

Consolidated Financial Results for the 1st Quarter of the Fiscal Year Ending March 2007

August 11, 2006

Faith, Inc (Stock code 4295, Listed on TSE 1st section)
(URL: <http://www.faith.co.jp/>)

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1. Basis for preparation of quarterly financial results

(1) Adoption of simplified accounting practices ; Yes

* In accordance with standards for preparation of interim consolidated financial statements, simplified accounting procedures have been partially applied to where the amount influenced is minor.

(2) Changes in accounting practices from the previous fiscal year. ; None

(3) Changes in the scope of consolidation and the equity method of accounting ; None

2. Financial results for the 1st quarter of the year ending March 2007 (April 1, 2006 through June 30, 2006)

(1) Consolidated Results of operations

(Unit; Millions of Yen, round down)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	(%)	Million yen	(%)	Million yen	(%)	Million yen	(%)
Q1 of the year ending March 2007	8,636	(23.3)	350	(67.8)	254	(77.8)	102	(-)
Q1 of the year ended March 2006	7,007	(32.7)	1,086	(0.9)	1,145	(5.0)	513	(17.6)
(Ref): Year ended March 2006	30,040		3,391		3,455		1,438	

	Earnings per share	Diluted Earnings per share
	Yen	Yen
Q1 of the year ending March 2007	86.23	-
Q1 of the year ended March 2006	2,149.28	2,148.55
(Ref): Year ended March 2006	1,174.67	1,174.53

- (Notes) (1) Presentation of percentages in sales, operating income are year-on-year changes.
(2) A 5-for-1 share split was implemented on December 20, 2005.
(3) Although there are latent shares, the diluted earnings per share is not given since there was a net loss.

[Qualitative information on consolidated operating results]

During the 1st quarter, the digital content industry in Japan experienced continued market growth driven by several factors, including easy-to-use music distribution sites, online games with high entertainment value, and convenient information services accessible from handsets,

at the same time that the use of broadband spread and the shift in the cell phone market to third-generation communication systems.

Leading these trends in the Japanese market, the Group has aggressively worked to “create new mechanisms to distribute content.” In particular, in the field of electronic money, which there is growing demand for, there has been dramatic growth in the volume of payments made using WebMoney, which has a large share of the settlement market in the fields of online games and music distribution.

Overseas, as the CDMA communication standard, which is supported by U.S.-based Qualcomm Incorporated, spread throughout the world, there has been steady growth in the demand for the Group’s sound source technology. At the same time, in cooperation with global record labels, the Group has expanded its content distribution services, particularly for music, to countries throughout the world, and steadily expanded the business.

Therefore, during the 1st quarter, consolidated sales increased 23.3% year on year, to 8,636 million yen, as a result of continued strong growth in the electronic payment business, stable expansion of the service business, and business growth through acquisitions. As for income, operating income decreased 67.8% year on year, to 350 million yen, because of future-oriented investments to create new markets and upfront expenses to launch the MVNO business. Ordinary income decreased 77.8% year on year, to 254 million yen, and the Group recorded a net loss of 102 million yen, compared to the 513 million yen for the same period of the previous fiscal year.

The status of each business segment is as follows:

<Content-distribution Services>

Service business

In Japan, the Group purchased the business rights to the GigaNetworks Company, which is engaged in the distribution of mobile content. By adding the 4 million users of this service, the Group has expanded the reach of its content distribution service to 12 million people, one of largest within Japan. The Group will create active alliances with its partner companies, and develop the next generation of high-value-added services, which are attractive to users. Furthermore, in cooperation with TAITO Corp. and Square Enix Co., Ltd., the Group founded Brave, Co., Ltd., which is engaged in the creation of audio and visual software and the distribution of digital content. Making the most of the technology, ideas, know-how, and contents both of the Group and its partner companies, the Group is creating and providing new ways to enjoy music and visual content that is appropriate for the new generation.

Overseas, the Group has aggressively expanded its content distribution services in the U.S, South America, China, and Europe.

Therefore, for the service business, net sales increased 9.4% year on year, to 2,988 million yen, as a result of firm growth overseas and the expansion of business through the acquisition of Giga Network Company.

License Business

In addition to healthy growth in sales within Japan, overseas, there has been firm demand for the Group's sound source technology, particularly in the U.S., China, India, and South America, as the CDMA communication standard, which is promoted by U.S.-based Qualcomm, spread throughout the world.

The Group was awarded the 14th Technology Development Prize from the Acoustical Society of Japan for its considerable contributions to the development of industry technology in the field of audio engineering on account of the development of the distribution technology for ring tone distribution to mobile phones.

For the license business, sales decreased 5.0% year on year, to 517 million yen, mainly due to temporary changes in the timing of shipments from licensing companies.

Therefore, for the overall content-distribution services, sales grew 7.0% year on year, to 3,506 million yen. Operating income decreased 40.4%, to 650 million yen, since the burden of upfront investments to create new markets and strengthen the business foundation could not be covered by the expansion in business.

<Electronic Payment business>

At the end of March 2006, there were more than 23 million broadband subscribers in Japan surpassed (Source; Information and Communications Statistics Database, Ministry of Internal Affairs and Communications), and demand for various items, including online games, music distribution and visual distribution, continued to grow. At the same time, there was firm growth in the number of uses of WebMoney, which is both safe and convenient way of paying money.

Therefore, in the electronic payment business, sales increased 27.6% year on year, to 4,747 million yen. In addition, the Group recorded operating income of 109 million yen, compared to an operating loss of 11 million yen for the previous fiscal year, making the business profitable.

<MVNO (Mobile Virtual Network Operation) business>

The U.S.-based subsidiary Faith Communications, Inc. launched the mobile phone service *Voce*, which provides various services for high-income customers, such as a fixed-rate domestic call service, sophisticated customer services, concierge service including the use of exclusive lounge. Since the end of the fiscal year for Faith Communications is in December and sales for the MVNO business will only start to be generated in the 2nd quarter of fiscal year ending in March 2007, only expenses have been recorded for the 1st quarter of the present fiscal year.

Therefore, for the MVNO business, the Group recorded an operating loss of 361 million yen.

(2) Financial conditions on a consolidated balance sheet

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	Million yen	Million yen	%	Yen
Q1 of year ending March 2007	42,684	18,869	43.4	15,570.94
Q1 of year ended March 2006	22,800	15,402	67.6	64,692.28
(Ref.): Year ended March 2006	31,595	19,625	62.1	16,453.84

(note) A 5-for-1 share split was implemented on December 20, 2005.

[Quantitative information on changes in the consolidated balance sheet]

Total assets at the end of this 1st quarter period increased 11,088 million yen compared to the end of the previous fiscal year, to 42,684 million yen, mainly due to the acquisition of the Giga Networks Company, and net assets decreased 756 million yen, to 18,869 million yen. In addition, the capital ratio decreased 18.7 percentage points compared to the end of the previous fiscal year, to 43.4%, as a result of various factors including the fact that the majority of funds for the acquisition of Giga Networks Company were obtained from loans.

(3) Forecast of consolidated financial results for the year ending March 2007 (April 1, 2006 through March 31, 2007)

	Net sales	Ordinary income	Net income
	Million yen	Million yen	Million yen
Half year	18,911	961	98
Full year	45,443	2,227	268

(note) Projection for earnings per share (for the full fiscal year) is ¥225.26

[Quantitative information regarding forecast of financial results]

Net sales and earnings are generally progressing as initially projected, and there are no revisions to the forecast of financial results.

The above forecast has been prepared based on the information available as of the date when this statement was issued. Actual business results may differ from the forecast depending on various forthcoming factors.

(Reference 1)

Quarterly individual financial results

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	(%)	Million yen	(%)	Million yen	(%)	Million yen	(%)
Q1 of year ending March 2007	1,953	(15.6)	615	(40.0)	564	(48.0)	293	(55.0)
Q1 of year ended March 2006	2,315	(0.8)	1,026	(1.3)	1,086	(3.2)	651	(4.8)
(Ref.): Year ended March 2006	10,293		4,177		4,338		2,659	

	Earnings per share	Diluted earnings per share
	Yen	Yen
Q1 of year ending March 2007	246.40	-
Q1 of year ended March 2006	2,727.59	2,726.65
(Ref.): Year ended March 2006	2,199.49	2,199.25

(note) Diluted earnings per share is not given since there are no latent shares.

(Ref. 2)

Quarterly financial condition on an individual balance sheet

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	Million yen	Million yen	%	Yen
Q1 of year ending March 2007	25,345	20,861	82.3	17,524.39
Q1 of year ended March 2006	17,887	16,448	92.0	69,085.41
(Ref.): Year ended March 2006	24,810	21,560	86.9	18,079.04

(Ref. 3)

Forecast of individual financial results for the year ending March 2007 (April 1, 2006 through March 31, 2007)

	Sales	Ordinary income	Net income
	Million yen	Million yen	Million yen
Half year	4,835	1,787	1,054
Full year	12,186	3,804	2,244

(note) Forecast of earnings per share (full year): 1,885.49 yen

Supporting materials:

Quarterly consolidated balance sheets, Quarterly consolidated income statements, Quarterly consolidated statements of surplus, Quarterly consolidated statement of changes in shareholders' equity, and Segment information

Consolidated Financial Statements for the 1st Quarter

(1) Consolidated Balance Sheet for the 1st Quarter

(Unit: thousands of yen)

Account name	1st quarter of the previous fiscal year (As of June 30, 2005)		1st quarter of this fiscal year (As of June 30, 2006)		Condensed consolidated balance sheet for the previous fiscal year (As of March 31, 2006)	
	Amount	Component percentage	Amount	Component percentage	Amount	Component percentage
(Assets)		%		%		%
I. Current assets						
1. Cash and deposits	6,236,905		7,054,714		7,534,815	
2. Accounts and notes receivable	3,888,328		5,214,598		4,768,010	
3. Marketable securities	911,493		914,201		364,619	
4. Inventories	4,618		42,518		39,905	
5. Deferred tax assets	753,637		807,558		808,951	
6. Others	488,860		1,240,070		571,683	
Allowance for doubtful accounts	65,682		88,128		82,229	
Total current assets	12,218,161	53.6	15,185,532	35.6	14,005,756	44.3
II. Fixed assets						
1. Tangible fixed assets	1,106,414		1,196,323		1,228,080	
2. Intangible fixed assets						
(1) Goodwill	-		14,605,203		-	
(2) Consolidated adjustment account	3,201,599		-		3,656,824	
(3) Others	462,947		1,109,038		940,720	
Total intangible fixed assets	3,664,546		15,714,242		4,597,545	
3. Investments and other assets						
(1) Investment securities	2,840,853		8,081,816		9,560,144	
(2) Deposits with landlords	1,105,657		1,231,641		1,144,546	
(3) Others	2,065,756		1,394,766		1,179,662	
Allowance for doubtful receivable	200,764		119,936		119,956	
Total investments and other assets	5,811,502		10,588,287		11,764,397	
Total fixed assets	10,582,463	46.4	27,498,854	64.4	17,590,023	55.7
Total assets	22,800,624	100.0	42,684,387	100.0	31,595,780	100.0

Account name	1st quarter of the previous fiscal year (As of June 30, 2005)		1st quarter of this fiscal year (As of June 30, 2006)		Condensed consolidated balance sheet for the previous fiscal year (As of March 31, 2006)	
	Amount	Component percentage	Amount	Component percentage	Amount	Component percentage
(Liabilities)		%		%		%
I. Current liabilities						
1. Accounts payable	2,574,804		3,585,081		3,349,235	
2. Short-term loans	-		5,295,671		86,969	
3. Income taxes payable	648,193		341,829		826,587	
4. Allowance for costs of card use	2,753,242		2,246,447		2,323,140	
5. Allowance for points	-		640,194		697,582	
6. Allowance for bonus payments	55,573		57,927		77,316	
7. Others	1,210,410		1,836,841		1,844,745	
Total current liabilities	7,242,223	31.8	14,003,993	32.8	9,205,576	29.1
II. Fixed liabilities						
1. Long-term liabilities	-		8,000,000		-	
2. Deferred tax liabilities	-		1,613,014		2,235,777	
3. Allowance for retirement benefits	20,233		27,569		27,252	
4. Allowance for directors and statutory auditors retirement bonus	102,957		127,048		121,134	
5. Others	23,190		42,977		37,532	
Total fixed liabilities	146,381	0.6	9,810,610	23.0	2,421,697	7.7
Total liabilities	7,388,604	32.4	23,814,603	55.8	11,627,274	36.8
(Minority interests)						
Minority interests	9,823	0.0	-	-	342,525	1.1
(Shareholders' equity)						
I. Capital stock	3,218,000	14.1	-	-	3,218,000	10.2
II. Additional paid-in capital	3,708,355	16.3	-	-	3,708,355	11.7
III. Accumulated income	8,543,072	37.5	-	-	9,408,748	29.8
IV. Unrealized gain on available-for-sale securities	249,414	1.1	-	-	3,401,193	10.7
V. Foreign currency translation adjustments	37,624	0.2	-	-	243,952	0.8
VI. Treasury stock	354,269	1.6	-	-	354,269	1.1
Total shareholders' equity	15,402,197	67.6	-	-	19,625,979	62.1
Total liabilities, minority interests and shareholders' equity	22,800,624	100.0	-	-	31,595,780	100.0

Account name	1st quarter of the previous fiscal year (As of June 30, 2005)		1st quarter of this fiscal year (As of June 30, 2006)		Condensed consolidated balance sheet for the previous fiscal year (As of March 31, 2006)	
	Amount	Component percentage	Amount	Component percentage	Amount	Component percentage
(Net assets)						
I. Shareholders equity						
1. Capital stock	-	-	3,218,000	7.5	-	-
2. Additional paid-in capital	-	-	3,708,355	8.7	-	-
3. Accumulated income	-	-	9,207,576	21.6	-	-
4. Treasury stock	-	-	354,269	0.8	-	-
Total shareholders' equity	-	-	15,779,661	37.0	-	-
II. Unrealized gain and translation						
1. Unrealized gain on available-for-sale securities	-	-	2,506,574	5.9	-	-
2. Foreign currency translation adjustment account	-	-	249,726	0.5	-	-
Total unrealized gains and translations	-	-	2,756,300	6.4	-	-
III. Stock options	-	-	487	0.0	-	-
IV. Minority interest	-	-	333,334	0.8	-	-
Net assets	-	-	18,869,784	44.2	-	-
Total liabilities and net assets	-	-	42,684,387	100.0	-	-

(2) Consolidated Income Statement for the 1st Quarter

(Thousands of yen)

Account name	1st quarter of the previous fiscal year (April 1, 2005 through June 30, 2005)		1st quarter of this fiscal year (April 1, 2006 through June 30, 2006)		Condensed consolidated income statement for the previous fiscal year (April 1, 2005 through March 31, 2006)	
	Amount	Component percentage	Amount	Component percentage	Amount	Component percentage
I Net sales	7,007,142	100.0	8,636,562	100.0	30,040,166	100.0
II Cost of Sales	4,594,082	65.6	6,023,313	69.7	20,308,957	67.6
Gross profit	2,413,060	34.4	2,613,248	30.3	9,731,209	32.4
III. Selling, general and administrative expenses	1,326,294	18.9	2,263,210	26.2	6,339,781	21.1
Operating income	1,086,766	15.5	350,038	4.1	3,391,428	11.3
IV. Other income	68,608	1.0	22,813	0.2	221,436	0.7
V. Operating expenses	10,132	0.2	118,335	1.4	157,805	0.5
Ordinary profit	1,145,242	16.3	254,515	2.9	3,455,058	11.5
VI. Extraordinary profit						
1. Gain on disposal of investment securities	82,926		-		220,271	
2. Gain on liquidation of allowance for cost of card use	-		8,360		-	
3. Revisions to profit for previous fiscal year	-		1,411		-	
4. Others	-		-		14,332	
Total extraordinary profit	82,926	1.2	9,772	0.1	234,603	0.8
VII. Extraordinary loss						
1. Loss on disposal of fixed assets	65,598		-		108,555	
2. Loss on bad debts	-		-		63,268	
3. Others	32,118		-		8,095	
Total extraordinary loss	97,716	1.4	-	-	179,919	0.6
Income before income taxes and minority interests	1,130,452	16.1	264,288	3.0	3,509,742	11.7
Income taxes and other taxes	656,291	9.4	374,355	4.3	2,166,080	7.2
Minority interests	38,935	0.6	7,416	0.1	94,631	0.3
Net income (minus is loss)	513,096	7.3	102,651	1.2	1,438,293	4.8

(3) Statements of Surplus for the 1st Quarter

	1st quarter of the previous fiscal year (April 1, 2005 through June 30, 2005)		1st quarter of this fiscal year (April 1, 2005 through June 30, 2005)		Condensed consolidated balance sheet for the previous fiscal year (April 1, 2005 through March 31, 2006)	
	Amount		Amount		Amount	
(Additional paid-in capital)						
I. Beginning balance		3,708,355		-		3,708,355
II. Ending balance		3,708,355		-		3,708,355
(Accumulated income)						
I Beginning balance		8,128,670		-		8,128,670
II. Increase of accumulated income						
1. Net income	513,096	513,096	-	-	1,438,293	1,438,293
III. Decrease of accumulated income						
1. Dividends	59,694		-	-	119,215	
2. Bonuses to directors and statutory auditors	39,000	98,694	-	-	39,000	158,215
IV Ending balance		8,543,072		-		9,408,748

(4) Consolidated Statement of Changes in Shareholders' Equity
1st quarter of this fiscal year (April 1, 2006 through June 30, 2006)

(Unit: thousands of yen)

	Shareholders' equity				
	Capital stock	Additional paid-in capital	Accumulated income	Treasury stock	Total shareholders' equity
Balance as of March 31, 2006	3,218,000	3,708,355	9,408,748	354,269	15,980,834
Changes during Q1					
Dividend paid from retained earnings			59,521		59,521
Net income (minus indicates loss)			102,651		102,651
Bonuses for directors and statutory auditors			39,000		39,000
Changes in other items than shareholders' equity					–
Total changes during Q1	–	–	201,172	–	201,172
Balance as of June 30, 2006	3,218,000	3,708,355	9,207,576	354,269	15,779,661

	Unrealized gains and translations			Minority interest	Stock options	Net assets
	Unrealized gains on available-for-sale securities	Foreign currency translation adjustment account	Total unrealized gains and translations			
Balance as of March 31, 2006	3,401,193	243,952	3,645,145	342,525	487	19,968,505
Changes during Q1						
Dividend from retained earnings			–			59,521
Net income for Q1 (minus indicates loss)			–			102,651
Bonuses for directors			–			39,000
Changes in other items than shareholders' equity	894,619	5,774	888,845	9,191	–	897,549
Total changes during Q1	894,619	5,774	888,845	9,191	–	1,098,721
Balance as of June 30, 2006	2,506,574	249,726	2,756,300	333,334	487	18,869,784

(5) Segment Information

(1) Industry segments

1st quarter of the previous fiscal year (April 1, 2005 through June 30, 2005)

(Unit: thousands of yen)

	Contents distribution services	Electronic payment solution	Others	Total	Eliminations/ Corporate	Consolidated
Net sales						
(1) Sales to customers	3,278,059	3,721,035	8,047	7,007,142	-	7,007,142
(2) Intersegment sales	94	1,732	-	1,826	1,826	-
Total	3,278,153	3,722,767	8,047	7,008,969	1,826	7,007,142
Operating expenses	2,185,571	3,734,279	2,351	5,922,202	1,826	5,920,376
Operating income	1,092,582	11,511	5,695	1,086,766	-	1,086,766

1st quarter of this fiscal year (April 1, 2006 through June 30, 2006)

(Unit: thousands of yen)

	Contents distribution services	Electronic payment solution	MVNO	Others	Total	Eliminations/ Corporate	Consolidated
Net sales							
(1) Sales to customers	3,506,635	4,747,037	-	382,889	8,636,562	-	8,636,562
(2) Intersegment sales	28,200	3,166	-	-	31,366	31,366	-
Total	3,534,836	4,750,203	-	382,889	8,667,928	31,366	8,636,562
Operating expenses	2,883,910	4,640,604	361,429	431,946	8,317,890	31,366	8,286,524
Operating income	650,926	109,598	361,429	49,057	350,038	-	350,038

Previous consolidated fiscal year (April 1, 2005 through March 31, 2006)

(Unit: thousands of yen)

	Contents distribution services	Electronic payment solution	MVNO	Others	Total	Eliminations/ Corporate	Consolidated
Net sales							
(1) Sales to customers	14,040,205	15,106,111	-	893,849	30,040,166	-	30,040,166
(2) Intersegment sales	71,677	2,758	-	-	74,436	74,436	-
Total	14,111,882	15,108,870	-	893,849	30,114,603	74,436	30,040,166
Operating expenses	10,082,376	14,989,161	706,645	944,991	26,723,174	74,436	26,648,738
Operating income	4,029,506	119,708	706,645	51,141	3,391,428	-	3,391,428

(2) Geographical segments

1st quarter of the previous year (April 1, 2005 through June 30, 2005)

(Unit: thousands of yen)

	Japan	Americas	Europe	Total	Eliminations/ Corporate	Consolidated
Net sales						
(1) Sales to customers	6,036,543	762,273	208,325	7,007,142	–	7,007,142
(2) Intersegment sales	–	169,048	29,798	198,846	198,846	–
Total	6,036,543	931,322	238,123	7,205,988	198,846	7,007,142
Operating expenses	5,022,037	808,657	288,527	6,199,222	198,846	5,920,376
Operating income	1,014,505	122,664	50,403	1,086,766	–	1,086,766

1st quarter of this fiscal year (April 1, 2006 through June 30, 2006)

(Unit: thousands of yen)

	Japan	Americas	Europe	Total	Eliminations/ Corporate	Consolidated
Net sales						
(1) Sales to customers	7,518,623	875,508	242,430	8,636,562	–	8,636,562
(2) Intersegment sales	–	143,614	30,822	174,436	174,436	–
Total	7,518,623	1,019,122	273,252	8,810,998	174,436	8,636,562
Operating expenses	6,774,219	1,359,057	327,683	8,460,960	174,436	8,286,524
Operating income	744,403	339,934	54,430	350,038	–	350,038

Previous consolidated fiscal year (April 1, 2005 through March 31, 2006)

(Unit: thousands of yen)

	Japan	Americas	Europe	Total	Eliminations/ Corporate	Consolidated
Net sales						
(1) Sales to customers	26,053,353	3,309,159	677,654	30,040,166	–	30,040,166
(2) Intersegment sales	–	748,074	105,695	853,770	853,770	–
Total	26,053,353	4,057,234	783,349	30,893,936	853,770	30,040,166
Operating expenses	21,840,689	4,574,368	1,087,450	27,502,508	853,770	26,648,738
Operating income	4,212,663	517,134	304,100	3,391,428	–	3,391,428

(3) Sales to foreign customers

1st quarter of the previous fiscal year (April 1, 2005 through June 30, 2005)

(Unit: thousands of yen)

	North America	Others	Total
I. Net sales to foreign customers	839,668	462,551	1,302,219
II. Consolidated sales	-	-	7,007,142
III. Ratio of foreign sales to consolidated sales (%)	12.0	6.6	18.6

1st quarter of this fiscal year (April 1, 2006 through June 30, 2006)

(Unit: thousands of yen)

	North America	Others	Total
I. Net sales to foreign customers	746,051	410,737	1,156,789
II. Consolidated sales	-	-	8,636,562
III. Ratio of foreign sales to consolidated sales	8.6	4.8	13.4

Previous consolidated fiscal year (April 1, 2005 through March 31, 2006)

(Unit: thousand of yen)

	North America	Others	Total
I. Net sales to foreign customers	3,388,962	2,100,222	5,489,184
II. Consolidated sales	-	-	30,040,166
III. Ratio of foreign sales to consolidated sales	11.3	7.0	18.3