

EXHIBIT C1

Audit Guidelines Super Audio CD Disc Patent License Agreement

These audit guidelines are designed to lay down basic elements for the audits to be performed by Licensee's auditors.

1. Auditor's qualifications

Licensee's auditor who issues the auditor's opinion on the royalty statement (refer to 2) shall be the same as the auditor who issues an auditors' opinion on the financial statements of Licensee.

- the auditor shall be a certified public accountant in the country concerned, and a member of a well-respected firm, preferably one of the big 5 internationally operating auditing firms.
- the auditor shall be a member of the CPA association in the country concerned, or a member of the auditors' association in the Netherlands, UK or USA.

2. Opinion

The auditor's opinion on the royalty statement and manufacturing equipment list, as described below, shall read as follows:

Independent Auditor's Report

The Board of Directors
<XYZ Corporation >

We have audited the accompanying royalty statements and the manufacturing equipment list, duly initialed by us, applicable to the Non-Hybrid Super Audio CD Disc and Hybrid Super Audio CD Disc production of <XYZ Corporation > for the year ending December 31, 200x, under the terms of a license agreement dated Month xx, 20XX, between <Philips Company > and <XYZ Corporation >. These schedules are the responsibility of <XYZ Corporation's > management. Our responsibility is to express an opinion on these schedules based on our audit.

We have conducted our audit in accordance with generally accepted international auditing standards and the Audit Guidelines for the Super Audio CD Disc Patent License Agreement. These standards and guidelines require that we plan and perform the audit in order to obtain reasonable assurance as to whether the schedules are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules. An audit also includes assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the royalty statements referred to above present fairly, in all material respects, the number of Non-Hybrid Super Audio CD Discs and Hybrid Super Audio CD Discs produced by <XYZ Corporation > during the year ending December 31, XXXX and the amount of royalties applicable thereto, under the license agreement referred to above.

In our opinion the manufacturing equipment list referred to above presents fairly, in all material respects, an overview of all machines used by <XYZ Corporation > in the manufacture of Super Audio CD Discs during the year ending December 31, XXXX under the license agreement referred to above.

This report is intended solely for use by the boards of directors and management of <XYZ Corporation > and <Philips Company >.

(signed) audit firm

city, Month xx, 20xx

Enclosures: Royalty statements (xx pages)

Manufacturing Equipment List (xx pages)

Reference copy

Manufacturing Equipment List

The manufacturing equipment list shall contain information in accordance with the table as given in Exhibit C2.

Royalty Statements

The royalty statements shall contain the information in accordance with the table as given in Exhibit C3.

Reference copy

3. Work papers

General

- The auditor of Licensee shall comply with the auditor's independence rules as promulgated by the SEC.
- The auditor appointed by Philips shall be given full access, without limitation, to the work papers.
- The work papers shall include a clear overview of the legal and organizational structure of Licensee's company and the group of companies of which Licensee is part together with an overview of Licensee's manufacturing locations.

Royalty statements

The work papers with respect to royalty statements shall include:

- a copy of the royalty statements under review.
- a copy of the Super Audio CD Disc Patent License Agreement including relevant, related agreements and/or correspondence.
- the maximum manufacturing capacity of Super Audio CD Discs of Licensee (including the manufacturing equipment list) and reconciliation hereof with the property, plant and equipment accounts in the financial statements.
- The reconciliation of the maximum manufacturing capacity with the actual output and the royalty statements.
- copies of the internal manufacturing output recording system per month and key performance indicators such as: manufacturing running time, rejections, daily output, machine service hours, idle hours and reconciliation with the royalty statements.
- an analysis of the average use of polycarbonate per Super Audio CD Disc and the reconciliation hereof with the volume of polycarbonate purchased, manufacturing output, purchase recording systems, suppliers overview and the financial statements.

- an analysis of the volume of aluminum used per month and a reconciliation with the manufacturing output, purchase ledgers per supplier and the financial statements.
- an analysis regarding the cut-off procedures applied for the period.
- the reconciliation of the volume of Super Audio CD Discs manufactured with sales and purchases in the period under review (goods movement schedule).
- a planning document assessing the risk areas in the audit, a working program, an audit memorandum including salient features.

Manufacturing Equipment Identification System

The work papers shall include:

- a copy of the manufacturing equipment list referred to above
- a reconciliation of the manufacturing equipment list with the financial statement, general ledger and work paper specifications.
- an overview of work performed on the manufacturing equipment list, which shall include a physical inventory taken, including identification of the specifics per machine (see Exhibit C2).
- purchase orders/invoices for machines as listed in the manufacturing equipment list (see Exhibit C2).

4. Work paper review

The work paper review will be performed at the offices of Licensee's auditor. The auditors appointed by Philips shall be granted unlimited access to all work papers of Licensee's auditor. The auditor appointed by Philips shall be allowed to make copies of the work papers where considered necessary by him/her. The auditor appointed by Philips will report his findings to Philips in a report or letter format.

Reference copy

Filename: SACDisc-auditguidelines-ExhC1-07-2002
Directory: L:\licensing\IP&S WEBSITE LICENSE
DOCUMENTS\SACD Disc (joint)\Current versions
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