

# Consolidated Financial Results for the Third Quarter (From April 1, 2006 to December 31, 2006)

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**Company name:** NETMARKS INC.

URL: <http://www.netmarks.co.jp/>

Listed on: Tokyo Stock Exchange First Section (Code: 3713)

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## 1 Notes to the Quarterly Financial Results

### 1) Use of simplified accounting methods: Yes

The Company's quarterly financial statements have been prepared largely in accordance with the accounting standards applicable to interim financial reporting. However, the following simplified accounting methods have been applied to the extent that they do not materially mislead investors and other interested parties.

:The amount of corporate income and other taxes recognized for the current quarter (third quarter from April 1 to December 31, 2006) has been calculated using the statutory effective tax rate.

:Simplified methods have been applied in accounting for allowances and other items that are insignificant in amount.

### 2) Changes in accounting methods from the most recent consolidated fiscal year: None

### 3) Changes in the scope of consolidation or in the application of the equity method: Yes

Newly-added equity method company : JAPAN TELECOM NETWORK SYSTEMS CO.,LTD.

## 2 Consolidated Financial Results in Q3 ended December 31, 2006

(from April 1, 2006 to December 31, 2006)

### (1) Consolidated Operating Results

(Note: Figures are rounded down to the nearest millionth.)

	Net Sales		Operating profit		Recurring profit		Net Income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2006 Q3 (9months ended December 31, 2006)	33,634	-6.9	-1,593	---	-1,803	---	-2,233	---
FY2005 Q3 (9months ended December 31, 2005)	36,136	-4.5	-780	---	-851	---	-686	---
FY2005 (12months ended March 31, 2006)	55,896		1,143		1,002		346	

	Earnings per share (EPS)	Fully-diluted EPS
	yen	yen
FY2006 Q3 (9months ended December 31, 2006)	-12,900.07	---
FY2005 Q3 (9months ended December 31, 2005)	-4,022.07	---
FY2005 (12months ended March 31, 2006)	1,968.40	1,926.82

(Notes) 1) Average number of shares outstanding (consolidated) FY2006 Q3: 173,151 FY2005 Q3: 170,734 FY2005: 171,088

2) Fully diluted earnings per share (EPS) are not reported for the third quarter of fiscal 2006 as well as for the third quarter of fiscal 2005 because net losses have been recorded.

3) The percentages of net sales, operating profit, etc., represent increase and decrease from the same quarter (FYTD) in the previous year.

### (2) Consolidated Financial Position

(Note: Figures are rounded down to the nearest millionth.)

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per share
	Million yen	Million yen	%	yen
FY2006 Q3 (9months ended December 31, 2006)	30,555	4,956	12.9	22,748.45
FY2005 Q3 (9months ended December 31, 2005)	30,198	6,323	20.9	36,713.05
FY2005 (12months ended March 31, 2006)	31,367	6,913	22.0	39,910.64

(Notes) 1) Number of outstanding shares at the end of each period (consolidated):

FY2006 Q3: 173,24 FY2005 Q3: 172,236  
FY2005: 172,976

2) The amount of shareholders' equity as of the end of the third quarter of fiscal 2006 includes 1,015 million yen in minority interests and 1 million yen in deferred hedge losses (deduction), resulting from the adoption of the Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No. 5). Without their inclusion, the amount of shareholders' equity would have been 3,939 million yen. Revised calculation methods applicable under the newly adopted accounting standard have been used to calculate shareholders' equity ratio and shareholders' equity per share. However, the impact of such changes in the calculation methods is modest with the effective difference limited to an amount equivalent to that of deferred hedge losses.

**Consolidated Cash Flows**

(Note: Figures are rounded down to the nearest millionth.)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the period
	Million yen	Million yen	Million yen	Million yen
FY2006 Q3 (9months ended December 31, 2006)	-3,951	-1,455	4,817	1,559
FY2005 Q3 (9months ended December 31, 2005)	-3,470	-2,696	4,509	1,677
FY2005 (12months ended March 31, 2006)	443	-2,734	1,106	2,150

**3 Forecast of Consolidated Financial Results for Fiscal Year ending March 31, 2007**  
 (from April 1, 2006 to March 31, 2007)

	Net Sales	Recurring profit	Net Income
	Million yen	Million yen	Million yen
Full-year	58,300	-240	-1,460

**(Reference) Expected Loss per Share (full-year)**

8,427.42 yen

# 連結貸借対照表 Consolidated Balance Sheets

Unit: million yen

区 分		As of December 31, 2005		As of December 31, 2006		Change		As of March 31, 2006	
		Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	
(資産の部)	(Assets)		%		%		%		
I 流動資産	I Current assets								
1. 現金及び預金	1 Cash and time deposits	1,677		1,559		-118	-7.0		2,150
2. 受取手形及び売掛金	2 Trade notes and accounts receivable	10,596		9,290		-1,306	-12.3		15,197
3. たな卸資産	3 Inventories	7,100		8,569		1,468	20.7		4,730
4. 未収入金	4 Account receivable	11		3,649		3,638	32,337.1		1,610
5. その他	5 Others	3,931		2,275		-1,656	-42.1		1,276
6. 貸倒引当金	6 Allowance for doubtful receivables	-1		-1,075		-1,073	67,367.8		-5
流動資産合計	Current assets	23,316	77.2	24,268	79.4	951	4.1		24,959
II 固定資産	II Fixed assets								
1. 有形固定資産	1 Property, plant and equipment								
(1) 建物及び構築物	(1) Buildings and structures	487		638					493
減価償却累計額	Less accumulated depreciation	115	371	178	460	88	23.9	131	362
(2) 機械装置及び運搬具	(2) Machinery	171		184					177
減価償却累計額	Less accumulated depreciation	130	40	144	40	-0	-0.9	132	44
(3) 器具及び備品	(3) Equipment and fixtures	3,329		4,025					3,482
減価償却累計額	Less accumulated depreciation	1,878	1,451	2,302	1,722	271	18.7	1,980	1,501
有形固定資産合計	Property, plant and equipment	1,864	6.2	2,223	7.3	359	19.3		1,909
2. 無形固定資産	2 Intangible assets								
(1) 連結調整勘定	(1) Consolidation goodwill	135		---		-135	-100.0		120
(2) のれん	(2) Goodwill	---		96		96	---		---
(3) ソフトウェア等	(3) Software and others	910		1,219		309	34.0		1,011
無形固定資産合計	Intangible assets	1,046	3.5	1,316	4.3	270	25.8		1,132
3. 投資その他の資産	3 Investments and other assets								
(1) 投資有価証券	(1) Investment securities	3,290		1,498		-1,792	-54.5		2,566
(2) その他	(2) Others	681		1,248		567	83.3		799
投資その他の資産合計	Investments and other assets	3,971	13.1	2,746	9.0	-1,224	-30.8		3,366
固定資産合計	Fixed assets	6,882	22.8	6,286	20.6	-595	-8.6		6,408
資産合計	Total assets	30,198	100.0	30,555	100.0	356	1.2		31,367

Unit: million yen

区 分		As of December 31, 2005		As of December 31, 2006		Change		As of March 31, 2006
		Amount	Perce- ntage	Amount	Perce- ntage	Amount	Perce- ntage	Amount
			%		%		%	
(負債の部)	(Liabilities)							
I 流動負債	I Current liabilities							
1. 支払手形及び買掛金	1 Trade notes and accounts payable	7,178		5,195		-1,983	-27.6	10,253
2. 短期借入金	2 Short-term borrowings	4,200		7,750		3,550	84.5	800
3. 1年以内返済 長期借入金	3 Current portion of long-term debt	2,000		---		-2,000	-100.0	1,000
4. 未払金	4 Account payable	809		3,455		2,645	326.9	1,022
5. 未払費用	5 Accrued expenses	1,445		1,658		213	14.7	1,700
6. その他	6 Others	1,699		1,923		223	13.2	3,008
流動負債合計	Current liabilities	17,333	57.4	19,983	65.4	2,649	15.3	17,784
II 固定負債	II Long-term liabilities							
1. 長期借入金	1 Long-term debt	4,750		5,050		300	6.3	5,050
2. 退職給付引当金	2 Reserve for employees retirement benefits	400		455		54	13.5	381
3. 役員退職慰労引当金	3 Accrued retirement benefits for directors	54		106		51	95.0	56
4. 連結調整勘定	4 Consolidation goodwill	4		---		-4	-100.0	4
5. 負ののれん	5 Negative goodwill	---		3		3	---	---
6. その他	6 Others	320		---		-320	-100.0	72
固定負債合計	Long-term liabilities	5,530	18.3	5,614	18.4	84	1.5	5,565
負債合計	Total liabilities	22,864	75.7	25,598	83.8	2,734	12.0	23,350
(少数株主持分)	(Minority interests)							
少数株主持分	Minority interests	1,011	3.4	---	---	-1,011	---	1,104
(資本の部)	(Shareholders' equity)							
I 資本金	I Common stock	2,934	9.7	---	---	-2,934	---	2,970
II 資本剰余金	II Capital surplus	2,043	6.7	---	---	-2,043	---	2,080
III 利益剰余金	III Earned surplus	868	2.9	---	---	-868	---	1,879
IV その他有価証券 評価差額金	IV Others	660	2.2	---	---	-660	---	450
V 自己株式	V Treasury stock	-184	-0.6	---	---	184	---	-467
資本合計	Total shareholders' equity	6,323	20.9	---	---	-6,323	---	6,913
負債、少数株主持分 及び資本合計	Total liabilities, minority interests and shareholders' equity	30,198	100.0	---	---	-30,198	---	31,367
(純資産の部)	(Net assets)							
I 株主資本	I Shareholders' equity							
1. 資本金	1 Common stock	---	---	2,970	9.7	2,970	---	---
2. 資本剰余金	2 Capital surplus	---	---	2,080	6.8	2,080	---	---
3. 利益剰余金	3 Earned surplus	---	---	-516	-1.7	-516	---	---
4. 自己株式	4 Treasury stock	---	---	-400	-1.3	-400	---	---
株主資本合計	Total shareholders' equity	---	---	4,134	13.5	4,134	---	---
II 評価・換算差額等	II Valuation and translation adjustments							
1. その他有価証券 評価差額金	1 Net unrealized gains (losses) on securities, net of taxes	---	---	-195	-0.6	-195	---	---
2. 繰延ヘッジ損益	2 Deferred gains and losses on hedges	---	---	1	0.0	1	---	---
評価・換算差額等合計	Total valuation and translation adjustments	---	---	-193	-0.6	-193	---	---
III 少数株主持分	III Minority interests	---	---	1,015	3.3	1,015	---	---
純資産合計	Total net assets	---	---	4,956	16.2	4,956	---	---
負債純資産合計	Total liabilities and net assets	---	---	30,555	100.0	30,555	---	---

連結損益計算書 Consolidated Statements of Income

Unit: million yen

区 分		FY2005 Q3		FY2006 Q3		Change		FY2005			
		From April 1, 2005 To December 31, 2005		From April 1, 2006 To December 31, 2006				Ended March 31, 2006			
		Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount			
I 売上高	I Net sales	36,136	100.0	33,634	100.0	-2,501	-6.9	55,896			
II 売上原価	II Cost of sales	28,421	78.7	26,285	78.2	-2,135	-7.5	43,500			
	Gross profit	7,714	21.3	7,349	21.8	-365	-4.7	12,395			
III 販売費及び一般管理費	III Selling, general and administrative expenses										
1. 広告宣伝費及び販売諸経費	1 Advertising expenses and sales overhead expenses	807		720				1,030			
2. 給与諸手当福利費	2 Employees salaries and welfare expenses	4,766		4,944				6,360			
3. 退職給付費用	3 Severance retirement benefits	64		106				63			
4. 賃借料	4 Rent expense	739		778				993			
5. 業務委託料	5 Outsourcing expense	927		1,081				1,243			
6. 研究開発費	6 Research and development expenses	89		100				118			
7. その他	7 Others	1,099	8,495	23.5	1,209	8,942	26.5	447	5.3	1,442	11,252
営業利益又は営業損失(-)	Operating profit (loss)		-780	-2.2		-1,593	-4.7	-812	---		1,143
IV 営業外収益	IV Non-operating income										
1. 受取利息及び受取配当金	1 Interest and dividend received	4		9						4	
2. 仕入割引	2 Purchase discounts	2		2						2	
3. 為替差益	3 Foreign exchange gains, net	2		---						0	
4. 役員保険解約返戻金	4 Surrender value of insurance policies for executives	2		---						2	
5. その他	5 Others	2	14	0.0	6	17	0.0	2	15.3	4	15
V 営業外費用	V Other expenses										
1. 支払利息	1 Interest expense	53		73						79	
2. たな卸資産除却損	2 Loss on disposal of inventories	23		3						65	
3. たな卸資産評価損	3 Inventory write-down	---		114						---	
4. 持分法による投資損失	4 Investment profit (loss) on equity method	---		34						---	
5. その他	5 Others	8	85	0.2	1	227	0.7	142	166.3	11	156
経常利益又は経常損失(-)	Recurring profit (loss)		-851	-2.4		-1,803	-5.4	-952	---		1,002
VI 特別利益	VI Extraordinary income										
1. 固定資産売却益	1 Gain on sales of fixed assets	---		1						---	
2. 投資有価証券売却益	2 Gain on sale of investment securities	94		---						260	
3. 子会社株式売却益	3 Gain on sale of stocks of subsidiaries	---		---						10	
4. 貸倒引当金戻入益	4 Reversal of allowance for doubtful accounts	3	97	0.3	---	1	0.0	-96	-98.4	1	272
VII 特別損失	VII Extraordinary loss										
1. 固定資産除却損	1 Loss on disposal of fixed assets	57		4						69	
2. 投資有価証券評価損	2 Loss on revaluation of investment securities	51		0						286	
3. 事務所移転費用	3 Office relocation expense	41		---						41	
4. 貸倒引当金繰入額	4 Reversal of allowance for doubtful accounts	---		1,057						---	
5. その他	5 Others	1	152	0.4	2	1,065	3.1	913	600.2	2	400
税金等調整前四半期純損失(-)又は税金等調整前当期純利益	Income (loss) before income taxes and minority interests		-905	-2.5		-2,867	-8.5	-1,962	---		874
法人税、住民税及び事業税	Corporate tax, inhabitants tax and business tax	-142		-313						446	
法人税等調整額	Deferred income taxes	-170	-312	-0.9	-346	-659	-2.0	-347	---	-74	371
少数株主利益	Minority gain		93	0.3		26	0.1	-67	-72.3		156
四半期純損失(-)又は当期純利益	Net income (loss)		-686	-1.9		-2,233	-6.6	-1,546	---		346

連結キャッシュ・フロー計算書 Consolidated Statements of Cash Flows

Unit: million yen

区 分		FY2005 Q3	FY2006 Q3	Change	FY2005
		From April 1, 2005 To December 31, 2005	From April 1, 2006 To December 31, 2006		Ended March 31, 2006
		Amount	Amount	Amount	Amount
I 営業活動による キャッシュ・フロー	Cash flows from operating activities				
税金等調整前四半期純損失又は 税金等調整前当期純利益	Income (loss) before income taxes and minority interests	-905	-2,867	-1,962	874
減価償却費	Depreciation and amortization	603	679	76	836
連結調整勘定償却額	Amortization of consolidation goodwill	31	---	-31	42
のれん償却額	Amortization of negative goodwill	---	32	32	---
負ののれん償却額	Amortization of goodwill	---	-1	-1	---
貸倒引当金の増加額 (減少額)	Increase (decrease) in allowance for doubtful receivables	-1	1,070	1,071	1
退職給付引当金の増加額(減少額)	Increase (decrease) in accrued retirement benefits	5	73	68	-14
役員退職慰労引当金の増加額 (減少額)	Increase (decrease) in allowance for directors retirement benefits	-7	49	56	-4
固定資産除却損	Loss on disposal of fixed assets	57	4	-52	69
投資有価証券評価損	Loss on revaluation of investment securities	51	0	-50	286
受取利息及び受取配当金	Interest and dividend received	-4	-9	-4	-4
支払利息	Interest expense	53	73	20	79
持分法による投資損失	Investment profit (loss) on equity method	---	34	34	---
投資有価証券売却益	Gain on sale of investment securities	-94	---	94	-260
子会社株式売却益	Gain on sale of stock of subsidiaries	---	---	---	-10
売上債権の減少額	Decrease in trade receivables	5,187	5,907	720	586
たな卸資産の増加額	Increase in inventories	-2,981	-3,838	-857	-603
仕入債務の増加額 (減少額)	Increase (decrease) in trade payables	-1,894	-4,978	-3,083	1,179
未払費用の減少額	Decrease in accrued expenses	-258	-41	216	-2
役員賞与支払額	Directors bonus	-28	-13	14	-28
その他	Others	-2,533	418	2,951	-1,651
小 計	Subtotal	-2,721	-3,406	-684	1,375
利息及び配当金の受取額	Interest and dividends received	4	8	4	4
利息の支払額	Interest paid	-47	-73	-26	-77
法人税等の支払額	Income taxes paid	-706	-480	226	-860
営業活動によるキャッシュ・フロー	Cash flows from operating activities	-3,470	-3,951	-480	443

区分		FY2005 Q3	FY2006 Q3	Change	FY2005
		From April 1, 2005 To December 31, 2005	From April 1, 2006 To December 31, 2006		Ended March 31, 2006
		Amount	Amount	Amount	Amount
II 投資活動による キャッシュ・フロー	II				
	Cash flows from investing activities				
有形固定資産の取得による支出	Payments for purchase of property and equipment	-1,242	-1,072	169	-1,384
有形固定資産の売却による収入	Proceeds from sale of property and equipment	311	271	-39	408
無形固定資産の取得による支出	Payments for intangible assets	-324	-559	-235	-492
無形固定資産の売却による収入	Proceeds from sale of intangible fixed assets	---	---	---	78
投資有価証券の取得による支出	Payments for purchase of investment securities	-1,598	-50	1,548	-1,598
投資有価証券の売却による収入	Proceeds from sale of investment securities	111	---	-111	462
関連会社株式の取得による支出	Payments for purchase of investment in affiliated companies	-11	-8	2	-129
非連結子会社への出資による支出	Payments for purchase of stocks of unconsolidated subsidiaries	---	---	---	-59
連結子会社株式の売却による収入	Proceeds from sale of consolidated subsidiary's securities	---	---	---	45
営業譲受に伴う支出	Payments for acquisition of business	---	---	---	-119
その他	Others	56	-36	-93	55
投資活動によるキャッシュ・フロー	Cash flows from investing activities	-2,696	-1,455	1,241	-2,734
III 財務活動による キャッシュ・フロー	III				
	Cash flows from financing activities				
短期借入金の純増額	Net increase (decrease) in short-term borrowings	3,900	6,950	3,050	500
長期借入による収入	Proceeds from long-term debt	2,750	---	-2,750	3,050
長期借入金の返済による支出	Repayment of long-term debt	-1,500	-1,000	500	-2,500
配当金の支払額	Dividends paid	-188	-103	84	-188
少数株主への配当金の支払額	Paid dividends for minority shareholders	-63	-50	13	-63
株式の発行による収入	Proceeds from issuance of common stock	29	---	-29	102
自己株式の取得による支出	Payment for purchase of treasury stock	-1,271	---	1,271	-1,586
連結子会社の自己株式の取得による支出	Payment for purchase of treasury stock of consolidated subsidiary	---	-62	-62	---
自己株式の処分による収入	Proceeds from sales of treasury stock	853	14	-839	862
預り担保金の受入による収入	Proceeds from receipt of cash collateral deposit	---	---	---	930
預り担保金の返済による支出	Repayment of cash collateral deposit	---	-930	-930	---
財務活動によるキャッシュ・フロー	Cash flows from financing activities	4,509	4,817	307	1,106
IV 現金及び現金同等物に係る 換算差額	IV Effect of exchange rate changes on cash and cash equivalents	-0	-1	-1	-0
V 現金及び現金同等物の減少額	V Net decrease (increase) in cash and cash equivalents	-1,657	-590	1,067	-1,185
VI 現金及び現金同等物の期首残高	VI Cash and cash equivalents at beginning of year	3,335	2,150	-1,185	3,335
VII 現金及び現金同等物の期末残高	VII Cash and cash equivalents at end of year	1,677	1,559	-118	2,150