

# Annual Report

Financial Section

# 2010

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# Financial Review

## Consolidated Operating Results for the Year Ended March 2010

On March 12, 2010, The JVC Kenwood Group undertook adjustments to the earnings results of Victor Company of Japan, Ltd. (JVC) for the period between the fiscal year ended March 2005 and the second quarter of the fiscal year ended March 2010 and to those of JVC Kenwood for the period from its establishment on October 1, 2008 through the second quarter of the fiscal year ended March 2010. These adjustments were made after a verification of a report from the investigation committee, including outside experts which was established by the JVC Kenwood Group in order to investigate the losses posted by consolidated subsidiary JVC in the second quarter of the fiscal year ended March 2010.

All the following qualitative information is based on the revised consolidated financial statements, etc.

JVC Kenwood was inaugurated as a joint holding company of JVC and Kenwood Corporation (Kenwood) as of October 1, 2008. Since the operating results of JVC for the first half of the consolidated fiscal year ended March 2009, full-year operating results for the fiscal year ended March 2010 are not compared with those for the fiscal year ended March 2009.

## Overview of the Fiscal Year Ended March 2010

The global economy in the fiscal year under review continued to be stagnant, affected by the economic crisis that was sparked by the financial turmoil originating in the US. However, signs of recovery have become apparent in some industries as a result of aggressive economic measures taken by governments in a number of countries and economic growth in emerging countries.

Under such circumstances, the operating results of the JVC Kenwood Group started recovering in the second quarter, after bottoming out in the first quarter. This was a result of efforts such as structural reforms that were implemented in the previous fiscal year and the effect of the merger. The Group posted an operating income in the fourth quarter for the first time since the third quarter of the previous fiscal year, posting a record profit after the management integration.

In preparing consolidated operating results for the fiscal year under review, the exchange rates the Group used (excluding those for forward exchange contracts) are as follows:

(Approximate data)

	1Q	2Q	3Q	4Q
U.S.\$	¥97	¥94	¥90	¥91
Euro	¥133	¥134	¥133	¥125

## Sales and Income

### ► Consolidated Operating Results

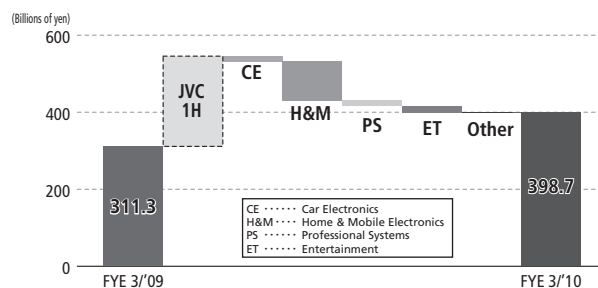
#### \*Net Sales

Net sales for the fiscal year under review were ¥398,663 million. This reflects the curtailment of the display segment in Europe and the slow recovery in sales in the camcorder segment of the Home & Mobile Electronics business as well as a delay in recovery of order-receiving in the Professional Systems business and shortage of hit movies and music in the Entertainment business. However, the Car Electronics business started recovering from the second quarter.

Net sales for the fourth quarter stood at ¥93,237 million, down only about ¥11,400 million (10.9%) from a year earlier, since the sales increase in the Car Electronics business partially made up for the sales decrease in the Home & Mobile Electronics business.

Compared with the third quarter of the fiscal year, net sales decreased only by about ¥8,900 million (8.7%) partly thanks to sales recovery in the Professional Systems business.

#### Net Sales (Y-o-Y)



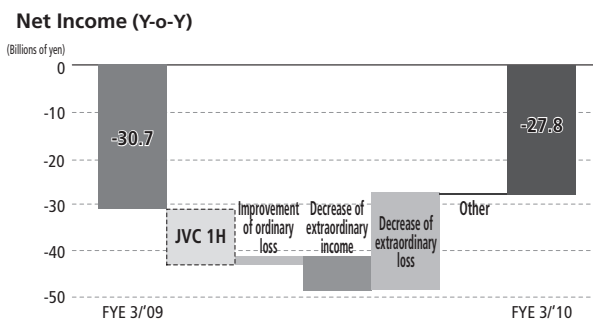
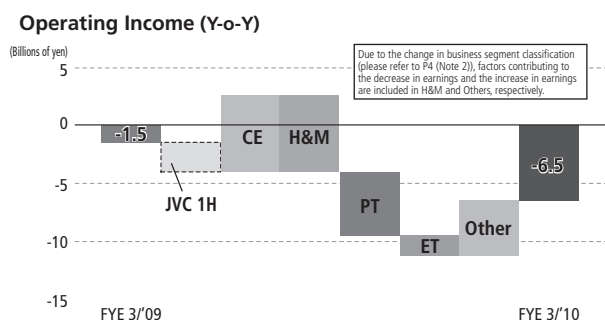
#### \*Operating Income

Operating loss for the fiscal year under review was ¥6,453 million. This was because there was a worsening of profit/loss due to lower sales at the business solution (professional systems) segment of the Professional Systems business. In addition, there was a deterioration of profit/loss resulting from the decline in prices and increased sales promotional expenses in the camcorder segment of the Home & Mobile Electronics business. However, both the consumer and OEM segments of the Car Electronics business returned to the black from the second quarter and produced a profit on a full-year basis. The land mobile radio segment of the Professional Systems business saw its earnings recover from the second quarter and maintained profitability for the full year.

During the fiscal year under review, additional measures generated cost reduction effects of about ¥24,500 million and cost synergy effects of about ¥7,800 million, and the management integration produced accounting effects of approximately ¥3,700 million.

Operating income for the fourth quarter was ¥2,263 million. This was an improvement of about ¥6,200 million from the corresponding quarter of the previous fiscal year, and reflected a large operating income posted by the Car Electronics business, which suffered a huge loss a year ago, as well as a decrease in the loss of the display and home audio segments of the Home & Mobile Electronics business. The operating income, which was much larger than the previous forecast, is the first operating income since the third quarter of the previous fiscal year and the largest profit after the management integration. This feat is attributable to better-than-expected earnings of the Car Electronics business and the AV accessory segment of the Home & Mobile Electronics business and a larger-than-expected decrease in the loss of the business solution segment of the Professional Systems business.

Compared with the third quarter of the fiscal year, operating income improved by about ¥3,200 million due to the significant improvement of profit/loss of the Car Electronics business.

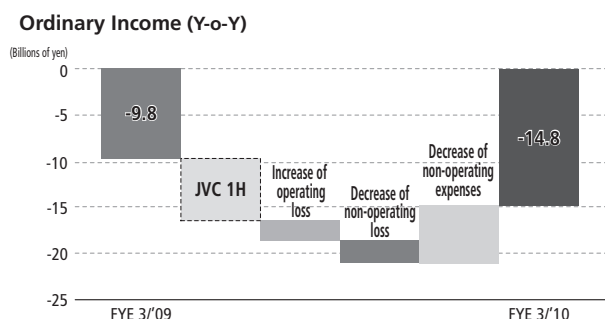


### \*Ordinary Income

Looking at ordinary income for the current fiscal year, we recorded a loss of ¥14,752 million. This is because we posted interest expense and loans commission of about ¥4,300 million under non-operating expense, foreign exchange losses of about ¥800 million and out-of-term service cost of displays, etc. of approximately ¥900 million. However, the management integration generated accounting effects (of about ¥600 million) and cost synergy effects (of approximately ¥200 million).

Ordinary loss for the fourth quarter was ¥485 million, an improvement of about ¥7,400 million from the corresponding quarter of the previous fiscal year. This was a result of improving operating income and improving non-operating income and expenses.

Compared with the third quarter of the fiscal year, ordinary income improved by about ¥2,800 million due to improved operating income.



### \*Net Income

Looking at income/loss for the fiscal year under review, we recorded a loss of ¥27,795 million. This was mainly because we posted an impairment loss of about ¥4,400 million, loss on sales and disposal of fixed assets of about ¥3,100 million, business structural reform expenses of approximately ¥1,800 million and income taxes of about ¥3,800 million. In the meantime, there were accounting effects (of about ¥4,100 million) generated through the provision of allowances for structural reform expenses that can be recorded as allowance, and the adoption of the consolidated taxation system in relation to the management integration, in addition to cost synergy effects (of about ¥700 million).

Net loss for the fourth quarter amounted to ¥5,516 million, an improvement of about ¥14,200 million from a year ago, which reflects a sharp decline in ordinary loss and a large decrease in extraordinary loss.

Compared with the third quarter of the fiscal year, net loss remained almost unchanged, since the increase in extraordinary loss offset the decrease in ordinary income.

### Effects of Structural Reforms and Management Integration (Billions of yen)

		Operating income	Non-operating income and loss	Extraordinary income and loss, corporate tax, etc.	Total
Effects of additional measures (Annual target of JPY 25.0 B)	4Q	6.0	-	-	<b>6.0</b>
	Total	24.5	-	-	<b>24.5</b>
Management integration	4Q	4.2	0.3	1.6	<b>6.1</b>
	Total	11.4	0.8	4.9	<b>17.1</b>
Total	4Q	10.2	0.3	1.6	<b>12.1</b>
	Total	<b>35.9</b>	<b>0.8</b>	<b>4.9</b>	<b>41.5</b>

### ► Net Sales and Earnings by Business Segment

#### \*Car Electronics Business

The Car Electronics business produced a profit on a full-year basis, as the consumer and OEM segments respectively returned to the black in the second quarter. This was thanks to great contributions from integration effects, resulting from the business integration, in terms of market and merchandise competitiveness, and to effects of structural reforms carried out so far.

In mainstay consumer segments, sales remained robust mainly in overseas markets in and after the second quarter and we maintained large market shares in major regions. Particularly in the fourth quarter, both sales and profit grew significantly. This was because the introduction of new product lines for 2010, featuring enhanced cost competitiveness that was realized by integration effects, advanced smoothly.

In the OEM field, sales of car navigation systems remained brisk due to the recovery of automobile sales as a result of measures of stimulating new car purchases executed by various countries, in addition to the effects from our efforts for structural reforms in the previous fiscal year. The shipment volume of CD/DVD mechanisms to be mounted in vehicles nearly tripled from the previous fiscal year, since shipments of large orders received up to the previous fiscal year moved into high gear and automobile sales picked up. The expansion of the shipment volume greatly contributed to profits.

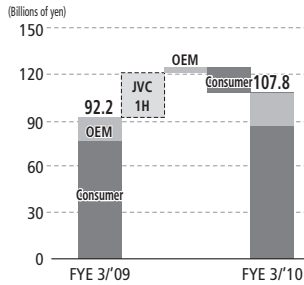
Consequently, net sales of this business for the current fiscal year were ¥107,813 million, and operating income was ¥4,090 million.

Net sales for the fourth quarter increased by about ¥6,900 million (up 29.7%) from the corresponding quarter of the previous fiscal year to ¥30,070 million, and operating income was ¥3,831 million, an improvement of about ¥6,800 million, supported by the effects of introducing new product lines for 2010. The operating income margin stood at 12.7%.

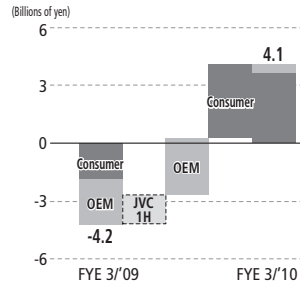
Compared with the third quarter of the fiscal year, sales in the fourth quarter increased by about ¥3,700 million (14.2%) and operating income rose by about ¥3,000 million (up 450%).

## Car Electronics Business

### Net Sales (Y-o-Y)



### Operating Income (Y-o-Y)



## \*Home & Mobile Electronics Business

The Home & Mobile Electronics business produced a profit on a full-year basis, as the AV accessory segment maintained large earnings and the profit/loss of the home audio segment improved remarkably thanks to the effects of the business structure reforms. The display segment, which had been the biggest concern of the Group, reduced production and sales and sharply trimmed its loss. It achieved this by significantly reducing domestic operations and narrowing down sales channels in the US in the previous fiscal year. In addition, it terminated production at the Mexican plant and rationalized the Thai plant in the current fiscal year, and curtailed merchandise and sales channels in Europe, on which it has been focusing since the second quarter.

On the other hand, the profit/loss situation of the camcorder segment deteriorated greatly. This was due to the sluggishness of 2009 merchandise, including price declines and increased sales promotion expenses overseas, mainly in Europe. It was also due to decreased sales as a result of a shift in demand to low-end models, and a delay in ending the sales of 2009 merchandise, thus causing a delay in introducing new products for 2010, featuring high competitiveness. However, domestic sales steadily grew.

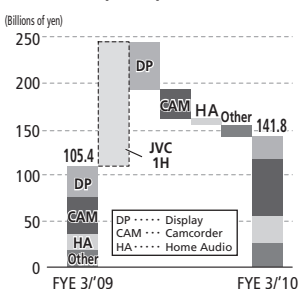
As a result, net sales of this business for the fiscal year under review were ¥141,772 million, and operating loss was ¥10,752 million.

Net sales for the fourth quarter were ¥24,140 million and operating loss was ¥2,629 million due to the aforementioned factors. Since the business segments of the Home & Mobile Electronics business were changed from the current fiscal year, operating results of the fourth quarter of the fiscal year under review cannot be compared simply with those of the corresponding period of the previous fiscal year. When compared according to the previous business segments, net sales for the fourth quarter decreased by about ¥18,100 million (down 42.1%) and operating loss remained unchanged from a year ago.

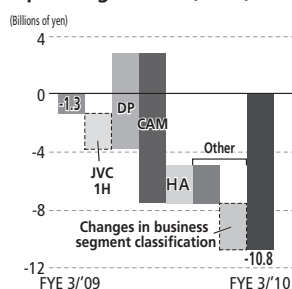
Compared with the third quarter of the current fiscal year, net sales fell by about ¥15,600 million (down 39.3%) and operating loss by approximately ¥1,100 million.

## Home & Mobile Electronics Business

### Net Sales (Y-o-Y)



### Operating Income (Y-o-Y)



## \*Professional Systems Business

In the mainstay land mobile radio segment, the number of orders received fell mainly for products for the public safety market, since companies noticeably postponed executing their investment budgets. In addition, there was a slow recovery in investment budgets for the public safety market in the US, which is the largest market. However, recovery advanced in private-sector demand, including demand related to railways in the US. Sales of digital radio systems, which JVC Kenwood originally developed and strived to sell in the private-sector market, expanded considerably. Meanwhile, sales of digital radio systems increased in Europe, Asia and other regions. As a result, this business maintained a profit on a full-year basis.

The business solution segment posted a loss for the full year due to weaker demand caused by a freeze on private-sector capital spending both in Japan and abroad, and declining prices, thus causing a delay in recovery. In the fourth quarter, however, profit/loss of this segment improved more than expected mainly thanks to the effects of structural reforms.

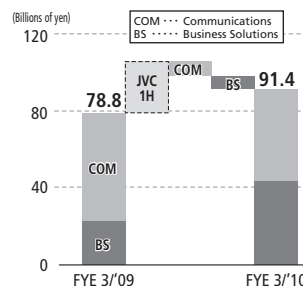
Consequently, net sales of the Professional Systems business for the fiscal year under review were ¥91,389 million, while operating loss amounted to ¥1,321 million because operating loss of the first quarter could not be compensated for.

Net sales for the fourth quarter were ¥25,496 million, unchanged from a year ago, due to a recovery in orders received in both the land mobile radio and business solution segments. Meanwhile, operating income was ¥154 million, down about ¥1,400 million (down 89.9%) from the previous fiscal year, although operating income was ensured.

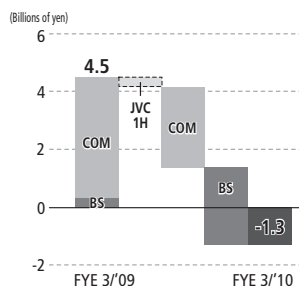
Compared with the third quarter of the current fiscal year, net sales increased by about ¥4,200 million (up 19.6%) and operating income improved by about ¥300 million.

## Professional System Business

### Net Sales (Y-o-Y)



### Operating Income (Y-o-Y)



## \*Entertainment Business

In the content business, while animation-related sales were robust, music-related sales were sluggish due to weak sales of old albums and a small number of new albums amid an off season for blockbuster releases. In businesses on consignment such as pressing and distribution of music software, the quantity of consignments fell due to a decline in the popularity of music software.

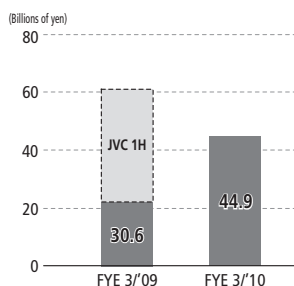
Consequently, net sales of this business for the fiscal year under review were ¥44,933 million, and operating loss was ¥1,743 million.

Net sales for the fourth quarter decreased by about ¥1,700 million (down 14.5%) to ¥9,894 million, and operating loss increased by about ¥400 million to ¥796 million due to the factors described above.

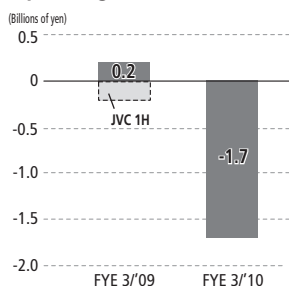
Compared with the third quarter of the fiscal year, net sales decreased by about ¥1,600 million (down 13.7%), and operating loss increased by about ¥200 million.

## Entertainment Business

### Net Sales (Y-o-Y)



### Operating Income (Y-o-Y)



## Net Sales, Operating Income and Loss by Business Segment

FYE 3/10

(Millions of yen)

Segment		FYE 3/10	(Reference) FYE 3/10 (Previous classification)	(Reference) FYE 3/09
Car Electronics	Net Sales	107,814	107,814	92,237
	Operating Income (Loss)	4,090	4,106	-4,180
Home & Mobile Electronics	Net Sales	141,773	144,459	105,412
	Operating Income (Loss)	-10,752	-7,399	-1,346
Professional Systems	Net Sales	91,390	91,759	78,758
	Operating Income (Loss)	-1,321	-2,030	4,506
Entertainment	Net Sales	44,934	44,934	30,617
	Operating Income (Loss)	-1,744	-1,744	248
Other	Net Sales	12,752	9,697	4,275
	Operating Income (Loss)	3,273	613	-765
Total	Net Sales	398,663	398,663	311,299
	Operating Income (Loss)	-6,454	-6,454	-1,537
	Ordinary Income (Loss)	-14,753	-14,753	-9,760
	Net Income (Loss)	-27,796	-27,796	-30,735

## 4Q of FYE 3/10

(Millions of yen)

Segment		4Q of FYE 3/10	(Reference) 4Q of FYE 3/10 (Previous classification)	(Reference) 4Q of FYE 3/09
Car Electronics	Net Sales	30,071	30,071	23,182
	Operating Income (Loss)	3,831	3,799	-2,927
Home & Mobile Electronics	Net Sales	24,140	24,970	43,094
	Operating Income (Loss)	-2,630	-1,703	-1,589
Professional Systems	Net Sales	25,497	25,649	25,343
	Operating Income (Loss)	154	-24	1,520
Entertainment	Net Sales	9,895	9,895	11,577
	Operating Income (Loss)	-796	-796	-431
Other	Net Sales	3,634	2,652	1,439
	Operating Income (Loss)	1,705	988	-510
Total	Net Sales	93,237	93,237	104,635
	Operating Income (Loss)	2,264	2,264	-3,937
	Ordinary Income (Loss)	-485	-485	-7,925
	Net Income (Loss)	-5,516	-5,516	-19,669

### Notes:

- Operating results for the fiscal year ended March 2009 were obtained by consolidating the operating results of Kenwood for the fiscal year ended March 2009 with those of JVC for the second half of the fiscal year ended March 2009; the operating results of JVC for the first half of the fiscal year ended March 2009 are not consolidated.

- For the fiscal year ended March 2009, patent revenue and profit/loss related to the business incubation business are mainly included in the "Home & Mobile Electronics" segment, while profit/loss regarding the optical pickup business is included in the "Others" segment. For the fiscal year ended March 2010, patent revenue and profit/loss related to the business incubation business are included in the "Others" segment, while profit/loss regarding the optical pickup business is included in the "Car Electronics" segment and the "Home & Mobile Electronics" segment.
- Figures for the fiscal year ended March 2010 (previous segmentation) represent net sales and profit/loss by segment according to the segmentation for the fiscal year ended March 2009.

## Analysis of Financial Position

### ► Analysis of assets, liabilities and net assets

#### \* Assets

Total assets at the end of the fiscal year under review decreased by about ¥69,300 million from the end of the previous fiscal year to ¥274,751 million due to a decrease of accounts receivable and a reduction of inventories, in addition to the partial sale of tangible fixed assets such as land and buildings.

#### \* Liabilities

Interest-bearing debts (sum of loans payable and bonds payable) decreased by about ¥25,800 million from the end of the previous fiscal year to ¥108,306 million. The total liabilities decreased by about ¥41,700 million from the end of previous fiscal year to ¥227,932 million due to the redemption of bonds of ¥20,000 million at JVC and the repayment of short-term loans payable that related to the repurchase of the Company's shares that were held by Kenwood. The net debt (amount obtained by subtracting cash and deposits from interest-bearing debts) decreased by about ¥16,900 million from the end of the previous fiscal year to ¥64,804 million.

#### \* Net assets

Total shareholders' equity decreased by about ¥27,500 million from the end of the previous fiscal year to ¥62,580 million and total net assets decreased by about ¥27,600 million from the end of the previous fiscal year to ¥46,819 million due to the posting of a net loss for the fiscal year under review.

### ► Cash flow analysis

#### \* Cash flows from operating activities

Although income before income taxes recorded a loss of ¥23,957 million, net cash provided by operating activities for the fiscal year under review was ¥21,453 million, as the required operating fund decreased due to a sharp reduction in trade notes and accounts receivable and inventories.

#### \* Cash flows from investing activities

Net cash spent in investing activities for the fiscal year under review was ¥3,158 million. This was due to the acquisition of tangible and intangible fixed assets, despite proceeds from sales of property, plant and equipment of about ¥7,500 million.

#### \* Cash flows from financing activities

Net cash spent in financing activities for the fiscal year under review was ¥27,120 million. This was due to the redemption of unsecured bonds and reduction in interest-bearing debts resulting from a repayment of long-term loans payable.

As of the end of the fiscal year under review, cash and cash equivalents totaled ¥43,408 million.

## Cash flow-related Indexed

	FYE10/3
Shareholders' equity ratio (%)	16.7
Market value-based shareholders' equity ratio (%)	13.7
Ratio of interest-bearing liabilities to cash flows (%)	504.8
Interest coverage ratio (times)	6.8

### Calculation methods:

- Shareholders' equity ratio=Net assets/Total assets
- Market value-based shareholders' equity ratio=Stock market capitalization/Total assets
- Ratio of interest-bearing liabilities to cash flows=Interest-bearing liabilities/Operating cash flow
- Interest coverage ratio=Operating cash flow/Interest payments

### Notes:

- All indexes are calculated using consolidated financial data
- Stock market capitalization is obtained by multiplying the closing share price at the term end by the number of outstanding shares at the term end (excluding treasury stock).

## Dividends

JVC Kenwood considers it one of the most important managerial issues to provide shareholders with stable returns on their investment, and will decide on details such as the distribution of retained earnings by comprehensively taking into account profitability and financial conditions.

For the term under review (the fiscal year ended March 2010), we in JVC Kenwood refrained from paying year-end dividends, since we must concentrate our management resources to accomplish an earnings recovery in the future.

For the next term (the fiscal year ending March 2011), we plan to make no dividend payment for similar reasons.

# Consolidated Balance Sheets

JVC KENWOOD Holdings, Inc. and Consolidated Subsidiaries

As of March 31, 2010 and 2009

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
<b>Current Assets:</b>			
Cash and cash equivalents (Notes 7 and 15)	¥ 43,408	¥ 52,393	\$ 466,552
Time deposits (Notes 15)	94	24	1,010
Notes and accounts receivables (Notes 7 and 15)			
Trade	62,442	73,074	671,131
Unconsolidated subsidiaries and associated companies	814	190	8,749
Other	6,316	6,364	67,885
Less: Allowance for doubtful receivables	(3,847)	(3,485)	(41,348)
Inventories (Note 7)			
Finished goods	31,051	48,396	333,738
Work in process	4,121	5,131	44,293
Raw materials and supplies	9,588	14,045	103,053
Other current assets (Notes 7 and 12)	9,072	9,572	97,506
Total current assets	163,059	205,704	1,752,569
<b>Property, Plant and Equipment (Notes 5, 7 and 18) :</b>			
Land (Note 6)	47,363	57,449	509,061
Buildings and structures	82,019	93,991	881,546
Machinery and equipment	67,609	76,744	726,666
Furniture and fixtures	104,471	124,018	1,122,860
Construction in progress	1,093	2,683	11,748
Total	302,555	354,885	3,251,881
Accumulated depreciation	(222,579)	(254,436)	(2,392,294)
Net property, plant and equipment	79,976	100,449	859,587
<b>Investments and Other Assets:</b>			
Investment securities (Notes 4 and 15)	4,586	4,126	49,291
Investments in and advances to unconsolidated subsidiaries and associated companies	855	1,568	9,190
Goodwill (Note 18 and 19)	5,278	5,581	56,728
Software (Note 7)	9,110	9,011	97,915
Bond issuance costs	307	464	3,300
Stock issuance costs	70	159	752
Other (Notes 7 and 12)	11,511	17,015	123,720
Total investments and other assets	31,717	37,924	340,896
Total Assets	¥ 274,752	¥ 344,077	\$ 2,953,052

See notes to consolidated financial statements.



# Consolidated Balance Sheets (continued)

JVC KENWOOD Holdings, Inc. and Consolidated Subsidiaries

As of March 31, 2010 and 2009

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
<b>Current Liabilities:</b>			
Notes and accounts payables (Note 15)			
Trade	¥ 30,843	¥ 30,150	\$ 331,501
Unconsolidated subsidiaries and associated companies	529	242	5,686
Other	5,799	7,592	62,328
Short-term bank loans (Notes 7 and 15)	77,686	72,540	834,974
Current portion of long-term debt (Notes 7 and 15)	8,541	42,530	91,799
Accrued expenses (Note 15)	36,383	46,751	391,047
Income taxes payable (Note 15)	2,407	1,458	25,871
Warranty reserves	3,050	3,452	32,782
Sales return reserves	1,541	1,401	16,563
Restructuring reserves		3,745	
Other current liabilities (Notes 4 and 12)	9,235	8,596	99,259
Total current liabilities	176,014	218,457	1,891,810
<b>Long-term Liabilities:</b>			
Long-term debt (Notes 7 and 15)	24,297	22,473	261,146
Liability for retirement benefits (Note 8)	16,273	17,691	174,903
Deferred tax liabilities (Notes 6 and 12)	10,892	10,517	117,068
Other	457	500	4,911
Total long-term liabilities	51,919	51,181	558,028
<b>Commitments and Contingent Liabilities (Notes 5, 14 and 16)</b>			
<b>Equity (Note 9):</b>			
Common stock, authorized – 4,000,000,000 shares			
Issued – 1,090,002,015 shares in 2010			
1,090,002,015 shares in 2009	10,000	10,000	107,481
Capital surplus	111,143	111,143	1,194,572
Stock acquisition rights	21		226
Retained earnings	(38,301)	(10,765)	(411,663)
Net unrealized gain (loss) on available-for-sale Securities	256	(401)	2,752
Deferred gain on derivatives under hedge accounting	385	40	4,138
Land revaluation surplus (Note 6)	2,954	2,954	31,750
Foreign currency translation adjustments	(20,295)	(20,113)	(218,132)
Less: Treasury stock at cost ;	(20,262)	(20,262)	(217,777)
Common stock 123,121,612 shares in 2010 (Common stock 123,115,713 shares in 2009)			
Total shareholders' equity	45,901	72,596	493,347
Minority interests	918	1,843	9,867
Total equity	46,819	74,439	503,214
Total liabilities and equity	¥ 274,752	¥ 344,077	\$ 2,953,052

See notes to consolidated financial statements.

# Consolidated Statements of Operations

JVC KENWOOD Holdings, Inc. and Consolidated Subsidiaries

For the years ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
Net Sales	¥ 398,663	¥ 311,299	\$ 4,284,856
Cost of Sales (Note 11)	290,074	224,711	3,117,734
Gross profit	108,589	86,588	1,167,122
Selling, General and Administrative Expenses (Note 10 and 11)	115,043	88,125	1,236,490
Operating loss	(6,454)	(1,537)	(69,368)
<b>Other Income (Expenses):</b>			
Interest and dividend income	407	410	4,374
Interest expenses	(3,161)	(2,325)	(33,975)
Foreign exchange loss	(830)	(3,040)	(8,921)
Loss on sales of property, plant and equipment, net	(1,743)	(2,010)	(18,734)
Gain on sales of investment securities, net (Note 4)	20	370	215
Loss on disposal of property, plant and equipment	(780)	(662)	(8,383)
Business structure improvement expenses	(945)	(539)	(10,157)
Provision for inventory reserve		(740)	
Employment structure improvement expenses	(846)	(1,383)	(9,093)
Reversal of profit on liquidation of debt account	(1,088)		(11,694)
Loss on impairment of long-lived assets (Note 18)	(4,444)	(12,481)	(47,764)
Other, net	(4,094)	(4,623)	(44,002)
<b>Other Expenses, Net</b>	<b>(17,504)</b>	<b>(27,023)</b>	<b>(188,134)</b>
<b>Loss before Income Taxes and Minority Interests</b>	<b>(23,958)</b>	<b>(28,560)</b>	<b>(257,502)</b>
<b>Income Taxes (Note 12):</b>			
Current	2,584	1,836	27,773
Income taxes for prior periods	318	357	3,418
Deferred	922	48	9,910
Total income taxes	3,824	2,241	41,101
<b>Minority Interests in Net loss</b>	<b>14</b>	<b>(66)</b>	<b>150</b>
<b>Net Loss</b>	<b>¥ (27,796)</b>	<b>¥ (30,735)</b>	<b>\$ (298,753)</b>
<hr/>			
	Yen		U.S. Dollars (Note 1)
<b>Per Share of Common Stock (Notes 3(v) and 13):</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>
Basic net loss	¥ (28.75)	¥ (46.14)	\$ (0.31)

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Equity

JVC KENWOOD Holdings, Inc. and Consolidated Subsidiaries

For the years ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
<b>Common Stock (Note 9):</b>			
Beginning balance	¥ 10,000	¥ 11,059	\$ 107,481
Decrease by share transfers		(1,059)	
Ending balance	¥ 10,000	¥ 10,000	\$ 107,481
<b>Capital surplus (Note 9):</b>			
Beginning balance	¥ 111,143	¥ 13,374	\$ 1,194,572
Increase by share transfers		97,894	
Retirement of treasury stock		(125)	
Ending balance	¥ 111,143	¥ 111,143	\$ 1,194,572
<b>Stock Acquisition Rights (Note 9):</b>			
Beginning balance			
Net increase of subscription rights to shares	¥ 21		\$ 226
Ending balance	¥ 21		\$ 226
<b>Retained Earnings (Note 9):</b>			
Beginning balance	¥ (10,765)	¥ 21,534	\$ (115,704)
Adjustment due to adoption of PITF No.18 (Note 3(t))		(97)	
Cash dividends		(1,467)	
Change of scope of consolidation	260		2,794
Net loss	(27,796)	(30,735)	(298,753)
Ending balance	¥ (38,301)	¥ (10,765)	\$ (411,663)
<b>Net Unrealized Gain (Loss) on Available-for-sale Securities:</b>			
Beginning balance	¥ (401)	¥ (7,319)	\$ (4,310)
Net decrease of unrealized loss on available-for-sale securities	657	6,918	7,062
Ending balance	¥ 256	¥ (401)	\$ 2,752
<b>Deferred Gain on Derivatives under Hedge Accounting:</b>			
Beginning balance	¥ 40		\$ 430
Net increase of gain on derivatives under hedge accounting	345	¥ 40	3,708
Ending balance	¥ 385	¥ 40	\$ 4,138
<b>Land Revaluation Surplus (Note 6):</b>			
Beginning balance	¥ 2,954	¥ 2,954	\$ 31,750
Ending balance	¥ 2,954	¥ 2,954	\$ 31,750
<b>Foreign Currency Translation Adjustments:</b>			
Beginning balance	¥ (20,113)	¥ (11,558)	\$ (216,176)
Net decrease of foreign currency translation adjustments	(182)	(8,555)	(1,956)
Ending balance	¥ (20,295)	¥ (20,113)	\$ (218,132)

See notes to consolidated financial statements.

## Consolidated Statements of Changes in Equity (continued)

JVC KENWOOD Holdings, Inc. and Consolidated Subsidiaries

For the years ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
<b>Treasury Stock, at Cost, Common Stock (Note 9):</b>			
Beginning balance	¥ (20,262)	¥ (118)	\$ (217,777)
Repurchase of treasury stock		(8)	
Retirement of treasury stock		125	
Increase by share transfers		(20,261)	
Ending balance	¥ (20,262)	¥ (20,262)	\$ (217,777)
<b>Total JVC Kenwood Holdings, Inc. Shareholders' Equity</b>	<b>¥ 45,901</b>	<b>¥ 72,596</b>	<b>\$ 493,347</b>
<b>Minority Interests:</b>			
Beginning balance	¥ 1,843		\$ 19,809
Net (decrease) increase of minority interests	(925)	¥ 1,843	(9,942)
Ending balance	¥ 918	¥ 1,843	\$ 9,867
<b>Total Equity</b>	<b>¥ 46,819</b>	<b>¥ 74,439</b>	<b>\$ 503,214</b>
<b>Number of shares of common stock outstanding</b>			
Beginning balance	Thousands		
	966,886		
Repurchase of treasury stock	(6)		
Ending balance	966,880		

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

JVC KENWOOD Holdings, Inc. and Consolidated Subsidiaries

For the years ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
<b>Operating Activities:</b>			
Loss before income taxes and minority interests	¥ (23,958)	¥ (28,560)	\$ (257,502)
Adjustments to reconcile loss before income taxes and minority interests to net cash provided by operating activities:			
Income taxes - paid	(2,242)	(2,377)	(24,097)
Depreciation	19,484	15,462	209,415
Amortization of goodwill	327	404	3,515
Loss on impairment of long-lived assets	4,444	12,481	47,764
Gain on sales of investment securities	(20)	(370)	(215)
Loss on disposal of property, plant and equipment	780	662	8,383
Loss on sales of property, plant and equipment, net	1,743	2,010	18,734
Change in assets and liabilities:			
Decrease in trade notes and accounts receivable	9,424	19,015	101,290
Decrease in inventories	21,992	24,333	236,371
Increase (decrease) in trade notes and accounts payable	752	(22,227)	8,083
Decrease in restructuring reserves	(3,745)	(5,739)	(40,252)
Decrease in accrued expenses	(10,930)	(7,768)	(117,476)
Increase in allowance for doubtful accounts	467	126	5,019
Decrease in liability for retirement benefits	(1,292)	(1,218)	(13,887)
Other, net	4,227	4,191	45,433
Total adjustments	45,411	38,985	488,080
Net cash provided by operating activities	21,453	10,425	230,578
<b>Investing Activities:</b>			
Purchases of property, plant and equipment	(7,533)	(9,769)	(80,965)
Proceeds from sales of property, plant and equipment	7,497	6,841	80,578
Purchases of software and other intangibles	(4,329)	(6,690)	(46,528)
Proceeds from sales of investment securities	32	1,197	344
Sales of investments in previously consolidated subsidiaries (Note 17)		(1,218)	
Other, net	1,175	(1,649)	12,629
Net cash used in investing activities	(3,158)	(11,288)	(33,942)
<b>FORWARD</b>	¥ 18,295	¥ (863)	\$ 196,636

## Consolidated Statements of Cash Flows (continued)

JVC KENWOOD Holdings, Inc. and Consolidated Subsidiaries

For the years ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
FORWARD	¥ 18,295	¥ (863)	\$ 196,636
<b>Financing Activities:</b>			
Increase in short-term bank loans, net	5,268	11,873	56,621
Proceeds from long-term debt	13,700		147,249
Repayment of long-term debt	(23,080)		(248,065)
Payment of redemption of bonds	(21,531)	(480)	(231,417)
Cash dividends paid		(1,453)	
Other, net	(1,477)	(675)	(15,876)
Net cash provided (used) in financing activities	(27,120)	9,265	(291,488)
Effect of Exchange Rate Changes on Cash and Cash Equivalent	(229)	(3,479)	(2,461)
Net Increase (Decrease) in Cash and Cash Equivalents	(9,054)	4,923	(97,313)
Cash and Cash Equivalents at the Beginning of Year	52,393	14,952	563,123
Increase in Cash and Cash Equivalents by Share Transfers (Note 17)		32,518	
Increase in Cash and Cash Equivalents Resulting from Change of Scope of Consolidation	69		742
Cash and Cash Equivalents at End of Year	¥ 43,408	¥ 52,393	\$ 466,552

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

JVC KENWOOD Holdings, Inc. and Consolidated Subsidiaries

For the years ended March 31, 2010 and 2009

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of JVC KENWOOD Holdings, Inc. (the "Company") and its consolidated subsidiaries (together, the "Group") have been prepared based on the consolidated financial statements, which were filed with the Financial Services Agency ("FSA") pursuant to provisions set forth in the Japanese Financial Instruments and Exchange Act, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The Company was established on October 1, 2008, as a joint holding company, that owns Victor Company of Japan, Limited ("JVC") and Kenwood Corporation ("Kenwood") as wholly owned subsidiaries through management integration by way of stock transfer. The business combination was accounted for with Kenwood as the acquirer, and as such the Company succeeded all Kenwood accounts including the balances in equity at the time of business combination. As a result, a full year of operating results for Kenwood from April 1, 2008, and six month operating results of JVC from October 1, 2008, have been included in the accompanying statement of operations.

After the establishment of the Company, the Company's management identified that there were certain inappropriate accounting treatments adopted by JVC with respect to the previously reported operating results. Accordingly, the Company's management decided to correct and restate its consolidated financial statements previously filed with FSA for the period from its establishment on October 1, 2008 through the second quarter of the year ended March 31, 2010. The accompanying consolidated financial statements reflect such correction and have been prepared based on such restatements.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥93.04 to \$1, the approximate rate of exchange at March 31, 2010. Such translation should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. Going Concern

The JVC Kenwood Group, given its high percentage of overseas sales, experienced sharp falls in earnings in the consumer electronics and professional electronics business or market due primarily to the impact on the real global economy of financial instability that originated in the U.S. and the rapid strengthening of the yen. After having posted a net loss of ¥30,735 million on a consolidated basis for the year ended March 31, 2009, the Group posted a net loss of ¥27,796 million (\$298,753 thousand) for the year ended March 31, 2010. In addition, JVC and its consolidated subsidiaries posted net losses consecutively from the year ended March 31, 2005 through to the year ended March 31, 2010. As outlined in note 7, the Group, on a consolidated basis as of the year ended March 31, 2010, is accordingly in breach of financial covenant clauses concerning a portion of the loan agreements of JVC (covenants relating to JVC's consolidated shareholders' equity and operating income and loss) and a portion of the loan agreements of Kenwood (covenants relating the Group's consolidated shareholders' equity) (totaling ¥45,268 million (\$486,543 thousand)). As a result, the JVC Kenwood Group, on a consolidated basis, as of the year ended March 31, 2010, is in a situation that raises doubts as to the ability of the Company to continue as a going concern assumption.

The Group, based on the Car Electronics Business, for which sales and earnings have been recovering given the effects of restructuring and integration, has been making efforts to further restructure revenues of this business by implementing, in accordance with the business structural reform action plan developed in October 2009, actions such as structural reforms in Europe and China including staff reductions at sales subsidiaries and fully implementing structural reforms of the Home & Mobile Electronics Business, which includes terminating production of the Mexican plant and reducing manpower at plants in Thailand and Malaysia, and has been strengthening its efforts to pursue structural reforms and increase orders of the Professional Systems Business, (focusing particularly on the business solutions field), recovery of which has been delayed, with the aim of recovering the sales and earnings of all companies within the Group.

Furthermore, to reconstruct the corporate base for executing future growth strategies, the Group will concentrate on strengthening targeted businesses and restructuring unprofitable businesses, cost reforms including sharp reductions of fixed expenses and financial reforms including funding and capital strategies, implement these efforts and reforms to promptly recover business performance and financial condition.

Meanwhile, JVC and Kenwood, with respect to the financial covenant clauses contained in the loan agreements, which the organizations are in breach of, have received agreements from lenders to abandon their rights to claim forfeiture of the benefit of time in connection with the subject breaches of financial covenants. Moving forward, given the scheduled refinancing and repayments of bank loans including the aforementioned loan agreements, steps will be taken to continue seeking support from major financial institution relationships.

Currently, while the improvement measures previously described are being pursued, taking into consideration that any recovery of business performance will be impacted by future consumer demand and economic trends, and that negotiations with financial institutions are underway with respect to the refinancing of loans maturing within the next year, at the present time, a serious uncertainty over the going concern assumption can be recognized.

The accompanying consolidated financial statements for the year ended March 31, 2010, have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty.

## 3. Significant Accounting Policies

### (a) Principles of Consolidation

The consolidated financial statements as of March 31, 2010, include the accounts of the Company and its 111 (116 in 2009) significant subsidiaries. Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations

are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

In the fiscal year ended March 31, 2010, the Company's non-consolidated subsidiary Victor Kosan Co., Ltd. and consolidated subsidiary Kenwood Admi Corporation were integrated and merged with the name of the newly established company changed to J&K Partners Corporation. On this basis, J&K Partners Corporation was included within the Group's scope of consolidation. At the same time, Kenwood Admi Corporation was excluded from the Group's scope of consolidation as a result of its liquidation. The Company's consolidated subsidiary, Victor Service & Engineering Co., Ltd., was newly established as Victor Service & Engineering Co., Ltd. following corporate separation. Following its merger with consolidated subsidiary Kenwood Core Corporation, the newly established entity changed its name to J&K Business Solutions Corporation. As a result of these initiatives, the newly established Victor Service & Engineering Co., Ltd. was included within the Group's scope of consolidation. At the same time, Kenwood Core Corporation was excluded from the Group's scope of consolidation as a result of its liquidation. Furthermore, the Company's consolidated subsidiaries, Kenwood Electronics Brasil Ltda. and JVC DO BRASIL LTDA., were merged with the newly established company changing its name to JVC KENWOOD DO BRASIL COMÉRCIO DE ELETRÔNICOS LTDA. Following this initiative, Kenwood Electronics Brasil Ltda. was excluded from the Group's scope of consolidation as a result of its liquidation. JVC FOREX (UK) LIMITED, JVC LITE-ON IT MANUFACTURING AND SALES, LIMITED, JVC (U.K.) LIMITED and Kenwood Logistics (S) Pte Ltd. were all excluded from the Group's scope of consolidation following their liquidation.

Investment in one (one in 2009) associated company is accounted for by the equity method.

Non-consolidated subsidiary companies not accounted for by the equity method include Video-Tech Co., Ltd. and 15 (18 in 2009) other companies and associated companies include TAISHITA Label Music Co., Ltd. and 11 (10 in 2009) other companies. These non-consolidated subsidiary companies and associated companies are excluded from the application of the equity method because our proportionate share of their net income and retained earnings have only a slight effect on our consolidated financial statements and are considered insignificant overall.

The excess of the cost of an acquisition and the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over five to twenty years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated. The Company basically succeeded the accounting policies and procedures adopted by Kenwood in preparing for the consolidated financial statements since the management integration.

#### **(b) Cash Equivalents**

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of deposits, and commercial paper, all of which mature or become due within three months of the date of acquisition.

#### **(c) Foreign Currency Transactions and Financial Statements**

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statement of operations to the extent that they are not hedged by forward exchange contracts.

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average annual rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of equity.

#### **(d) Inventories**

Inventories are principally stated at the lower of cost, determined by the gross-average method or net selling value. Inventories held by foreign subsidiaries are principally stated at the lower of cost, determined by the first-in, first-out method, or market.

In July 2006, the ASBJ issued ASBJ Statement No.9, "Accounting Standard for Measurement of Inventories". This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

From the fiscal year beginning on April 1, 2008, the Company and its domestic subsidiaries applied this new accounting standard.

#### **(e) Allowance for Doubtful Receivables**

The Company and its domestic consolidated subsidiaries provide an allowance for doubtful receivables in an amount sufficient to cover expected probable losses on collection of receivables. It consists of an estimated uncollectible amount with respect to certain identified doubtful receivables and an amount calculated using the actual percentage of collection losses with respect to the other receivables. Foreign consolidated subsidiaries provide an estimated uncollectible amount of receivables.

#### **(f) Marketable and Investment securities**

All debt and equity securities are classified as available-for-sale securities based on management's intention. Available-for-sale securities other than non-marketable securities are reported at fair value with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

#### **(g) Derivatives and Hedging Activities**

The Group uses foreign currency forward contracts, currency options, interest rate swaps, and interest caps as a means of hedging exposure to foreign currencies and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and



measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of operations and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts and currency options are employed to hedge foreign exchange exposures for export sales and procurement of raw materials from foreign suppliers.

Trade receivables and payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Forward contracts applied to forecasted transactions are also measured at fair value but the unrealized gains or losses are deferred until the underlying transactions are completed.

Interest rate swaps and caps are employed to hedge interest rate exposures of long-term debt and bonds. The interest rate swaps and caps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expenses or income.

#### (h) Property, Plant and Equipment

Property, Plant and Equipment is stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to property, plant and equipment of foreign consolidated subsidiaries over their estimated useful lives. The ranges of useful lives are as follow:

- Buildings and structures 2 to 60 years
- Machinery and equipment 2 to 16 years
- Furniture and fixtures 1 to 20 years

Leasing arrangements that do not deem to transfer ownership of the leased property to the lessee are depreciated on the straight-line method over the respective lease terms without residual value.

#### (i) Intangible Assets (excluding Leased Assets)

Internal use software is carried at cost less accumulated amortization, which is calculated by the straight-line method principally over their estimated useful lives, three to five years. Internally developed software, incorporated as part of a product, is carried at cost less accumulated amortization, which is calculated by the proportion of the actual sales volume of the products during the current year to the estimated total sales volume over the estimated salable years of the products or by the straight-line method over the estimated salable years of the products, one to five years, with consideration for the nature of the products. Goodwill and other intangible assets are carried at cost less accumulated amortization, which is calculated by the straight-line method over five to twenty years for goodwill and five to fifteen years for other intangible assets.

#### (j) Long-lived Assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or net selling price at disposition.

#### (k) Leases

Finance leases that do not deem to transfer ownership of the leased property to the lessee are depreciated on the straight-line method over the lease term with zero residual value.

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions", which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions are capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and did not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

The Company applied the revised accounting standard effective from April 1, 2008. Kenwood and its domestic subsidiaries continued to account for finance leases which existed at the transition date and did not deem to transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

The method used to calculate depreciation expenses for leased assets involving finance lease transactions under which the ownership of the leased assets is transferred to lessees is the same as that applied to fixed assets owned by the Company.

#### (l) Accounting Standards Applicable to significant Revenue and Expense Items

**Construction Contracts**—In December 2007, the ASBJ issued ASBJ Statement No. 15 "Accounting Standard for Construction Contracts" and ASBJ Guidance No. 18 "Guidance on Accounting Standard for Construction Contracts". Under the previous Japanese GAAP, either the completed-contract method or the percentage-of-completion method was permitted to account for construction contracts. Under this new accounting standard, the construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot

be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts. This standard is applicable to construction contracts and software development contracts and effective for fiscal years beginning on or after April 1, 2009. The Company and consolidated subsidiaries applied the new accounting standard effective April 1, 2009.

There was no impact on sales and income as a result of the application of the new accounting standard.

#### **Revenue Recognition on Music License Agreements**

In connection with licenses for music under management held by the Company's subsidiary Victor Entertainment, Inc. and other companies, the recognition of sales was in principle previously recognized based on an apportionment method over the term of each license. Effective from the fiscal year ended March 31, 2010, for transactions that are deemed as sales of assets or interests and considered material under the terms and conditions of each agreement, the method for recording the recognition of sales has changed such that sales are now recognized in full at the time license agreements are concluded. This change was adopted in conjunction with a review of transactions relating to music and other copyrights in the fiscal year under ended March 31, 2010 in order to better reflect in consolidated financial statements adjustments to actual conditions following revenue recognition of transactions deemed as sales of material assets or the rights. As a result of this change, sales increased by ¥124 million (\$1,333 thousand) while operating loss and loss before incomes taxes and minority interests decreased by ¥124 million (\$1,333 thousand) respectively, for the year ended March 31, 2010, compared with the previously applied method.

#### **(m) Bond Issuance Costs**

Bond issuance costs, which are capitalized and included in investment and other assets, net of accumulated amortization, are amortized using the straight-line method over the term of the bond.

#### **(n) Stock Issuance Costs**

Stock issuance costs, which are capitalized and included in investment and other assets, net of accumulated amortization, are amortized using the straight-line method over three years.

#### **(o) Stock Acquisition Rights Issuance Costs**

Stock acquisition rights issuance costs, which are recorded in Investment and other assets, are amortized using the straight-line method over stock acquisition rights exercise period (two years).

#### **(p) Income Taxes**

The provision for income taxes is computed based on the pretax income included in the consolidated statement of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

The Group files a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly-owned domestic subsidiaries.

#### **(q) Retirement and Pension Plans**

The Company and certain domestic consolidated subsidiaries have non-contributory, funded defined benefit pension plans and unfunded retirement benefit plans which cover substantially all employees. Certain foreign consolidated subsidiaries have non-contributory, funded defined benefit pension plans and defined contribution plans. The Group accounts for the liability for retirement benefits based on projected benefit obligations and fair value of plan assets at the balance sheet date. Unrecognized prior service costs are amortized on a straight-line method over five to ten years, which is determined within the average remaining service periods for the employees, from the year in which it occurs. Unrecognized actuarial gains or losses are amortized on a straight-line method over ten years, which is determined to be within the average remaining service periods for the employees, from the following year in which it occurs. The transitional obligation is being amortized over fifteen years.

Effective from the fiscal year ended March 31, 2010, the Group adopted a new accounting standard, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (Accounting Standards Board of Japan (ASBJ) Statement No. 19 released on July 31, 2008). Since any actuarial differences from applying the new standard are amortized from the next fiscal year, this change had no impact on operating loss, loss before income taxes and minority interests for the year ended March 31, 2010.

In addition, the balance of the differences in retirement benefit obligations that arises as a result of adopting this accounting standard which has not been accounted for the year ended March 31, 2010, is ¥7,331 million (\$78,794 thousand).

#### **(r) Warranty Reserves**

In connection with normal sales of product, the Group generally provides product warranty related to its goods for certain period or term and establishes an estimate of potential warranty claims using the historical information on the nature, frequency, and average cost of claims.

#### **(s) Restructuring Reserve**

With respect to the management integration of JVC and Kenwood, the Company applied the business combination accounting method, assuming Kenwood as the acquiring company based on the Statement of Opinion, "Accounting for Business Combinations", issued by the Business Accounting Council (the "BAC") on October 31, 2003, and recorded restructuring reserve to the extent of the reasonably estimated amount of the costs associated with exit or disposal activities in foreseeable future, including losses on disposal of assets, divestiture of subsidiaries, arrangement of employees, and etc.

#### **(t) Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**

In the case that financial statements of foreign subsidiaries are prepared in accordance with generally accepted accounting principles in their respective jurisdictions, they are adjusted in the consolidation process in accordance with International Financial Reporting Standard or the generally accepted

accounting principles in the United States.

On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements". The PITF No.18 prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interest from net income, if contained. The Company applied this accounting standard effective from April 1, 2008.

#### (u) Appropriation of Retained Earnings

Appropriation of retained earnings is reflected in the accompanying consolidated financial statements for the following year upon the Board of Directors' approval.

#### (v) Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share is not presented in the accompanying consolidated financial statements, as this is mainly attributable to the net loss for the year despite the Company has dilutive items.

Cash dividends per share presented in the accompanying consolidated statement of operation are dividends applicable to the fiscal year including dividends to be paid after the end of the year.

#### (w) New Accounting Pronouncements

**Business Combinations**—On December 26, 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No.21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows; (1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires that such business combination be accounted for by the purchase method and the pooling of interests method of accounting is no longer allowed. (2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development (IPR&D) acquired by the business combination is capitalized as an intangible asset. (3) The current accounting standard accounts for a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

**Asset Retirement Obligations**—On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No.18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No.21 "Guidance on Accounting Standard for Asset Retirement Obligations". Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

**Measurement of Inventories**—On September 26, 2008, the ASBJ issued ASBJ Statement No. 9 (revised 2008), "Accounting Standard for Measurement of Inventories". Under this accounting standard, the Last-In, First-Out (LIFO) method is no longer permitted. This standard is applicable for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

**Accounting Changes and Error Corrections**—In December 2009, ASBJ issued ASBJ Statement No. 24 "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24 "Guidance on Accounting Standard for Accounting Changes and Error Corrections".

Accounting treatments under this standard and guidance are as follows;

##### (1) Changes in Accounting Policies:

When a new accounting policy is applied with revision of accounting standards, a new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall

comply with the specific transitional provisions.

(2) Changes in Presentations

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior Period Errors

When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

**Segment Information Disclosures**—In March 2008, the ASBJ revised ASBJ Statement No. 17 “Accounting Standard for Segment Information Disclosures” and issued ASBJ Guidance No.20 “Guidance on Accounting Standard for Segment Information Disclosures”. Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

#### 4. Investment Securities

All debt and equity securities, classified as available-for-sale securities, are included in non-current investment securities.

Marketable and investment securities as of March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Non-current:			
Equity securities	¥ 4,579	¥ 4,122	\$ 49,216
Debt securities	7	4	75
Total	¥ 4,586	¥ 4,126	\$ 49,291

The cost and aggregate fair values of marketable and investment securities at March 31, 2010 and 2009 were as follows:

	Millions of Yen			
	2010			
	Cost	Unrealized Gains	Unrealized Losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,478	¥ 671	¥ 168	¥ 2,981

	Millions of Yen			
	2009			
	Cost	Unrealized Gains	Unrealized Losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,871	¥ 7	¥ 761	¥ 2,117

	Thousands of U.S. Dollars			
	2010			
	Cost	Unrealized Gains	Unrealized Losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 26,634	\$ 7,212	\$ 1,806	\$ 32,040

Available-for-sale securities whose fair values are not readily determinable as of March 31, 2010 and 2009 were as follows.

	Carrying amount		Thousands of U.S. Dollars
	Millions of Yen		
	2010	2009	
Available-for-sale:			2010
Equity securities	¥ 1,598	¥ 2,005	\$ 17,176
Debt securities	7	4	75
Total	¥ 1,605	¥ 2,009	\$ 17,251

Proceeds from sales of available-for-sale securities for the years ended March 31, 2010 and 2009 were ¥ 42 million (\$ 451 thousand) and ¥1,197 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥ 23 million (\$ 247 thousand) and ¥ 4 million (\$ 43 thousand) for the year ended March 31, 2010 and ¥ 372 million and ¥ 2 million for the year ended March 31, 2009, respectively.

Investment securities include loaned securities of ¥ 1,087 million (\$ 11,683 thousand) and ¥1,158 million; deposited cash of ¥ 837 million (\$ 8,996 thousand) and ¥ 907 million as collateral was presented as other current liabilities as of March 31, 2010 and 2009, respectively.

## 5. Leases

The Group leases certain machinery and vehicles. Total lease expense was ¥ 6,503million (\$ 69,895 thousand) and ¥ 4,921 million for the years ended March 31, 2010 and 2009, respectively. The Group recorded an impairment loss of ¥51million (\$548 thousand) on certain leased property held under finance leases that do not transfer ownership (see Note 18).

As discussed in Note 3(k), pro forma information of leased properties accounted for as operating lease transactions, such as acquisition cost, accumulated depreciation, net leased property of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the year ended March 31, 2010 and 2009 was as follows:

	Millions of Yen		
	2010		
	Cost	Accumulated depreciation	Net leased property
Machinery and vehicle	¥ 4	¥ 4	

	Millions of Yen		
	2009		
	Cost	Accumulated depreciation	Net leased property
Machinery and vehicle	¥ 4	¥ 3	¥ 1

	Thousands of U.S. Dollars		
	2010		
	Cost	Accumulated depreciation	Net leased property
Machinery and vehicle	\$ 43	\$ 43	

Obligations under finance leases that do not transfer ownership of the leased property to the lessee and operating leases for the year ended March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
	Finance leases :		
Due within one year		¥ 1	
Total		¥ 1	

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
	Operating leases :		
Due within one year	¥ 435	¥ 582	\$ 4,675
Due after one year	528	947	5,675
Total	¥ 963	¥ 1,529	\$ 10,350

Depreciation expense which is not reflected in the accompanying statement of operations, computed by straight-line method is as follow:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Depreciation expense	¥ 1	¥ 3	\$ 11

## 6. Land Revaluation Surplus

Under the "Law of Land Revaluation", the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2000. The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of equity. There was no effect on the consolidated statement of operation.

Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess account and related deferred tax liabilities. As a result of the one-time revaluation as of March 31, 2000, the Company recorded land revaluation surplus of ¥2,954 million (\$31,750 thousand), net of income taxes of ¥2,028 million (\$21,797 thousand). As of March 31, 2010, the carrying amount of the land after the one-time revaluation exceeded the market value by ¥2,985million (\$32,083 thousand).

## 7. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans, which generally consist of notes to banks and bank overdrafts, are due within one year. The annual average interest rate applicable to the short-term bank loans as of March 31, 2010 and 2009 was 2.58% and 2.26%, respectively.

Long-term debt as of March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
2.00% unsecured bonds due in 2009		¥ 20,000	
2.66% unsecured bonds due in 2012	¥ 12,000	12,000	\$ 128,977
Floating rate unsecured bonds due in 2012	8,000	8,000	85,985
2.12% unsecured bonds due in 2010		1,560	
Loans, principally from banks with interest rate principally at 2.44% (2010) and 1.50% (2009)	10,620	20,000	114,114
Obligations under finance leases	2,218	3,443	23,839
Total	32,838	65,003	352,945
Less current portion	8,541	42,530	91,799
Long-term debts, less current portion	¥ 24,297	¥ 22,473	\$ 261,146

The aggregate annual maturities of long-term debt, excluding finance leases, at March 31, 2010 were as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
	2010	2010
2011	¥ 7,600	\$ 81,685
2012	3,020	32,459
2013	20,000	214,962
Total	¥ 30,620	\$ 329,106

The aggregate annual maturities of lease obligations at March 31, 2010 were as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
	2010	2010
2011	¥ 941	\$ 10,114
2012	701	7,534
2013	266	2,859
2014	136	1,462
2015	84	903
2016 and thereafter	90	967
Total	¥ 2,218	\$ 23,839

As of March 31, 2010, the carrying amounts of assets pledged as collateral for short-term bank loans of ¥ 28,380 million (\$ 305,030 thousand) and long-term debt of ¥ 2,645 million (\$ 28,429 thousand) were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash and cash equivalents	¥ 1,028	\$ 11,049
Notes and accounts receivables—trade, Other current assets	16,762	180,159
Inventories	3,296	35,426
Buildings and structures	8,229	88,446
Machinery and equipment	193	2,074
Furniture and fixtures	11	118
Land	25,063	269,379
Software	14	150
Other assets	109	1,172
Total	<u>¥ 54,705</u>	<u>\$ 587,973</u>

JVC and Kenwood, the consolidated subsidiaries of the Company, concluded loan agreements with their banks to establish efficient fund procurement in order to secure their working capital in the fiscal year ended March 31, 2010.

<1> Commitment Agreement of Syndicated Loans (JVC)

The outstanding balance of the commitment at March 31, 2010 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Total commitment line of credit	¥ 20,000	\$ 214,961
Borrowings	20,000	214,961
Available amount	<u>                    </u>	<u>                    </u>

The above agreement is subject to the following financial covenants.

Maintain the amount of total stockholders' equity (sum of common stock, capital surplus, and retained earnings, less the amount of treasury stock) at not less than ¥56,000 million (\$601,892 thousand) on the consolidated balance sheet as of March 31, 2010.

<2> Syndicated Loans Agreement (JVC)

The outstanding balance of the agreement at March 31, 2010 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Executed amount	¥ 6,430	\$ 69,110

The above agreement is subject to the following financial covenants.

- (1) Maintain the amount of total stockholders' equity (sum of common stock, capital surplus, and retained earnings, less the amount of treasury stock) at not less than ¥76,000 million (\$816,853 thousand) on the consolidated balance sheet on and after March 31, 2010.
- (2) As of the end of each account settlement period from the fiscal year ended March 31, 2010 onward, JVC must not incur an operating loss as recorded in its consolidated statements of operations for two consecutive fiscal periods.

While JVC was in breach of the aforementioned financial covenants with respect to the fiscal year ended March 31, 2010, the Company has received an agreement from the lender waiving its rights to claim forfeiture of the benefit of term in connection with the subject breach of financial covenants.

<3> Syndicated Loans Agreement (JVC)

The outstanding balance of the agreement at March 31, 2010 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Executed amount	¥ 1,275	\$ 13,704

The above agreement is subject to the following financial covenants.

- (1) Maintain the amount of consolidated shareholders' equity at a level no less than 75% of the higher of consolidated shareholders' equity as of the settlement date of the fiscal year immediately prior to the subject fiscal year or consolidated shareholders' equity as of March 31, 2009 for the consolidated balance sheet of JVC.
- (2) Avoid operating loss on JVC's consolidated statement of operations (except for second quarter) for each fiscal year.

While JVC was in breach of the aforementioned financial covenants with respect to the fiscal year ended March 31, 2010, the Company has received an agreement from the lender waiving its rights to claim forfeiture of the benefit of term in connection with the subject breach of financial covenants.

#### <4> Term Loan Agreement (JVC)

The balance of the term loan agreement at March 31, 2010 was as follow:

	Millions of Yen	Thousands of U.S. Dollars
Executed amount	¥ 1,790	\$ 19,239

The above agreement is subject to the following financial covenants.

- (1) Maintain the amount of total stockholders' equity (sum of common stock, capital surplus, and retained earnings, less the amount of treasury stock) at not less than ¥76,000 million (\$816,853 thousand) on the consolidated balance sheet of JVC at the end of each fiscal year and each second quarter.
- (2) As of the end of each account settlement period, JVC will not incur an operating loss as recorded in its consolidated statements of operations for two consecutive fiscal periods.
- (3) Maintain the aggregate total balance of cash and time deposits of JVC, its subsidiary companies and associated companies and the aggregate unexecuted balance of established agreements (including the other financial covenants agreements established after the closing dates of the aforementioned agreements) at not less than ¥15,000 million (\$161,221 thousand) as of the end of each month.

While JVC was in breach of the aforementioned financial covenants with respect to the fiscal year ended March 31, 2010, the Company has received an agreement from the lender waiving its rights to claim forfeiture of the benefit of term in connection with the subject breach of financial covenants.

#### <5> Revolving Loan Agreement (JVC Americas Corp.)

The outstanding balance of the revolving loan agreement at March 31, 2010 was as follows:

	Millions of U.S. Dollars
Total commitment line of the agreement	\$ 33.8
Borrowings	10.0
Available amount	\$ 23.8

The above agreement is subject to the following financial covenants.

- (1) Maintain the fixed charge coverage ratio of JVC Americas Corp., the borrower, above 1.0.

Note: Fixed charge coverage ratio

$$= (\text{EBITDA} - \text{Amount of tax paid} - \text{Capital investment}) / (\text{Amount of principal and interest paid} + \text{Amount of cash dividends paid})$$

#### <6> Revolving Loan Agreement (Kenwood)

The outstanding balance of the revolving loan agreement at March 31, 2010 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Total commitment line of the agreement	¥ 17,500	\$ 188,091
Borrowings	17,500	188,091
Available amount		

#### <7> Term Loan Agreement (Kenwood)

The balance of the term loan agreement at March 31, 2010 was as follow:

	Millions of Yen	Thousands of U.S. Dollars
Executed amount	¥ 2,773	\$ 29,804

#### <8> Term Loan Agreement (Kenwood)

The balance of the term loan agreement at March 31, 2010 was as follow:

	Millions of Yen	Thousands of U.S. Dollars
Executed amount	¥ 15,500	\$ 166,595

The above <6>, <7> and <8> agreements are subject to the following financial covenants.

- (1) Maintain the total equity at not less than 75% of the prior year for consolidated balance sheet of Kenwood at the end of each fiscal year.
- (2) Maintain the total equity at not less than 75% of the prior year for non-consolidated balance sheet of Kenwood at the end of each fiscal year.
- (3) Maintain the balance of interest-bearing liabilities (i.e. long-term debt, short-term bank loans, bonds, etc.) at not more than ¥80,000 million (\$859,845 thousand) at the end of each fiscal year.
- (4) Operating income as identified on Kenwood's consolidated income statement for the subject fiscal year after deducting the amount of operating income identified on the company's consolidated income statement for second quarter of the year ended March 31, 2010 (in the case of an operating loss after deducting the amount of that loss) shall not fall below zero.
- (5) Maintain the balance of total shareholders' equity identified on the Company's consolidated balance sheet as of the end of each fiscal term at not less than 75% of the balance of total shareholders' equity as of the end of the previous fiscal term.



While Kenwood was in breach of the aforementioned financial covenants with respect to the fiscal year ended March 31, 2010, the Company has received an agreement from the lender waiving its rights to claim forfeiture of the benefit of term in connection with the subject breach of financial covenants.

In addition, Kenwood has received an agreement from its principal financial institutions that they are satisfied with the conditions precedent to revolving loan agreements. Kenwood is currently in negotiations with certain financial institutions with respect to the receipt of agreements relating to revolving loan agreements.

## 8. Retirement and Pension Plans

The Company and its domestic consolidated subsidiaries have a non-contributory, funded defined benefit pension plan and unfunded retirement benefit plans, which cover all employees of the Company. Certain foreign consolidated subsidiaries have various non-contributory and contributory plans and other retirement benefit plans.

The liability for retirement benefits at March 31, 2010 and 2009 consisted of the followings:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Projected benefit obligation	¥ 120,528	¥ 121,975	\$ 1,295,443
Fair value of plan assets	(96,502)	(88,345)	(1,037,210)
Unrecognized actuarial loss	(6,982)	(14,538)	(75,043)
Unrecognized prior service cost	4	19	43
Unrecognized transitional obligation	(2,190)	(2,698)	(23,538)
Prepaid pension costs	1,415	1,278	15,208
Net liability	¥ 16,273	¥ 17,691	\$ 174,903

The components of net periodic benefit costs for the year ended March 31, 2010 and 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Service cost	¥ 3,906	¥ 2,742	\$ 41,982
Interest cost	2,978	1,857	32,008
Expected return on plan assets	(1,167)	(1,807)	(12,543)
Amortization of prior service cost	(15)	(15)	(161)
Recognized actuarial loss	1,692	378	18,186
Amortization of transitional obligation	438	452	4,707
Net periodic retirement benefit costs	¥ 7,832	¥ 3,607	\$ 84,179

Note: The periodic retirement benefits costs on the consolidated subsidiaries using simple method calculation of their retirement obligations was included in service cost.

Assumptions used for the year ended March 31, 2010 and 2009 are set forth as follows:

	2010	2009
Discount rate	2.0-2.155%	2.0-2.7%
Expected rate of return on plan assets	1.2-3.0%	3.0-3.5%
Amortization of prior service cost	5-10 years	5-10 years
Recognized actuarial gain/loss	10 years	10 years
Amortization period of transitional obligation	15 years	15 years

In addition to the above, net periodic retirement benefit costs, premium severance payment of ¥846 million (\$9,093 thousand) were included in the Employment structure improvement expenses for early retirement in statement of operations.

Certain consolidated subsidiaries changed their method for computing retirement benefit liabilities from the projected benefit obligations, or principle, method to the simplified (valuation) method due to the incidence of large-scale retirements. As a result, a gain on reversal of liability for retirement benefits totaling ¥322 million was posted. This comprised an amount representing the amortization of unrecognized items resulting from large-scale retirements of -¥85 million and an amount reflecting the impact of the shift to the simplified method of ¥407 million.

## 9. Equity

Since May 1, 2006, Japanese companies have been subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as;

(1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of

the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends at any time during the fiscal year (except for dividends in kind) if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate.

The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b) Increases / decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## 10. Selling, General and Administrative Expenses

Major components of selling, general and administrative expenses for the year ended March 31, 2010 and 2009 are as follows.

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Advertising and promotion expenses	¥ 18,033	¥ 22,549	\$ 193,820
Provision of allowance for doubtful accounts	1,123	640	12,070
Provision for product warranties	3,050	3,452	32,782
Personal expenses	56,451	38,846	606,739
Transportation expenses	11,743	10,414	126,215

## 11. Research and Development Costs

Research and development costs charged to income were ¥31,157 million (\$334,877 thousand) and ¥15,955 million for the year ended March 31, 2010 and 2009, respectively.

## 12. Income Taxes

Under the consolidated corporate-tax system, the normal effective statutory tax rate of the Company and domestic subsidiaries was approximately 40.7% for the year ended March 31, 2010 and 2009.

The tax effects of temporary differences and tax loss carry-forwards which resulted in deferred tax assets and liabilities as of March 31, 2010 and 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Deferred tax assets :			
Depreciation	¥ 11,613	¥ 10,022	\$ 124,817
Valuation difference due to application of purchase method accounting	757	4,889	8,136
Liability for employees' retirement benefits	4,229	4,376	45,454
Provision for Inventory reserves	3,579	4,229	38,467
Net operating loss carry forwards	62,571	57,015	672,517
Other	11,141	15,797	119,744
Less valuation allowance	(88,703)	(84,805)	(953,386)
Total	¥ 5,187	¥ 11,523	\$ 55,749
Deferred tax liabilities :			
Prepaid pension costs	¥ 1,851	¥ 3,375	\$ 19,895
Valuation difference due to application of purchase method accounting	9,099	13,175	97,797
Land revaluation surplus	2,028	2,028	21,797
Other	1,279	679	13,745
Total	¥ 14,257	¥ 19,257	\$ 153,234
Deferred tax liabilities, Net :	¥ 9,070	¥ 7,734	\$ 97,485

Net deferred tax liabilities as of March 31, 2010 and 2009 are recorded in the consolidated balance sheets as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Current assets—Other	¥ 1,580	¥ 1,890	\$ 16,982
Non-current assets—Other	635	1,006	6,825
Current liabilities—Other	393	113	4,224
Long-term liabilities—Deferred tax liabilities	10,892	10,517	117,068
	¥ 9,070	¥ 7,734	\$ 97,485

Due to loss before income taxes and minority interests, reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of operation for the years ended March 31, 2010 and 2009 was omitted.

### 13. Net Income per Share of Common Stock

Net income per share is based on the weighted average number of outstanding shares of common stock.

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2010 and 2009 is as follows:

Fiscal year ended March 31, 2010

	Millions of Yen	Thousands	Yen	U.S. Dollars
	Net loss	Weighted average shares	EPS	
Net loss available to common shareholders	¥ (27,796)	966,883	¥ (28.75)	\$ (0.31)

Diluted net income per share is not presented in accompanying consolidated financial statements as it is net loss.

Fiscal year ended March 31, 2009

	Millions of Yen	Thousands	Yen
	Net loss	Weighted average shares	EPS
Net loss available to common shareholders	¥ (30,735)	666,053	¥ (46.14)

Diluted net income per share is not presented in accompanying consolidated financial statements as it is net loss and the Company does not have any dilutive items.

## 14. Contingent Liabilities

The contingent liabilities of the Group as of March 31, 2010 and 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Discounted bill of exchange by banks		¥ 34	
Notes receivable factored with recourse	¥ 401	430	\$ 4,310
Guarantee of bank loans for employees	936	1,092	10,060
Guarantee of bank loans for associated companies	2,209	2,547	23,743
	¥ 3,546	¥ 4,103	\$ 38,113

## 15. Financial Instruments and Related Disclosures

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No.19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures". This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

### (1) Management Policy with respect to Financial Instruments

Taking into consideration its capital investment and other plans, the Group largely procures essential funds through indirect financing such as loans from banks and other financial institutions and direct financing including the issuance of corporate bonds. Surplus funds held on a temporary basis are mainly channeled into highly liquid financial assets for fund management purposes. In addition, short-term working capital is procured through bank loans as required. The Group also utilizes derivative financial instruments to hedge the various risks described as follows and does not enter into derivative transactions for investment, trading or speculative purposes.

### (2) Details of Financial Instruments and Associated Risks

The trade notes and accounts receivable that are a major component of a company's collectibles are exposed to the credit risk of customers. Marketable securities and investment securities are essentially comprised of company shares with which the Group maintains business relationships. These financial instruments are exposed to market fluctuation risks.

Maturities of notes and accounts payable, which comprise a large portion of the Group's obligations, are generally within four months. Short-term bank loans effectively comprise funds procured for business purposes. Long-term debt and corporate funds in essence reflect funds procured for capital investment purposes. Redemption dates extend through to a maximum of two years and four months after settlement. A portion is denominated in foreign currencies and accordingly is exposed to fluctuations in foreign currency exchange rates. In this context, the Group employs foreign exchange forward contracts to hedge against this risk. For information regarding derivatives, please refer to note 16.

### (3) Risk Management for Financial Instruments

#### *Credit Risk*

Credit risk refers to the economic loss that arises when a trading partner is unable to meet the terms and conditions of contractual obligations such as the payment of principal and / or interest. In order to address the credit risks associated with receivables and to identify at an early date the potential and possibility of customer default risk, the Group closely monitors and controls due dates and balances for major customers in accordance with internal manuals. At the same time, the Group also screens at an early date the credit standing and status of customers.

The counterparties with respect to derivative transactions are limited to major financial institutions. Accordingly, the Group is confident that little or no credit risk exists as a result of contract default.

#### *Market Risks (Foreign Currency Exchange and Interest Rate Risks)*

With respect to investment securities, the Group continuously monitors the market price of issuer shares as well as their financial condition and status. The Group regularly revises its holdings of investment securities based on its monitoring activities.

Derivative transactions entered into are undertaken in accordance with the authority, rules and regulations stipulated under the Group's internal policies. Each transaction is in effect undertaken by the director responsible for finance of each Group company or an individual or party nominated by the director responsible for finance of the relevant Group company. In addition to the authorization of the responsible director, details of the transaction are reported to the responsible director in each instance.

#### *Liquidity Risk Management*

Liquidity risk refers to the ability of the Group to meet its obligations on the date of each maturity. The Group strives to address the aforementioned liquidity risk by closely monitoring the monthly cash flows and financing plans of each Group company.

### (4) Supplemental Important Matters Relating to the Fair Values of Financial Instruments

The fair values of financial instruments are measured based on their quoted market prices, if available; or their reasonably assessed values if quoted markets prices are not available. The fair values of financial instruments for which quoted market prices are not available are calculated based on certain assumptions. Accordingly, fair values may differ if different assumptions are used. In addition, the contract amounts of the derivative transactions described in the note regarding derivative transactions do not represent the market risks of the derivative transactions.

(5) The Fair Values of Financial Instruments

The fair values of financial instruments are based on their market values. In the event there are no market values for certain financial instruments, other assessment methods are applied. Financial instruments for which fair values are extremely difficult to determine are not included.

(a) Fair value of financial instruments

March 31, 2010	Millions of Yen		
	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥ 43,408	¥ 43,408	
Time deposits	94	94	
Notes and accounts receivables—trade, unconsolidated subsidiaries and associated companies	63,256	63,256	
Investment securities	2,981	2,981	
<b>Total</b>	<b>¥ 109,739</b>	<b>¥ 109,739</b>	
Short-term bank loans, Current portion of long-term debt	¥ 86,227	¥ 86,227	
Notes and accounts payables—trade, unconsolidated subsidiaries and associated companies	31,372	31,372	
Accrued expenses	36,383	36,383	
Income taxes payable	2,407	2,407	
Long-term debt	24,297	24,138	¥ (159)
<b>Total</b>	<b>¥ 180,686</b>	<b>¥ 180,527</b>	<b>¥ (159)</b>
Derivatives	628	628	

March 31, 2010	Thousands of U.S. Dollars		
	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	\$ 466,552	\$ 466,552	
Time deposits	1,010	1,010	
Notes and accounts receivables—trade, unconsolidated subsidiaries and associated companies	679,880	679,880	
Investment securities	32,040	32,040	
<b>Total</b>	<b>\$ 1,179,482</b>	<b>\$ 1,179,482</b>	
Short-term bank loans, Current portion of long-term debt	\$ 926,773	\$ 926,773	
Notes and accounts payables—trade, unconsolidated subsidiaries and associated companies	337,188	337,188	
Accrued expenses	391,047	391,047	
Income taxes payable	25,871	25,871	
Long-term debt	261,146	259,437	\$ (1,709)
<b>Total</b>	<b>\$ 1,942,025</b>	<b>\$ 1,940,316</b>	<b>\$ (1,709)</b>
Derivatives	6,750	6,750	

*Cash and cash equivalents*

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

*Investment securities*

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments. The information of the fair value for the investment securities by classification is included in Note 4.

*Receivables, payables and short-term bank loans*

The carrying values of receivables, payables and short-term bank loans approximate fair value because of their short maturities.

*Long-term debt*

The fair values of long-term debt are determined by discounting the cash flows related to the debt over its remaining period at the rate which reflects the Company's credit risk.

*Derivatives*

The information of the fair value for derivatives is included in Note 16.

(b) Financial instruments whose fair value cannot be reliably determined

March 31, 2010	Carrying amount	
	Millions of Yen	Thousands of U.S.Dollars
Unlisted equity securities	¥ 1,598	\$ 17,176
Unlisted foreign bonds	7	75
Investments in unconsolidated subsidiaries and associated companies	237	2,547

(b) Since it is extremely difficult to determine the fair values of the above financial instruments as there are no market values for them, they are not included in Investment securities as described in (a) Fair value of financial instruments.

(6) Maturity analysis for financial assets and securities with contractual maturities

March 31, 2010	Millions of Yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥ 43,408			
Time deposits	94			
Notes and accounts receivables-trade, unconsolidated subsidiaries and associated companies	63,256			
Total	¥ 106,758			

March 31, 2010	Thousands of U.S.Dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	\$ 466,552			
Time deposits	1,010			
Notes and accounts receivables-trade, unconsolidated subsidiaries and associated companies	679,880			
Total	\$ 1,147,442			

Please see Note 7 for annual maturities of long-term debt and Note 5 for obligations under finance leases, respectively.

## 16. Derivatives

The Group enters into foreign currency forward contracts and currency options to hedge foreign exchange risk associated with certain assets, liabilities and future transactions denominated in foreign currencies. The Group also enters into interest rate swap and interest rate caps as a means of managing their interest rate exposures. Interest rate swaps effectively convert some floating rate debts to a fixed basis.

Because the counterparties to those derivatives are limited to major financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

The Group had the following derivatives contracts outstanding at March 31, 2010 and 2009:

	Millions of Yen		
	2010		
	Contract amount	Fair value	Unrealized Gain/(Loss)
Foreign exchange contracts			
Selling :			
U.S. Dollar	¥ 335	¥ (4)	¥ (4)
Euro	1,249	1	1
Canadian Dollar	316	(4)	(4)
Australian Dollar	250	(4)	(4)
Hong Kong Dollar	612	(3)	(3)
Total		¥ (14)	¥ (14)

	Millions of Yen		
	2009		
	Contract amount	Fair value	Unrealized Gain/(Loss)
Foreign exchange contracts			
Selling :			
U.S. Dollar	¥ 639	¥ 582	¥ 56
Euro	3,389	3,525	(136)
British Pound	197	208	(11)
Canadian Dollar	243	247	(4)
Australian Dollar	158	168	(10)
Hong Kong Dollar	431	430	
Buying :			
Singapore Dollar	644	655	11
Total			¥ (94)
	Thousands of U.S. Dollars		
	2010		
	Contract amount	Fair value	Unrealized Gain/(Loss)
Foreign exchange contracts			
Selling :			
U.S. Dollar	\$ 3,601	\$ (43)	\$ (43)
Euro	13,424	11	11
Canadian Dollar	3,396	(43)	(43)
Australian Dollar	2,687	(43)	(43)
Hong Kong Dollar	6,578	(33)	(33)
Total		\$ (151)	\$ (151)

Note a: The contract amounts of derivatives do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to credit or market risk.

Note b: The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

## 17. Supplemental Information for Statements of Cash Flows

Cash paid for interest and cash received for dividends and interest were ¥3,140 million (\$ 33,749 thousand) and ¥406 million (\$ 4,364 thousand), respectively, for the year ended March 31, 2010.

For the year ended March 31, 2009, the Company paid ¥1,218 million for sale of stock of Victor Advanced Media Co., Ltd. (VAM), and VAM was excluded from the scope of consolidation. Major components of cash payments for the sale are as follows:

	Millions of Yen
	2009
Current assets	¥ 5,114
Non-current assets	63
Current liabilities	(4,818)
Long-term liabilities	(6)
Investment loss on equity method	(153)
Sales value of stock	200
Cash and cash equivalents surrendered	(1,418)
Payment for sale of stock of VAM	¥ (1,218)

The Company was established on October 1, 2008, as a joint holding company of JVC and Kenwood based on the integration of their managements. Upon the establishment, JVC became a consolidated subsidiary of the Company through a transfer of shares. Cash and cash equivalents transferred from JVC totaled ¥32,116 million and major components of assets and liabilities other than cash and cash equivalents are as follows:

	Millions of Yen
	2009
Current assets	¥ 164,139
Non-current assets	119,713
Goodwill	6,202
Total assets	290,054
Current liabilities	180,536
Long-term liabilities	42,253
Total liabilities	222,789
Minority interest	¥ 2,023

In addition to the above, cash and cash equivalents of ¥401 million were transferred from J&K Technologies Corp., which became a wholly owned subsidiary from an equity-method associated company due to the share transfer. Cash and cash equivalents transferred from newly consolidated subsidiaries totaled ¥32,518 million.

Cash paid for interest and cash received for dividend and interest were ¥2,471 million and ¥384 million, respectively, for the fiscal year ended March 31, 2009.

## 18. Impairment of Long-Lived Assets

The Group reviewed its long-lived assets for impairment as of March 31, 2010, and recognized impairment loss as follows:

Classification by use	Business Group	Location	Type of assets	Millions of Yen	Thousands of U.S. Dollars
Business assets	Display	Yokohama (Kanagawa)	Machinery and equipment, tools and furniture, die and molds, lease assets and others	¥ 321	\$ 3,450
Idle assets	Display	Tijuana, Mexico	Machinery and equipment, tools and furniture, die and molds, land and others	766	8,233
Business assets	Entertainment	Shibuya (Tokyo) and other	Building structures, machinery and equipment, tools and furniture, lease assets, land and others	3,225	34,663
Business assets	Optical pickup	Yokohama (Kanagawa)	Machinery and equipment, tools and furniture, die and molds, and others	14	150
Business assets	Optical pickup	Nakhon Ratchasima, Thailand	Machinery and equipment, tools and furniture, die and molds, and others	92	989
Idle assets	Others	Urayasu (Chiba)	Building, structures tools and furniture and others	26	279
Total				¥ 4,444	\$ 47,764

(Circumstances leading to the recognition of impairment)

The Display Business

The Display business group recognized impairment losses totaling ¥321 million (\$3,450 thousand) after writing down group assets to their recoverable amounts. Despite the concentration of consumer-use LCD TVs and measures implemented to rationalize the group's business structure, this was attributable to greater than anticipated deterioration in European market conditions and the impact of a sharp surge in panel costs resulting in little or no prospects for a cash flow recovery.

In addition, the Display business group recognized impairment losses totaling ¥766 million (\$8,223 thousand), on idle fixed assets which were written down to their recoverable amounts. Idle fixed assets resulted from the suspension of operations at a Mexico-based manufacturing subsidiary and in line with the reorganization of overseas production bases following contraction in the Display business group.

The Entertainment Business

The Entertainment business group recognized impairment losses totaling ¥3,225 million (\$34,663 thousand), after writing down group assets to their recoverable amounts. This reflected downward pressure of earnings due to the slump in market conditions and the determination that business group cash flows would fall below the carrying amounts of business group assets.

The Optical Pickup Business

The Optical Pickup business group recognized impairment losses totaling ¥106 million (\$1,139 thousand), after writing down group assets to their recoverable amounts. This was largely attributable to the determination that expected future cash flows in this business would fall below the carrying amounts of business group assets due mainly to the drop in orders from principal customers.

Others

Impairment losses totaling ¥26 million (\$279 thousand) were recognized relating to idle premises following the relocation of VICTOR SERVICE & ENGINEERING CO., LTD.

(Grouping of assets)

Business assets are grouped according to their operating segment with consideration given to managerial and identifiable cash-generating units. Idle assets are grouped on an individual asset base. Headquarter assets are classified as corporate assets, as they do not have identifiable cash flows independent of other asset groups.

(Recoverable amount)

The Group recognized an impairment loss from those idle assets to the extent of their full carrying amount, as the recoverability of these idle assets was not expected. Recoverable amounts of business assets were measured either at reasonably assessed fair value less associated costs to sell, or value in use.



The Group reviewed its long-lived assets for impairment as of March 31, 2009, and recognized impairment loss as follows:

Classification by use	Business group	Location	Type of assets	Millions of Yen
Business assets	Front projector	Yokosuka (Kanagawa) and other	Building, structures, machinery and equipment, tools and furniture, die and molds, lease assets and others	¥ 1,503
Business assets	Display	Yokohama (Kanagawa)	Machinery and equipment, tools and furniture, die and molds, lease assets and others	1,810
Business assets	Home Electronics	Hachioji (Tokyo) and other	Building, structures, machinery and equipment, tools and furniture, lease assets, and others	214
Business assets	Optical pickup	Yamato (Kanagawa) and others	Buildings, structures, machinery and equipment, tools and furniture, die and molds, lease assets and others	2,752
			Goodwill	6,202
Total				¥ 12,481

(Circumstances leading to the recognition of impairment)

The Front Projector Business

The Front projector business group recognized impairment losses totaling ¥1,503 million, after writing down group assets to their recoverable amounts, due to the decrease in sales in connection with a slowdown in customer demand, as well as increased investment in research and development.

The Display Business

The Display business group recognized impairment losses totaling ¥1,810 million, after writing down group assets to their recoverable amounts, due to a greater than expected downturn in the market. This was despite steps to reconsider and improve domestic sales areas and to restructuring such processes as the Electronic Manufacturing Service in Europe.

The Home Electronics Business

The Home Electronics business group recognized impairment losses totaling ¥214 million, after writing down group assets to their recoverable amounts, due to the decrease in consumer demand which resulted in declining profits.

The Optical Pickup Business

The Optical Pickup business group recognized impairment losses totaling ¥2,752 million, after writing down group assets to their recoverable amounts due to the determination that business group cash flows would fall below the carrying amounts of business group assets due mainly to the drop in orders from principal customers.

Goodwill

With respect to the incidence of goodwill arising due to the restatement of previous fiscal years' results in the year ended March 31, 2010, the full amount was recognized as an impairment loss. This was mainly attributable to uncertainties surrounding the potential for earnings acquisition at the time of management integration with JVC.

(Grouping of assets)

Business assets are grouped according to their operating segment with consideration given to managerial and identifiable cash-generating units.

Idle assets are grouped on an individual asset base. Headquarter assets are classified as corporate assets, as they do not have identifiable cash flows independent of other asset groups.

(Recoverable amount)

The Group recognized an impairment loss from those idle assets to the extent of their full carrying amount, as the recoverability of these idle assets was not expected. While recoverable amounts of business assets were measured either at reasonably assessed fair value less associated costs to sell, or value in use, the amount of recoverability was assessed as zero for the consolidated fiscal year under review.

## 19. Business Combination

Fiscal year ended March 31, 2010

None

Fiscal year ended March 31, 2009

The Company was established on October 1, 2008, as a joint holding company, that owns JVC and Kenwood as wholly owned subsidiaries through management integration and the transfer of stock. This business combination was accounted for by applying the purchase method of accounting.

Name of the acquired company:	Victor Company of Japan, Limited (JVC)
Business description of the acquired company:	Research, development, manufacturing and sales of audio, visual, computer-related consumer and professional equipment, as well as magnetic tapes and discs, etc.
Primary reason for the business combination:	In recent years, the consumer electronics industry has witnessed the appearance of new rivals in such countries as South Korea, Taiwan and China, and increasingly fierce battles over market share and heightened price competition in the global market, paralleling progress in digitization, which has precipitated higher capital investment and saddled companies with heavier software development burdens and prompted the development of products based on universal components that make product differentiation increasingly difficult. The entry of competitors from the information technology (IT) industry has also raised the level of competition. To survive such a fiercely competitive environment and continue to generate and enhance corporate value, JVC and Kenwood consider the restructuring of Japan's audio-visual (AV) specialty manufacturing industry to be absolutely necessary.
Effective date of the business combination:	October 1, 2008
Legal structure of the business combination:	Share transfer from JVC to the Company
Name of the company after business combination:	JVC KENWOOD Holdings, Inc.
Percentage of voting rights acquired:	100%
Periods of the operating results of JVC included in the consolidated financial statements:	From October 1, 2008 through March 31, 2009.

Acquisition cost details:	Millions of Yen
Stock acquisition cost (Treasury stock and cash) :	¥ 96,835
Expenses related to the acquisition (arrangement fee, etc.)	524
Total acquisition cost	¥ 97,359

Allotment shares in the share transfer:	2 shares of stock of the Company were allotted for each share of stock in JVC, and 1 share of stock of the Company was allotted for each share of stock in Kenwood.
Basis of calculation of the share transfer ratio:	To ensure fairness in calculating the share transfer ratio, JVC and Kenwood have appointed UBS Securities Japan Ltd ("UBS") and GCA Savvian Corporation ("GCA Savvian"), respectively, as financial advisors in connection with the Management Integration and have asked each of them to calculate respective share transfer ratios. Allotment shares were determined through consultation between both companies based on the calculation.
Allotted number of shares:	723,196,886 shares
Fair value of allotted shares:	¥96,835 million
Goodwill amount:	¥6,202 million
Reason for the goodwill:	The acquisition cost of the company to be acquired was calculated based on stock prices for a period of five days prior to the announcement of agreement on the stock transfer. The difference between this acquisition cost and the fair value of net assets as of the business combination date which was reflected correction of error to previously issued financial statements (Notes 1) in the year ended March 31, 2010 was recognized as goodwill.
Amortization method and period:	As a result of the valuation of goodwill, the impairment loss was recognized for entire amount of goodwill.

The estimated fair values of the assets acquired and the liabilities assumed at the acquisition date were as follows:

	Millions of Yen
	2009
Current assets	¥ 196,256
Non-current assets	119,713
Goodwill	6,202
Total assets	322,171
Current liabilities	180,536
Long-term liabilities	42,253
Total liabilities	222,789
Minority interest	¥ 2,023

If this business combination had been completed as of April 1, 2008, the beginning of the current fiscal year, the unaudited amounts which would be combined with the accompanying statement of operations for the year ended March 31, 2009, would be as follows. These amounts were computed based on JVC's operating results for the six month period ended September 30, 2008: and certain adjustments with respect to the business combination:

	Millions of Yen
Net sales	¥ 234,304
Operating income (loss)	(1,103)
Net loss	(10,790)

Overview of transactions under common control:

Names of entities transferring their assets, combined parties and details of their business:

Victor Company of Japan, Limited (JVC): a part of the Car Electronics business components of JVC and two consolidated subsidiaries related to car electronics development and production.

Kenwood Corporation (Kenwood): a part of the Car Electronics business components of Kenwood and four consolidated subsidiaries related to car electronics development and production.

Legal form of business combination:

Absorption-type business split; both of the consolidated subsidiaries, JVC and Kenwood, transferred their Car Electronics business components and related consolidated subsidiaries' shares to J&K Technologies Corp., a wholly owned subsidiary of the Company.

Name of the subsidiary after business combination:	J&K Technologies Corp. (a consolidated subsidiary of the Company)
Purpose and overview of business combination:	The Car Electronics business is a common business for both companies and a business from which the Company expected the highest synergy effects in order to maximize the synergy effect of management integration, increase revenue and reduce costs.
Overview of the accounting treatment conducted:	The absorption-type split is treated as a transaction under common control, based on the Statement of Opinion, "Accounting for Business Combinations," issued by the BAC on October 31, 2003 and the ASBJ Guidance No.10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures" revised on November 15, 2007.

## 20. Segment Information

The Company defines its business segments as follows:

(Car electronics business)

Car electronics equipment, such as car audio products, car AV systems and car navigation systems

(Home and mobile electronics business)

Home and mobile electronics equipment, such as video cameras, LCD TVs, projectors, pure audio and AV accessories

(Professional systems business)

Professional systems equipment, such as land mobile radio equipment, video surveillance equipment, video equipment and display equipment

(Entertainment business)

Music and video software, such as CDs and DVDs and distribution of software

(Others)

Other electrical equipment and parts

### Operations by business segment

Operations by business segment for the years ended March 31, 2010 and 2009 were summarized as follows:

	Millions of Yen							
2010	Car electronics business	Home and mobile electronics business	Professional systems business	Entertainment business	Others	Total	Eliminations/ Corporate	Consolidated
Sales :								
Sales to customers	¥ 107,814	¥ 141,773	¥ 91,390	¥ 44,934	¥ 12,752	¥ 398,663		¥ 398,663
Intersegment sales	4,962	4,353			65	9,380	¥ (9,380)	
Total	112,776	146,126	91,390	44,934	12,817	408,043	(9,380)	398,663
Operating expenses	108,686	156,878	92,711	46,678	9,544	414,497	(9,380)	405,117
Operating income (loss)	¥ 4,090	¥ (10,752)	¥ (1,321)	¥ (1,744)	¥ 3,273	¥ (6,454)		¥ (6,454)
Total assets	¥ 79,141	¥ 82,434	¥ 51,157	¥ 36,042	¥ 12,553	¥ 261,327	¥ 13,425	¥ 274,752
Depreciation	5,935	6,916	2,874	1,264	2,495	19,484		19,484
Impairment loss		1,193	26	3,225		4,444		4,444
Capital expenditures	2,799	4,316	2,630	630	669	11,044		11,044

## Millions of Yen

2009	Car electronics business	Home and mobile electronics business	Professional systems business	Entertainment business	Others	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 92,237	¥ 105,412	¥ 78,758	¥ 30,617	¥ 4,275	¥ 311,299		¥ 311,299
Intersegment sales	1,056	3,343			121	4,520	¥ (4,520)	
Total	93,293	108,755	78,758	30,617	4,396	315,819	(4,520)	311,299
Operating expenses	97,473	110,101	74,252	30,369	5,161	317,356	(4,520)	312,836
Operating income (loss)	¥ (4,180)	¥ (1,346)	¥ 4,506	¥ 248	¥ (765)	¥ (1,537)		¥ (1,537)
Total assets	¥ 80,410	¥ 118,249	¥ 59,712	¥ 45,243	¥ 17,878	¥ 321,492	¥ 22,585	¥ 344,077
Depreciation	5,356	5,277	2,488	1,112	1,229	15,462		15,462
Impairment loss		3,526			2,753	6,279	6,202	12,481
Capital expenditures	4,622	4,498	2,428	1,692	2,364	15,604		15,604

## Thousands of U.S. Dollars

2010	Car electronics business	Home and mobile electronics business	Professional systems business	Entertainment business	Others	Total	Eliminations/ Corporate	Consolidated
Sales to customers	\$ 1,158,792	\$ 1,523,785	\$ 982,266	\$ 482,954	\$ 137,059	\$ 4,284,856		\$ 4,284,856
Intersegment sales	53,332	46,786			699	100,817	\$ (100,817)	
Total	1,212,124	1,570,571	982,266	482,954	137,758	4,385,673	(100,817)	4,284,856
Operating expenses	1,168,164	1,686,135	996,464	501,698	102,580	4,455,041	(100,817)	4,354,224
Operating income (loss)	\$ 43,960	\$ (115,564)	\$ (14,198)	\$ (18,744)	\$ 35,178	\$ (69,368)		\$ (69,368)
Total assets	\$ 850,613	\$ 886,006	\$ 549,839	\$ 387,382	\$ 134,919	\$ 2,808,759	\$ 144,293	\$ 2,953,052
Depreciation	63,790	74,334	30,890	13,586	26,815	209,415		209,415
Impairment loss		12,822	279	34,663		47,764		47,764
Capital expenditures	30,084	46,389	28,267	6,771	7,191	118,702		118,702

## (Changes in business segment classification)

With respect to the Company's subsidiary, JVC, and taking into consideration the establishment of the Business Incubation Division, a new organization charged with the responsibility of managing growth in the initial stages of business development, related patent revenue, manufacturing as well as R&D expenses will all be posted to the newly established and independent Business Incubation Business segment effective for the year ended March 31, 2010. Previously with respect to business incubation activities, patent revenues were included in the sales of the Home & Mobile Electronics Business segment while business incubation-related manufacturing and R&D expenses were posted to the Home & Mobile Electronics Business and the Professional Systems Business segments. The reasons for revising business segments and reallocating revenues and expenses in this instance are to better disclose the company's activities in line with actual circumstances taking into consideration the status of management resource allocation regarding the Business Incubation business and progress with respect to growth, as well as operating performance based on each business segment's manufacturing and sales activities. At the same time, as the sales and operating income of this business segment account for only a relatively small portion of the sales and operating income of all business segments, these items are included in the Others business segment.

In addition, in connection with the Optical Pickup business which had previously been included in the Others business, manufacturing activities were consolidated with the manufacturing, distribution and procurement activities of the Car Electronics business with an eye to optimizing each of these functions. At the same time, sales activities were consolidated with the Home & Mobile Electronics business in an effort to boost the sales function relating to optical products. In conjunction with this organizational change, effective from the year ended March 31, 2010, sales to customer and operating expenses were included in the Home & Mobile Electronics Business and intersegment sales and operating expenses were included in the Car Electronics business segment.

Based on the previous classification of business segments, operations by business segment for the year ended March 31, 2010 was as follows:

		Millions of Yen						
2010	Car electronics business	Home and mobile electronics business	Professional systems business	Entertainment business	Others	Total	Eliminations/Corporate	Consolidated
Sales :								
Sales to customers	¥ 107,814	¥ 144,459	¥ 91,759	¥ 44,934	¥ 9,697	¥ 398,663		¥ 398,663
Intersegment sales	673	4,353			65	5,091	¥ (5,091)	
Total	108,487	148,812	91,759	44,934	9,762	403,754	(5,091)	398,663
Operating expenses	104,381	156,211	93,789	46,678	9,149	410,208	(5,091)	405,117
Operating income (loss)	¥ 4,106	¥ (7,399)	¥ (2,030)	¥ (1,744)	¥ 613	¥ (6,454)		¥ (6,454)
Total assets	¥ 78,603	¥ 82,399	¥ 51,396	¥ 36,042	¥ 12,887	¥ 261,327	¥ 13,425	¥ 274,752
Depreciation	5,946	6,989	2,889	1,264	2,396	19,484		19,484
Impairment loss		1,087	26	3,225	106	4,444		4,444
Capital expenditures	2,774	4,341	2,722	630	577	11,044		11,044

Following the integration of the managements of JVC and Kenwood on October 1, 2008, JVC the Company was established as the holding company of both entities.

Upon the establishment, business combination accounting was undertaken with Kenwood as the acquired company. As a result, consolidated operating results for the previous fiscal year are calculated with the acquiring company Kenwood's consolidated operating results for the previous fiscal year as a base together with the previous fiscal year's 3rd and 4th quarter consolidated operating results of JVC. On this basis, a simple comparison is not possible. Accordingly, operations by business segment for the previous fiscal year after business segment reorganization have not been provided.

There are no unallocatable operating expenses for the fiscal year ended March 31, 2010.

Corporate assets included in "Eliminations/corporate" as of March 31, 2010 and 2009 were ¥13,425 million (\$144,293 thousand) and ¥22,584 respectively, mainly consisted of cash and cash equivalents and long-term investment assets (investment securities) held by the Company, JVC and Kenwood.

#### Changes in accounting principles

Revenue recognition for construction had been applied utilizing the completed-contract method. Effective from the fiscal year under review, the Company has applied the "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15 released on December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18 released on December 27, 2007). Accordingly, with regard to construction contracts commenced under the previous year, the construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. For all other construction, the completed-contract method should be applied. There was no impact on sales and income as a result of the application of the new accounting standard.

In connection with licenses for music under management held by the Company's subsidiary Victor Entertainment, Inc. and other companies, the recognition of sales was in principle previously recognized based on an apportionment method over the term of each license. Effective from the fiscal year ended March 31, 2010, for transactions that are deemed as sales of assets or interests and considered material under the terms and conditions of each agreement, the method for recording the recognition of sales has changed such that sales are now recognized in full at the time license agreements are concluded. This change was adopted in conjunction with a review of transactions relating to music and other copyrights in the fiscal year under ended March 31, 2010 in order to better reflect in consolidated financial statements adjustments to actual conditions following revenue recognition of transactions deemed as sales of material assets or the rights. As a result of this change, sales in the Entertainment business increased by ¥124 million (\$1,333 thousand) while operating loss in the Entertainment business decreased by ¥124 million (\$1,333 thousand), for the year ended March 31, 2010, compared with the previously applied method.

#### (Operations by geographical area)

		Millions of Yen						
2010	Japan	America	Europe	Asia	Others	Total	Eliminations/Corporate	Consolidated
Sales to customers	¥ 162,378	¥ 104,311	¥ 80,801	¥ 48,880	¥ 2,293	¥ 398,663		¥ 398,663
Intersegment sales	141,928	358	2,164	102,920	68	247,438	¥ (247,438)	
Total	304,306	104,669	82,965	151,800	2,361	646,101	(247,438)	398,663
Operating expenses	307,222	103,900	88,031	151,290	2,261	652,704	(247,587)	405,117
Operating income (loss)	¥ (2,916)	¥ 769	¥ (5,066)	¥ 510	¥ 100	¥ (6,603)	¥ 149	¥ (6,454)
Total assets	¥ 247,852	¥ 61,945	¥ 36,250	¥ 69,032	¥ 1,364	¥ 416,443	¥ (141,691)	¥ 274,752

Millions of Yen								
2009	Japan	America	Europe	Asia	Others	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 113,353	¥ 87,616	¥ 72,934	¥ 34,973	¥ 2,423	¥ 311,299		¥ 311,299
Intersegment sales	127,018	127	1,954	78,804	24	207,927	¥ (207,927)	
Total	240,371	87,743	74,888	113,777	2,447	519,226	(207,927)	311,299
Operating expenses	246,903	86,779	76,108	111,780	2,458	524,028	(211,192)	312,836
Operating income (loss)	¥ (6,532)	¥ 964	¥ (1,220)	¥ 1,997	¥ (11)	¥ (4,802)	¥ 3,265	¥ (1,537)
Total assets	¥ 292,004	¥ 64,942	¥ 46,181	¥ 66,734	¥ 1,053	¥ 470,914	¥ (126,837)	¥ 344,077

Thousands of U.S. Dollars								
2010	Japan	America	Europe	Asia	Others	Total	Eliminations/ Corporate	Consolidated
Sales to customers	\$ 1,745,249	\$ 1,121,141	\$ 868,454	\$ 525,365	\$ 24,647	\$ 4,284,856		\$ 4,284,856
Intersegment sales	1,525,451	3,848	23,259	1,106,191	731	2,659,480	\$ (2,659,480)	
Total	3,270,700	1,124,989	891,713	1,631,556	25,378	6,944,336	(2,659,480)	4,284,856
Operating expenses	3,302,042	1,116,724	946,163	1,626,075	24,301	7,015,305	(2,661,081)	4,354,224
Operating income (loss)	\$ (31,342)	\$ 8,265	\$ (54,450)	\$ 5,481	\$ 1,077	\$ (70,969)	\$ 1,601	\$ (69,368)
Total assets	\$ 2,663,929	\$ 665,789	\$ 389,617	\$ 741,960	\$ 14,661	\$ 4,475,956	\$ (1,522,904)	\$ 2,953,052

The geographic areas except Japan consist primarily of the following countries and regions:

America - U.S.A., Canada and Panama

Europe - Germany, France and the United Kingdom

Asia - China, Singapore and U.A.E.

Other – Australia

Corporate assets included in "Eliminations/corporate" as of March 31, 2010 and 2009 were ¥13,425 million (\$144,293 thousand) and ¥22,584, respectively, mainly consisted of cash and cash equivalents and long-term investment assets (investment securities) held by the Company, JVC and Kenwood.

Revenue recognition for construction had been applied utilizing the completed-contract method. Effective from the fiscal year under review, the Company has applied the "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15 released on December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18 released on December 27, 2007). Accordingly, with regard to construction contracts commenced under the previous year, the construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. For all other construction, the completed-contract method should be applied. There was no impact on sales and income as a result of the application of the new accounting standard.

In connection with licenses for music under management held by the Company's subsidiary Victor Entertainment, Inc. and other companies, the recognition of sales was in principle previously recognized based on an apportionment method over the term of each license. Effective from the fiscal year ended March 31, 2010, for transactions that are deemed as sales of assets or interests and considered material under the terms and conditions of each agreement, the method for recording the recognition of sales has changed such that sales are now recognized in full at the time license agreements are concluded. This change was adopted in conjunction with a review of transactions relating to music and other copyrights in the fiscal year under ended March 31, 2010 in order to better reflect in consolidated financial statements adjustments to actual conditions following revenue recognition of transactions deemed as sales of material assets or the rights. As a result of this change, sales of Japan increased by ¥124 million (\$1,333 thousand) while operating loss of Japan decreased by ¥124 million (\$1,333 thousand), for the year ended March 31, 2010, compared with the previously applied method.

(Overseas sales)

Millions of Yen					
	America	Europe	Asia	Others	Total
2010					
Overseas sales	¥ 109,570	¥ 82,966	¥ 52,139	¥ 10,894	¥ 255,569
Consolidated net sales					398,663
Percentage of overseas sales to consolidated net sales	27.5%	20.8%	13.1%	2.7%	64.1%

Millions of Yen					
	America	Europe	Asia	Others	Total
2009					
Overseas sales	¥ 89,535	¥ 74,235	¥ 38,029	¥ 7,360	¥ 209,159
Consolidated net sales					311,299
Percentage of overseas sales to consolidated net sales	28.8%	23.8%	12.2%	2.4%	67.2%

	Thousands of U.S. Dollars				
	America	Europe	Asia	Others	Total
2010					
Overseas sales	\$ 1,177,666	\$ 891,724	\$ 560,393	\$ 117,089	\$ 2,746,872
Consolidated net sales					4,284,856
Percentage of overseas sales to consolidated net sales	27.5%	20.8%	13.1%	2.7%	64.1%

The geographic areas except Japan consist primarily of the following countries and regions:

- America - U.S.A., Canada and Panama
- Europe - Germany, France and the United Kingdom
- Asia - China, Singapore and U.A.E.
- Other - Australia and Africa

## 21. Subsequent Events

### 1. Share Consolidation

A proposal for the consolidation of shares was approved at the Company's 2nd Ordinary General Meeting of Shareholders held on June 24, 2010.

#### (1) Purpose of the share consolidation

The decision to consolidate the Company's shares of common stock was taken to ensure an appropriate level of shares issued and outstanding. In addition, along with the share consolidation, the Company will reduce the number of authorized shares by the same ratio as that applied to the share consolidation. At the same time, the Company plans to introduce a purchase system for shareholders holding shares of less than one unit.

#### (2) Details of the share consolidation

- a. Type of shares to be consolidated: Common stock
- b. Consolidation ratio: one share for every 10 shares
- c. Decrease in the number of shares

Number of shares issued and outstanding (as of March 31, 2010)	1,090,002,015 shares
Decrease in the number of shares due to the share consolidation	981,001,814 shares
Number of issued and outstanding shares after the share consolidation	109,000,201 shares
Total number of authorized shares after the share consolidation	400,000,000 shares

#### d. Disposition of fractional shares of less than one share

If any fractional share of less than one share are created due to the share consolidation, such shares will be sold in a lump sum for cash that will be distributed to shareholders who hold fractional shares in proportion to the number of fractional shares they hold.

#### (3) Schedule of the share consolidation

May 14, 2010	Resolution of the Board of Directors
June 24, 2010	2nd Ordinary General Meeting of Shareholders (Resolution on the share consolidation)
August 1, 2010 (planned)	Effective date of the share consolidation

#### (4) Impact on per share information

On the assumption that the share consolidation took place at the beginning of the previous fiscal year, per share information for the previous fiscal year and the fiscal year under review would be as follows:

The Previous Fiscal Year (April 1, 2008 to March 31, 2009)	The Fiscal Year Under Review (April 1, 2009 to March 31, 2010)
Net asset per share: ¥750.82	Net asset per share: ¥474.52 (\$5.10)
Net loss per share: ¥(461.44)	Net loss per share: ¥(287.48) (\$(3.09))
Data for diluted net income per share has not been disclosed. This is mainly attributable to the net loss for the period and the absence of any shares with a dilutive effect.	Data for diluted net income per share has not been disclosed. This is mainly attributable to the net loss for the period despite the presence of shares with a dilutive effect.

### 2. Transfer of Important Assets

On May 28, 2010, the Company held a meeting of its Board of Directors. At this meeting, the Company resolved to execute a purchase and sale agreement with respect to its Yokohama Plant, which housed both the Company's and JVC's head offices. In this context, the transfer of the relevant assets was completed on June 22, 2010.

#### (1) Purpose of the transfer

The Group plans to increase cash holdings and consolidate gross assets by continuing to dispose of fixed assets in accordance with the "Action Plan for Reconstruction of The Corporate Base," and its medium-term management plan. As part of these efforts, the Group decided to transfer land and buildings of the JVC Yokohama Plant to SG Realty Co., Ltd. The Company plans to relocate from the building in the Plant, which requires renovations, while repaying interest-bearing debts with the proceeds of the transfer. As a result, in addition to significantly reducing expenses such as for seismic retrofitting and waterproofing work, which would accrue if the buildings were to continue to be used, the head office divisions and the administrative divisions of the operational divisions of the Company and JVC, which are scattered throughout several plant buildings, can be optimally relocated, further streamlining and enhancing the integrated management of the company and JVC.

## (2) Details of the assets to be transferred

Details and location of the assets	Book value	Transfer value	Current status
Land 39,104.77 m <sup>2</sup> Building 51,684.44 m <sup>2</sup> 3-12 Moriya-cho, Kanagawa-ku, Yokohama-shi, Kanagawa	Land ¥6,300 million (\$67,713 thousand) Building and structures ¥953 million (\$10,243 thousand)	¥6,330 million (\$68,035 thousand)	Factory and office

## (3) Overview of the recipient of transfer

(1) Name	SG Realty Co., Ltd.
(2) Address	68 Tsunoda-cho, Kamitoba, Minami-ku, Kyoto-shi, Kyoto
(3) Title and name of representative	Yoshitaka Nakata, President and CEO
(4) Business activities	Business related to the rental of real estate, real estate management as well as the planning of real estate strategies
(5) Paid-in capital	¥20,000 million (\$214,961 thousand)
(6) Date established	August 21, 2007
(7) Major shareholders and percentage shareholding	SG Holdings Co., Ltd. 100%
(8) Relationship with the Company	There are no capital, personnel or trading interests ties between the companies

## (4) Schedule of the transfer

May 28, 2010	Resolution at a meeting of the Board of Directors
June 22, 2010	Execution of a purchase and sales agreement; property settlement
End of December 2010	Vacate premises in an as-is condition (planned)

3. Recommendation by the Securities and Exchange Surveillance Commission of Japan for the Issue of an Administrative Surcharge Payment Order  
On June 21, 2010, a notification was received that the Securities and Exchange Surveillance Commission of Japan had forwarded a recommendation to the Prime Minister and to the Commissioner of the Financial Services Agency that an administrative surcharge payment order totaling ¥707 million (\$7,599 thousand) be issued to JVC in connection with material misstatements in JVC's securities report and by association that an administrative surcharge payment order totaling ¥839 million (\$9,018 thousand) to the Company in connection material misstatements in the Company's securities report.



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
JVC KENWOOD Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of JVC KENWOOD Holdings, Inc. and consolidated subsidiaries (the "Company") as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of JVC KENWOOD Holdings, Inc. and consolidated subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company's recurring net losses, its consolidated subsidiary's recurring net losses and the fact that negotiations with financial institutions with respect to the refinancing of loans maturing within the next year are underway raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 21 to the consolidated financial statements, a proposal for the consolidation of shares was approved at the Company's Ordinary General Meeting of Shareholders held on June 24, 2010.

As discussed in Note 21 to the consolidated financial statements, a consolidated subsidiary resolved to execute a purchase and sale agreement with respect to fixed asset. In this context, the transfer of the relevant assets was completed on June 22, 2010.

As discussed in Note 21 to the consolidated financial statements, pursuant to a recommendation by the Securities and Exchange Surveillance Commission of Japan for the Issue of an Administrative Surcharge Payment Order on June 21, 2010, a notification was received.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu LLC*

June 24, 2010





## **JVC KENWOOD Holdings, Inc.**

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