainment Inc. Cellus U.S.A. INC. PLUS MOBILE COMMUNICATIONS Co., Ltd. CYBIRD Investment Partners Inc. CYBIRD Mobilecasting Inc. CYBIRD Plus Mobile Fund Investment Business Limited Partnership Outlet Plaza Co., Ltd. Doctor's Bio Laboratory Co., Ltd. Commerce21 Corporation JDM Investment Partnership S-CREW Inc.</p> <p>Among consolidated subsidiaries, JIMOS CO., LTD., was previously an affiliate accounted for by the equity method. However, JIMOS became a wholly owned subsidiary following a share exchange concluded on October 1, 2006 and was made a consolidated subsidiary. JIMOS's subsidiaries, Outlet Plaza Co., Ltd.; Dr.'s Bio Laboratory Co., Ltd.; Commerce21 Corporation; and the JDM Investment Partnership are also consolidated subsidiaries.</p> <p>The Company acquired a 53.6% stake in S-CREW Inc. on November 30, 2006, also including it in consolidation. However, since the deemed date of acquisition was the end of the third quarter, only the balance sheet of S-CREW has been included in consolidation.</p> <p>(2) CYBIRD Co., Ltd. has no unconsolidated subsidiaries.</p>
<p>2. Equity Method</p>	<p>(1) CYBIRD Co., Ltd. has no unconsolidated subsidiaries accounted for by the equity method.</p> <p>(2) Number of Companies Accounted for by the Equity Method: 1</p> <p>Names of Companies Accounted for by the Equity Method: DMOVE Co., Ltd.</p> <p>JIMOS CO., LTD., is no longer an affiliate accounted for by the equity method since it became a wholly owned subsidiary on October 1, 2006, following a share exchange.</p> <p>(3) CYBIRD Co., Ltd. has no unconsolidated subsidiaries that cannot be accounted for by the equity method.</p> <p>(4) Reason that unconsolidated subsidiary cannot be accounted for by the equity method.</p> <p>Not applicable</p> <p>(5) Matters that should be especially noted with regard to application of equity method.</p> <p>Not applicable</p>
<p>3. Account date of Consolidated Subsidiaries</p>	<p>Among consolidated subsidiaries, the third quarter settlement of accounts date for CYB INVESTMENT INC. and its subsidiary Airborne Entertainment Inc. and Cellus U.S.A., INC., and CYBIRD Plus Mobile Investment Business Partnership is September 30. The third quarter account settlement date for the JDM Investment Partnership is July 31, and those for Commerce 21 Corporation and S-CREW Inc. are September 30 and May 31, respectively. In preparing financial statements, the consolidated financial statements of CYB INVESTMENT INC. have been used. Necessary adjustments have been made to the Company's consolidated statements for significant transactions occurring during the period from these account settlement dates and December 31.</p> <p>For CYBIRD Plus Mobile Investment Partnership, JDM Investment Partnership, Commerce21 Corporation, and S-CREW Inc., provisional financial statements have been drawn up as of the consolidation account settlement date for the third quarter. The settlement of account date for all other consolidated subsidiaries is the same as the consolidation account settlement date.</p>

4. Summary of Significant Accounting Policies	
(1) Asset Valuation Standards and Methods	<p>a. Securities Other Securities Marketable securities: Valuation at cost at fair value at the end of the period, with unrealized gains and losses, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method. Non-marketable securities: stated at cost determined by the moving-average method. Investments to Investment Business Limited Partnership and Partnership of a similar type (regarded as securities for the purpose of Article 2, Paragraph 2 of the Securities and Exchange Act of Japan): Stated at the amount of interests based on the recent financial statements available as of the reporting date of the financial statements as provided under the Partnership Agreement.</p> <p>b. Inventories - Merchandise Valuation at cost by the moving-average cost method - Work in Process Valuation at cost by the identified cost method</p>
(2) Depreciation Method for Depreciable Asset	<p>a. Tangible Fixed Asset Building was valued at the straight-line method. Other tangible fixed asset was valued at the declining-balance method. Useful lives : Leasehold improvements 3 to 50 years Furniture and fixtures 3 to 15 years</p> <p>b. Intangible Fixed Asset Intangible Fixed Asset was valued at the declining-balance method. Software for in-house use is amortized using the straight-line method based on a useful life within the Company of 3 to 5 years. Software that is being sold by the Group is amortized as the greater of the amount of estimated sales value times the proportion of sales in the fiscal year under review or the amount calculated by the straight-line method based on the estimated effective shelf life (within three years). Goodwill Goodwill is amortized on a straight-line basis over 2 years to 12 years depending on the accounting standards of the country of residency. However, of total amount of goodwill amount recorded for U.S. consolidated subsidiaries, the portion other than intangible fixed assets—which can be recognized separately—is not being amortized, in accordance with Statement No. 142 of the Financial Accounting Standards Board of the United States.</p>
(3) Accounting Methods for Deferred Assets	<p>a. New share issuing expenses All new share issuing expenses are expensed at time of disbursement.</p> <p>b. Share exchange expenses Fully expensed at time of payment</p>
(4) Allowance or Reserve	<p>a. Allowance for Doubtful Accounts The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.</p> <p>b. Bonus Payment Reserve The bonus payment reserve is stated in amounts considered to be payable based on the amount of bonus forecast.</p> <p>c. Allowance for Sales Promotions To prepare for expenses related to the bonus points awarded to customers under the bonus point system used for sales promotions, an amount equivalent to the points expected to be used in future is booked based on actual results in prior years.</p> <p>d. Allowance for Retirement Benefits In preparation to pay retirement benefits owed employees, the Company books amount recognized as payable at the end of the quarter under review based on the expected retirement benefits obligations as of the end of the period.</p> <p>e. Allowance for Compensation Losses An proportional amount of the balance of completed orders is booked in recognition of expected losses from compensating customers for defective materials and goods.</p>
(5) Converting Foreign Currency-Denominated Assets and Liabilities to Japanese Yen	<p>Foreign currency-denominated assets and liabilities are converted into Japanese yen at the spot exchange rate on the accounting settlement date of the period under review, and any differences with book value are charged as income or loss. The assets and liabilities of overseas subsidiaries were translated to Japanese yen using the</p>

<p>(6) Leases</p> <p>(7) Others</p> <p>(8) Summary of principal differences in accounting standards of parent company and consolidated subsidiaries</p>	<p>spot exchange rate of the day on which the third quarter of the relevant subsidiary ends, and translation differences included in translation adjustments in shareholders' equity.</p> <p>With the exception of leases in which ownership is deemed to have been transferred to the lessee, financial lease transactions are accounted for as ordinary credit transactions.</p> <p>Method of accounting for consumption taxes Exclusion method is employed.</p> <p>Consolidated subsidiary CYB INVESTMENT INC. is a U.S. corporation and follows U.S. accounting standards in the presentation of its financial statements. The subsidiary uses a partial market value assessment method for the evaluation of its assets and liabilities. For goodwill, the subsidiary does not amortize those portions of goodwill that cannot be recognized as intangible fixed assets in accordance with U.S. FASB Statement No 142.</p>
<p>5. Cash and Cash Equivalents in Consolidated Cash Flow Statements</p>	<p>Cash (Cash and Cash Equivalent) in the Consolidated Cash Flow Statements consists of cash on hand and deposits that can be withdrawn reasonably quickly or easily converted to cash and short-term investments that have only minor exposure to price fluctuations and their periods of redemption are within 3 months from the date of acquisition.</p>
<p>6. Accounting Standards for the Presentation of Shareholders' Equity in the Balance Sheets</p>	<p>Commencing with this period under review, "Accounting Standards for the Presentation of Shareholders' Equity on the Balance Sheets (Business Accounting Standards No. 5, December 9, 2005) and "Practical Guidelines on Accounting Standards for the Presentation of Shareholders' Equity on the Balance Sheets (Practical Guidance on Business Accounting Standards No. 8, December 9, 2005) are being applied. Using the previous method, total shareholders' equity would amount to ¥19,489,361,000.</p>
<p>7. Accounting Standards for Stock Options</p>	<p>Commencing with this period under review, "Accounting Standards for Stock Options (Business Accounting Standards No. 8, December 27, 2005) and "Practical Guidelines on Accounting Standards for Stock Options (Practical Guidance on Business Accounting Standards No. 11, May 31, 2006) are being applied. As a result of this application, operating income, ordinary income, and net income for this period under review are ¥9,405,000 lower compared with the previous accounting methods.</p>