

Notes to Consolidated Financial Statements

USS Co., Ltd. and Subsidiaries
March 31, 2007 and 2006

1. Basis of Consolidated Financial Statements

(a) Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements of USS Co., Ltd. (the "Company") and its subsidiaries (together with the Company, the "USS Group") have been prepared in accordance with the provisions set forth in the Corporate Law of Japan (formerly the Commercial Code of Japan) and the Securities and Exchange Law of Japan, and on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. These consolidated financial statements are compiled from the original consolidated financial statements in Japanese prepared by the Company as required by the Securities and Exchange Law of Japan and submitted to the Director of Kanto Finance Bureau of Japan.

(b) U.S. dollar amounts

The USS Group maintains its accounting records in Japanese Yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetic results of translating Japanese Yen into U.S. dollars at a rate of ¥118 to US\$1, the approximate rate of exchange at March 31, 2007. The inclusion of such dollar amounts is solely for the convenience of the readers and is not intended to imply that Yen and the assets and liabilities originating in Yen have been or could be readily converted, realized or settled in dollars at ¥118 to US\$1 or at any other rate.

(c) Reclassification

Certain comparative figures have been reclassified to conform to the current year's presentations.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. Investment in significant affiliates is accounted for by the equity method. Investments in affiliates not accounted for by the equity method are stated at cost.

The number of subsidiaries and affiliates for the years ended March 31, 2007 and 2006 was as follows:

	2007	2006
Subsidiaries	16	16
Affiliates, accounted for by the equity method.....	1	—
Affiliates, stated at cost	2	1

All inter-company transactions and accounts have been eliminated. The difference between the cost of investments in subsidiaries and the underlying equity in their net assets adjusted based on the fair value at the time of acquisition, which is included in intangible assets as goodwill account in the accompanying consolidated balance sheets, is amortized over five years on a straight-line basis.

(b) Accounting standard for presentation of net assets in the balance sheet

The Accounting Standards Board of Japan ("ASBJ") issued "Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No.5)" and Implementation Guidance "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No. 8)" on December 9, 2005, which are applied for the year ending on May 1, 2006. The standard requires presenting the equity section in the balance sheet as similar to International Financial Reporting Standards. The USS Group has adopted these new accounting standards from the year ended March 31, 2007. If the previous accounting method had been applied for the consolidated balance sheet at March 31, 2007, equity would have amounted to ¥104,985 million (\$889,704 thousand).

(c) Cash equivalents

The USS Group considers cash equivalents to be highly liquid debt instruments purchased with an original maturity of three months or less.

(d) Investments and marketable securities

The USS Group classifies certain investments in debt and equity securities as “held-to-maturity”, “trading” or “available-for-sale”, whose classification determines the respective accounting method as stipulated by the accounting standard for financial instruments. Marketable securities with available market quotations for available-for-sale securities are stated at fair value and net unrealized gains or losses on these securities are reported as a component of equity, net of applicable income taxes. Gains and losses on disposition of marketable securities are computed by the moving-average method. Non-marketable securities without available market quotations for available-for-sale securities are carried at cost determined by the moving-average method. Adjustments in carrying values of individual investment securities are charged to income through write-downs, when a decline in value is deemed other than temporary.

(e) Transactions and accounting for derivatives

The USS Group was a party to derivative instruments such as interest rate contract in the normal course of business to reduce its own exposure to fluctuation in interest rates on borrowings for hedge purposes. According to a special treatment as permitted by the accounting standard for financial instruments, the hedging interest rate swap or cap contracts were accounted for on an accrual basis, and recorded net of interest expense generated from the underlying hedged borrowings, if certain conditions are met for the year ended March 31, 2006. During the year ended March 31, 2006, the USS Group terminated hedging interest rate swap contracts accounted for on an accrual basis due to the repayment of the underlying hedged borrowings. At March 31, 2007 and 2006, the USS Group does not hold or has not issued any derivative transactions.

(f) Inventories

Vehicles are stated at cost, determined by the specific identification method. Merchandise, supplies and materials are stated at cost, determined by the moving-average method or retail method.

(g) Allowance for doubtful accounts

Allowance for doubtful accounts has been provided for at the aggregate amount of estimated credit loss based on the individual financial review approach for doubtful or troubled receivables and a general reserve for other receivables calculated based on the historical loss experience for a certain past period.

(h) Property and equipment, and depreciation

Property and equipment are stated at cost. Depreciation is computed using the declining-balance method at rates based on estimated useful lives of the respective assets, except that the buildings acquired on and after April 1, 1998 have been depreciated using the straight-line method.

(i) Leases

Where financing leases do not transfer ownership of the leased property to the lessee during the term of the lease, the leased property of the USS Group as lessee is not capitalized and the relating rental and lease expenses are charged to income as incurred as accepted by the “Opinion Concerning Accounting Standard for Leases” issued by the Business Accounting Council of Japan (“BACJ”) and the related practical guideline issued by the Japanese Institute of Certified Public Accountants (“JICPA”).

(j) Intangible assets

Software, which is included in intangible assets, is amortized using the straight-line method over a five-year period as its estimated useful life.

(k) Adoption of new accounting standard for impairment of fixed assets

On August 9, 2002, BACJ issued “Accounting Standard for Impairment of Fixed Assets”, which is effective for the fiscal years beginning April 1, 2005. ASBJ issued related practical guidance on October 31, 2003. The USS Group adopted this new accounting standard and related practical guidance from the year ended March 31, 2005. The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of the asset’s net selling price or value in use. Fixed assets include land, buildings and other forms of property, and equipment as well as

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intangible assets and are to be grouped at the lowest level for which there are identifiable cash flows from other groups of assets. For the purpose of recognition and measurement of an impairment loss, fixed assets of the USS Group are principally grouped into cash-generating units such as auto auction sites, or sales stores and factories, other than idle or unused property. Recoverable amounts of the assets were measured based on their net selling prices primarily for applicable market values less costs of disposal.

For the years ended March 31, 2007 and 2006, the USS Group recognized impairment loss on fixed assets such as buildings and other property, which were principally classified as sales stores planned for the close-down.

(l) Revaluation of land

In accordance with the Law Concerning Revaluation of Land (the "Law"), the Company elected the one-time revaluation to restate the cost of land used for the Company's business operations at values rationally reassessed effective on March 31, 2002, reflecting appropriate adjustments for land condition and other factors, based on the values for municipal property tax bases. A certain subsidiary elected the one-time revaluation to restate the cost of land used for the business operations at values rationally reassessed effective on March 31, 2001. According to the Law, the amount equivalent to the tax effect on the differences between the original book values and sound reassessed values is recorded as deferred tax assets or liabilities for revaluation account, and the rest of such differences, net of the tax effect, is recorded in the equity as land revaluation decrement account in the accompanying consolidated balance sheets. At March 31, 2007 and 2006, the difference between the carrying values of land used for the business after revaluation over the current market value of such land at the fiscal year-ends amounted to ¥3,866 million (\$32,763 thousand) and ¥3,695 million, respectively.

(m) Employee retirement benefits

Employees who terminate their service with the USS Group are entitled to retirement benefits generally determined based on current basic rates of pay, the length of service and conditions under which the termination occurs. The Company has a non-contributory qualified defined benefit pension plan. Five of the subsidiaries have lump-sum defined benefit retirement plans. Some of the other subsidiaries have defined contribution plans. The USS Group has recognized the retirement benefits for employees including pension cost and related liability based on estimated projected benefit obligation, net of fair value of the pension plan assets available for benefits at the fiscal year-ends. The USS Group has calculated the projected benefit obligation using the simplified calculation method to compute the amount that would be payable assuming all eligible employees voluntarily terminate their service at the respective balance sheet dates as permitted by the accounting standard for employee retirement benefits.

(n) Accrued severance indemnities for directors and corporate auditors

The USS Group may pay retirement benefits to directors and corporate auditors, which are subject to the approval of shareholders of each relevant company. The Company has provided for the liability of such severance indemnities at the fiscal year-ends based on internal policies.

(o) Revenue recognition

The primary business of the USS Group is to conduct auctions of used cars in the Japanese car market which are participated in by member car dealers and to provide auction opportunities by which buy orders and sell orders from member car dealers are matched. The USS Group recognizes auction fees from member car dealers as operating revenue when buy/sell orders are matched at the auctions on a trade date basis. These auction fees are recorded based on predetermined rates and the number of cars purchased/sold through the auctions.

(p) New share issuance expenses

New share issuance expenses are charged to income as incurred.

(q) Income taxes

Deferred taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforward. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be

recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

(r) Enterprise taxes

With the implementation of the "Revision of the Local Tax Law" issued on March 31, 2003, a local corporate enterprise tax base such as "added value amount" and "capital amount" has been adopted. Enterprise taxes based on "added value amount" and "capital amount" are included in selling, general and administrative expenses pursuant to "Practical Treatment for Presentation of Sized-based Corporate Enterprise Taxes in the Statement of Income" (ASBJ Report of Practical Issues No.12).

(s) Accounting standard for directors' bonus

From the year ended March 31, 2007, the USS Group has adopted "Accounting Standard for Directors' Bonus (ASBJ Statement No.4)" issued by ASBJ on November 29, 2005. The standard requires that the directors' bonuses, including those for corporate auditors, shall be accounted for as an expense of the accounting period in which such bonuses are accrued. Until the year ended March 31, 2006, bonuses to directors and corporate auditors were recorded as a part of the appropriation of retained earnings in the fiscal year when a proposed appropriation of retained earnings for directors and corporate auditors' bonuses was approved by the Board of Directors and/or shareholders. As a result, as USS Group has accrued such bonus, operating income and income before income taxes and minority interests decreased by ¥83 million (\$703 thousand) for the year ended March 31, 2007, respectively, as compared with the previous accounting method.

(t) Appropriations of retained earnings

Cash dividends and bonuses to directors and corporate auditors are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors and/or shareholders. See Note 2(s) for the accounting for bonuses to directors and corporate auditors.

(u) Accounting standard for business combinations

BACJ issued "Accounting Standard for Business Combinations" on October 31, 2003, and ASBJ issued "Accounting Standard for Business Divestitures (ASBJ Statement No.7)" and Implementation Guidance "Guidance on Accounting Standard for Business Combinations and Accounting Standard on Business Divestitures (ASBJ Guidance No. 10)" on December 27, 2005, which are applied for the year beginning on April 1, 2006. The USS Group has adopted these standards from the year ended March 31, 2007. This accounting change resulted in no effect on the operational results of the USS Group. The excess of the fair value of acquired net assets over the acquisition cost of investments, which was presented as consolidating adjustment account in the prior year's consolidated financial statements, is shown as goodwill in the consolidated financial statements for the year ended March 31, 2007 in accordance with the revised disclosure regulations.

(v) Per share data

Basic net income per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the respective years. Diluted net income per share is computed assuming convertible bonds were converted at the time of issue unless having anti-dilutive effects, and as if stock options were exercised at the beginning of the relevant year or (if later) on their first exercise date and as if the funds obtained thereby were used to purchase common stock at the average market price during the respective years under the treasury stock method.

Cash dividends per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared by the Company as applicable to the respective years.

3. Acquisitions

On April 28, 2005, the Company acquired 100% interest in the issued and outstanding shares of common stock of Misawa Toyo Co., Ltd. ("Toyo") for ¥1 in accordance with the agreement with MISAWA HOMES HOLDINGS, INC. ("MISAWA") dated March 29, 2005. The Company also purchased the claims held by Misawa Homes Co., Ltd. due from Toyo in a principal amount of ¥2,306 million for ¥175 million according to the agreement with MISAWA, and at the same time the Company abandoned such claims due from Toyo. Toyo was engaged in the recycling business for rubber materials and changed its name to USS Toyo Co., Ltd. The Company expects to realize the synergies for the integration of the recycling business of the USS Group.

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The assets acquired and the liabilities assumed of Toyo, as adjusted for the purchase and Company's abandonment of the claims due from Toyo, as of March 31, 2005 were as follows:

	Millions of Yen
Current assets	¥ 377
Non-current assets.....	1,637
Total assets	2,014
Current liabilities	520
Non-current liabilities	540
Total liabilities.....	1,060
Negative goodwill.....	¥ 954

On September 1, 2005, the Company acquired the shares of common stock of USS Gunma Co., Ltd. held by minority shareholders through the stock-for-stock exchange transaction. The Company issued 240,120 shares of common stock of the Company and recorded an increase in capital surplus account of ¥1,935 million on September 1, 2005. As a result, USS Gunma Co., Ltd. became a wholly owned subsidiary.

On March 1, 2007, the Company acquired the whole shares of common stock of KUA HOKURIKU Co., Ltd. through the stock-for-stock exchange transaction. As a result of this transaction, the Company reissued 60,138 shares of treasury stock of the Company and the company's name was changed to USS Hokuriku Co., Ltd. The assets acquired and the liabilities assumed as of March 1, 2007 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥288	\$2,441
Non-current assets.....	304	2,576
Goodwill	220	1,864
Total assets	812	6,881
Current liabilities	321	2,720
Non-current liabilities	42	356
Total liabilities.....	363	3,076
Value of stock-for-stock exchanges	¥449	\$3,805

On February 1, 2007, the Company acquired 39.1% interest in the issued and outstanding shares of common stock of Fujioka Interchange Auto Auction Co., Ltd. ("Fujioka"), and its investment is accounted for by the equity method for the period through March 31, 2007. In addition, as the Company acquired additional shares of Fujioka on April 3, 2007, the Company's equity share of Fujioka increased to 51.1% as a subsidiary and the Fujioka's name was changed to USS Fujioka Co., Ltd.

4. Due from/to Member Dealers at Auction

The USS Group intermediates buy and sell orders from member car dealers at the auction and upon matching of orders, the USS Group records accounts receivable from member car dealers who purchased the cars at the auction for the price of cars purchased, auction fees and other to be paid by the buyers. On the other hand, the USS Group records accounts payable to member car dealers who sold the cars at auctions for the price of the cars sold to be received by the sellers and also records auction fees and others to be paid by the sellers. The balances of "due from member dealers at auction" as assets and "due to member dealers at auction" as liabilities represent those unsettled accounts arising from the auction between the USS Group and member car dealers.

5. Short-term Investments and Investment Securities

At March 31, 2006, short-term investments consisted of time deposits with an original maturity of more than three months.

At March 31, 2007 and 2006, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Investment in affiliates.....	¥ 44	¥ 6	\$ 373
Marketable securities:			
Equity securities.....	122	205	1,034
Others.....	795	1,451	6,737
	917	1,656	7,771
Other non-marketable securities.....	478	178	4,051
Total.....	¥1,439	¥1,840	\$12,195

Marketable investment securities are classified as available-for-sale under the USS Group's investment policy and are stated at fair value with net unrealized gains and losses excluded from the current earnings and reported as a net amount within the equity account until realized. At March 31, 2007 and 2006, gross unrealized gains and losses for marketable securities are summarized as follows:

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
	Millions of Yen			
As of March 31, 2007:				
Marketable securities:				
Equity securities.....	¥ 71	¥ 51	¥ —	¥122
Others.....	472	341	(18)	795
	¥543	¥392	¥(18)	¥917

As of March 31, 2006:

Marketable securities:				
Equity securities.....	¥ 71	¥134	¥ —	¥ 205
Others.....	934	535	(18)	1,451
	¥1,005	¥669	¥(18)	¥1,656

Thousands of U.S. Dollars

As of March 31, 2007:

Marketable securities:				
Equity securities.....	\$ 602	\$ 432	\$ —	\$1,034
Others.....	4,000	2,890	(153)	6,737
	\$4,602	\$3,322	\$(153)	\$7,771

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6. Inventories

At March 31, 2007 and 2006, inventories consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Merchandise.....	¥ 818	¥620	\$6,932
Vehicles.....	9	51	76
Supplies	197	58	1,670
Material	38	33	322
	¥1,062	¥762	\$9,000

7. Intangible Assets

At March 31, 2007 and 2006, intangible assets consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Goodwill	¥2,532	¥3,090	\$21,458
Software	843	581	7,144
Other intangible assets.....	331	350	2,805
	¥3,706	¥4,021	\$31,407

8. Short-term Borrowings and Long-term Debt

Short-term borrowings consisted of unsecured bank loans at March 31, 2006.

The Company had unsecured overdraft and loan commitment agreements with a certain bank. At March 31, 2007 and 2006, the Company was entitled to withdraw up to ¥1,000 million (\$8,475 thousand) under such an agreement, the entire amount of which was undrawn.

At March 31, 2007 and 2006, long-term debt consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Unsecured bank loans, due through 2012 repayable on an installment basis with interest rates ranging from 0.60% to 1.58% per annum at March 31, 2007.....	¥5,355	¥4,500	\$45,381
Less, current portion.....	(2,306)	(1,500)	(19,542)
	¥3,049	¥3,000	\$25,839

The aggregate annual maturities of long-term debt at March 31, 2007 were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008.....	¥2,306	\$19,542
2009.....	2,306	19,542
2010.....	475	4,025
2011.....	140	1,187
2012.....	128	1,085
	¥5,355	\$45,381

As is customary in Japan, substantially all bank borrowings are subject to general agreements which provide, among other things, that the banks may, under certain circumstances, request additional security for these borrowings and may treat any security so furnished to the banks, as well as cash deposited with them, as security for all present and future indebtedness. The banks have never requested the Company or its subsidiaries to submit such additional security. Also, as is customary in Japan, the Company and certain of its subsidiaries may have time deposits with the banks from which they have short-term and long-term borrowings. However, there are no agreements with any banks, which would require maintaining such deposits.

9. Employee Retirement Benefits

The following table reconciles the benefit liability and net periodic retirement benefit expense as at, or for the years ended March 31, 2007 and 2006:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Reconciliation of benefit liability:			
Retirement benefit liability.....	¥464	¥404	\$3,932
Less, fair value of pension plan assets at end of year	(387)	(322)	(3,280)
	77	82	652
Prepaid pension expenses.....	(38)	(13)	(323)
Net amounts of employee retirement benefit liability recognized on the consolidated balance sheets.....	¥115	¥ 95	\$ 975

Note: Projected benefit obligation was calculated using the simplified calculation method as permitted by the accounting standard for employee retirement benefits.

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Component of net periodic retirement benefit expense:			
Retirement benefit expense for defined benefit plan.....	¥ 58	¥ 37	\$492
Retirement benefit expense for defined contribution plan.....	57	65	483
Net periodic retirement benefit expense.....	¥115	¥102	\$975

10. Equity

- (a) The authorized number of shares of common stock without par value is 120 million. At March 31, 2007 and 2006, the number of shares of common stock issued was 32,604,062 and 32,486,932 shares, respectively. At March 31, 2007 and 2006, the number of treasury stock held by the USS Group was 671,773 and 144,006 shares, respectively.
- (b) At March 31, 2007 and 2006, respectively, capital surplus consisted of additional paid-in capital. Retained earnings included legal reserve of the Company in the amount of ¥370 million (\$3,136 thousand) at March 31, 2007 and 2006, respectively. The Corporate Law of Japan provides that an amount equivalent to 10% of cash dividends as an appropriation of retained earnings shall be appropriated as legal reserve until a total amount of additional paid-in capital and such legal reserve equals 25% of common stock. The reduction of legal reserve is restricted under the certain circumstances by proper actions of shareholders of the Company.
- (c) The Company has implemented a stock option plan in accordance with the former Commercial Code of Japan. Options granted in 2002 through 2005 were granted to the members of the Board of Directors and selected executive employees of the Company or its subsidiaries and, at March 31, 2007, each stock option is exercisable under the following terms:

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	Number of common shares to be issued	Exercise price	Exercise period of option
Option, granted in 2003	100,620	¥6,510	June 26, 2003 through October 31, 2007
Option, granted in 2004	196,500	¥9,320	June 30, 2004 through October 31, 2008
Option, granted in 2005	224,000	¥7,510	June 29, 2005 through October 31, 2009

On June 26, 2007, the following appropriation of retained earnings was approved at an annual general meeting of shareholders of the Company:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	¥1,597	\$13,534

11. Commitments and Contingent Liabilities

At March 31, 2007 and 2006, the USS Group did not have any contingent liabilities.

The USS Group has entered into various rental and lease agreements principally for auction spaces which are cancelable with a few months' advance notice and for satellite communication network equipment and computer equipment, which is not usually cancelable as lessee. The aggregate future minimum payments for such non-cancelable financing leases, including imputed interest, at March 31, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥ 750	¥ 847	\$ 6,356
Due after one year	1,399	2,145	11,856
	¥2,149	¥2,992	\$18,212

The gross rental and lease expenses, consisting of minimum rental payments for all operating leases and financing leases, for the years ended March 31, 2007 and 2006, were ¥2,015 million (\$17,076 thousand) and ¥1,925 million, respectively. For the years ended March 31, 2007 and 2005, the lease expenses for non-cancelable lease agreements which were categorized as financing leases amounted to ¥805 million (\$6,822 thousand) and ¥767 million, respectively.

12. Income Taxes

Income taxes for the years ended March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Income taxes:			
Current	¥10,865	¥9,567	\$92,076
Deferred	(165)	76	(1,398)
	¥10,700	¥9,643	\$90,678

The tax effects on temporary differences that give rise to a significant portion of deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Deferred tax assets—Current:			
Enterprise tax accruals.....	¥460	¥442	\$3,898
Operating loss carryforwards of subsidiaries.....	220	155	1,865
Accrued bonus to employees	168	135	1,424
Other	137	153	1,161
Less, valuation allowance.....	(23)	(175)	(195)
	¥962	¥710	\$8,153
Deferred tax assets—Non-current:			
Allowance for doubtful accounts.....	¥ 7	¥ 64	\$ 59
Loss on disposal of buildings	163	80	1,381
Unrealized gains on available-for-sale securities	(148)	(260)	(1,254)
Operating loss carryforwards of subsidiaries.....	409	40	3,466
Accrued directors' and corporate auditors' severance indemnities	170	153	1,441
Loss on write-down of securities	130	130	1,102
Impairment loss on fixed assets.....	182	313	1,543
Other	104	80	881
Less, valuation allowance.....	(394)	(43)	(3,339)
	¥623	¥557	\$5,280

In assessing the realizability of deferred tax assets, management of the USS Group considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of the future taxable income during the periods in which those temporary differences become deductible. At March 31, 2007 and 2006, a valuation allowance was provided to reduce the deferred tax assets to the extent that the management believes the amount of the deferred tax assets is expected to be realizable.

13. Related Party Transactions

During the years ended March 31, 2007 and 2006, the USS Group had principally operational transactions with car dealer companies and a real property holder, of which the Company's directors, corporate auditors, and/or their immediate families hold a majority voting interest. A summary of the significant transactions with such companies for the years ended, or as at March 31, 2007 and 2006, is as follows:

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	Millions of Yen		Thousands of
	2007	2006	U.S. Dollars
For the year:			
Number of related parties	8	7	
Number of cars put up for auction.....	80,795	76,510	
Number of cars actually traded	34,842	33,342	
Auction fees recorded as operating revenue	¥ 510	¥ 481	\$4,322
Lease expenses for real property.....	55	55	466
At year end:			
Due to member dealers at auction.....	¥ 342	¥ 137	\$2,898
Receivables due from member dealers at auction	¥ —	¥ 2	\$ —

14. Segment Information

The USS Group operates in three segments, "Automobile auction business", "Used car purchasing and selling business", and other business. Other business includes "recycling" business for end-of-life vehicles and waste rubber, which is operated by certain subsidiaries. A summary of information classified by lines of business of the USS Group for the years ended March 31, 2007 and 2006 is as follows:

	Automobile	Used car	Other	Total	Elimination of	Consolidated
	Auction	purchasing	business		inter-segment	total
	business	and selling			transactions	
	Millions of Yen					
For the year 2007:						
Operating revenue:						
External customers	¥ 47,708	¥12,888	¥3,973	¥ 64,569	¥ —	¥ 64,569
Inter-segment sales/transfers.....	517	—	2	519	(519)	—
Total operating revenue	48,225	12,888	3,975	65,088	(519)	64,569
Operating costs and expenses	24,050	12,905	3,562	40,517	(765)	39,752
Operating income (loss)	¥ 24,175	¥ (17)	¥ 413	¥ 24,571	¥ 246	¥ 24,817
Identifiable assets.....	¥139,511	¥ 3,859	¥4,740	¥148,110	¥(1,938)	¥146,172
Depreciation	4,571	80	517	5,168	—	5,168
Capital expenditures	12,845	158	397	13,400	—	13,400

	Automobile Auction business	Used car purchasing and selling business	Other business	Total	Elimination of inter-segment transactions	Consolidated total
Millions of Yen						
For the year 2006:						
Operating revenue:						
External customers	¥44,271	¥13,517	¥2,455	¥ 60,243	¥ —	¥ 60,243
Inter-segment sales/transfers	567	—	3	570	(570)	—
Total operating revenue	44,838	13,517	2,458	60,813	(570)	60,243
Operating costs and expenses	22,162	13,356	2,452	37,970	(831)	37,139
Operating income.....	¥22,676	¥ 161	¥ 6	¥ 22,843	¥ 261	¥ 23,104
Identifiable assets.....	¥124,499	¥ 4,113	¥4,548	¥133,160	¥(1,251)	¥131,909
Depreciation	3,695	63	385	4,143	—	4,143
Capital expenditures	12,586	52	569	13,207	—	13,207

Thousands of U.S. Dollars

For the year 2007:						
Operating revenue:						
External customers	\$ 404,305	\$109,220	\$33,670	\$ 547,195	\$ —	\$ 547,195
Inter-segment sales/transfers	4,381	—	17	4,398	(4,398)	—
Total operating revenue	408,686	109,220	33,687	551,593	(4,398)	547,195
Operating costs and expenses	203,814	109,364	30,186	343,364	(6,483)	336,881
Operating income (loss)	\$ 204,872	\$ (144)	\$ 3,501	\$ 208,229	\$ 2,085	\$ 210,314
Identifiable assets.....	\$1,182,297	\$ 32,703	\$40,169	\$1,255,169	\$(16,423)	\$1,238,746
Depreciation	38,737	678	4,382	43,797	—	43,797
Capital expenditures	108,856	1,339	3,364	113,559	—	113,559

Information by geographic segment and overseas sales is not shown because the USS Group has neither subsidiaries nor branches outside Japan.