

3. Forecast Results for Fiscal Year 2016 (April 1, 2016 to March 31, 2017)

(Percentage figures indicate the rate of year-on-year increase (decrease).)

	Net sales		Operating income		Ordinary income		Profit		Basic earnings per share
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	Yen
Full Year	10,000	11.3	300	22.8	300	36.0	200	75.6	17.87

(Note) Revision of forecast results from recently announced figures: None

* Matters of Note

(1) Application of special accounting processes for the preparation of Financial Statements: Yes

(Note) For details, please refer to [Appendix] P. 3 “2. Matters Related to Summary Information (Matters of Note) (1) Application of special accounting processes for the preparation of Quarterly Financial Statements.”

(2) Changes to accounting policies, changes to accounting estimates, and restatements:

- 1) Changes to accounting policies accompanying the revision of accounting standards, etc.: Yes
- 2) Changes to accounting policies other than 1) above: None
- 3) Changes to accounting estimates: None
- 4) Restatements: None

(Note) For details, please refer to [Appendix] P. 3 “2. Matters Related to Summary Information (Matters of Note) (2) Changes to accounting policies, changes to accounting estimates, and restatements.”

(3) Number of shares issued (common shares)

1) The number of shares issued at end of period (including treasury stock)	Q2 FY 2016	11,187,749 shares	FY 2015	11,187,749 shares
2) The number of shares of treasury stock at end of period	Q2 FY 2016	100 shares	FY 2015	0 shares
3) Average number of shares of common shares during period (cumulative)	Q2 FY 2016	11,187,736 shares	Q2 FY 2015	11,924,518 shares

* Presentation regarding execution status of quarterly review procedures

These quarterly financial statements are outside the scope of quarterly review procedures under the Financial Instruments and Exchange Act. As at the time of disclosure of these quarterly financial statements, review procedures for the financial statements under the Financial Instruments and Exchange Act have not been completed.

* Explanation of appropriate use of results forecasts, other matters of note:

(Note on forward-looking statements, etc.)

The earnings forecasts and other forward-looking statements herein are based on information available to the Company and certain assumptions deemed reasonable as at the date of publication of this document. Actual results may differ significantly from these forecasts due to various factors. For assumed conditions of the earnings forecasts and precautions, etc. in using the earnings forecasts, please refer to [Appendix] P. 3 “1. Qualitative Information on Quarterly Financial Results (3) Explanation of future forecast information such as results forecasts.”

(Method of obtaining supplementary explanatory materials for quarterly financial results and contents of the quarterly briefing session)

Supplementary explanatory materials on quarterly financial results are provided on TDnet on the same date. The Company is planning to hold a briefing session for analysts and institutional investors on Wednesday, October 26, 2016. The video of the briefing session is scheduled to be posted on the Company’s website immediately after the session.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of business results

During the second quarter of fiscal 2016, a moderate recovery trend continued in the Japanese economy including improvements in the employment and income conditions, along with steady personal consumption overall. However, the future economic prospects continued to be uncertain, due to factors such as the impact of volatility in the financial and capital markets, in addition to higher uncertainty in overseas economies.

The pachinko and pachislot machine market, which is the primary market for the Company, continued to face a challenging environment, due to the effect of self-imposed regulations implemented by industry organizations in November and December 2015 combined with the effect of restraint on new machine installation posed in tandem with the Ise-Shima Summit (held in May 2016), in addition to stagnation in the market resulting from the diversification of leisure, etc.

Under such circumstances, the Company continued to channel its energies into promoting the sale of various products targeted at the pachinko and pachislot machine market, and also focused on sales activities for Graphics LSI products (Note 2) for customers in the embedded system market (Note 1) and software IP products such as the H2MD software movie codec that allows for playback in PC and smartphone browsers.

As for various LSI products targeted at the pachinko and pachislot machine market, net sales decreased 2,127 million yen from the previous corresponding period to 3,931 million yen (down 35.1% year-on-year). While our mainstay Graphics LSI products targeted at the pachinko and pachislot machine market enjoyed a temporary demand to replace “pachinko machines whose performance may differ from the models submitted for inspection” within the fiscal year, sales were 470,000 units, approximately 290,000 units less compared to the previous corresponding period in which sales trend was brisk with the effect of last-minute demand ahead of the self-imposed regulations. Sales of other products targeted at the said market (LED driver LSI products (Note 3) and memory-module products, etc.) also decreased from the previous corresponding period. Of the 2,127 million yen decrease from the previous corresponding period, approximately 80% is due to a decrease in Graphics LSI product sales.

In terms of Graphics LSI products targeted at the embedded system market, net sales decreased 36 million yen from the previous corresponding period (down 41.0% year-on-year) to 51 million yen due to trends in demand of manufacturers which adopt the Company’s products. As for other products, including development-support software for customers, evaluation circuit boards, and software IP products such as “H2MD”, net sales decreased 1 million yen from the previous corresponding period (down 4.5% year-on-year) to 26 million yen. As a result, for the cumulative second quarter of fiscal 2016, the Company recorded net sales of 4,010 million yen, decreasing 2,164 million yen from the previous corresponding period (down 35.1% year-on-year).

Along with a decrease in net sales, gross profit decreased 1,047 million yen from the previous corresponding period (down 36.4% year-on-year) to 1,827 million yen, and gross profit ratio was 45.6%, on par with levels seen during the previous corresponding period. Selling, general and administrative expenses decreased 339 million yen from the previous corresponding period (down 16.1% year-on-year) to 1,763 million yen resulting primarily from a decrease in research and development expenses. The Company has been making active investment in research and development activities aimed at future growth, but research and development expenses for the cumulative second quarter of fiscal 2016 decreased 319 million yen from the previous corresponding period (down 20.2% year-on-year) to 1,261 million yen.

Consequently, for the second quarter of fiscal 2016, the Company recorded operating income of 64 million yen (down 91.7% year-on-year) and ordinary income of 63 million yen (down 91.5% year-on-year) and profit of 45 million yen (down 91.3% year-on-year).

(Note 1) “Embedded system market” refers to the market relating to the manufacture of embedded systems, excluding pachinko and pachislot machines. Embedded systems refer to electronic devices that have a computer embedded that carries out a particular processing specific to a certain application. Embedded systems include devices of various types and in various areas, ranging from medical devices, vending machines, to home electric appliances.

(Note 2) “Graphics LSI” refers to the Company’s LSI products that enable graphics to be shown on LCDs and other display devices.

(Note 3) “LED” is an acronym for “Light Emitting Diode.” It refers to semiconductor elements that emit light when electricity is applied. “LED driver LSI product” refers to the Company’s LSI products designed to efficiently control LED equipped in pachinko and pachislot machines.

(2) Explanation of financial position

1) Status of assets, liabilities, and net assets

Total assets as of the end of the second quarter of fiscal 2016 increased 16 million yen from the end of the previous fiscal year to 12,173 million yen (up 0.1% from the end of the previous fiscal year). This was due mainly to factors such as the increase of 617 million yen in accounts receivable - trade and the increase of 178 million yen in investments and other assets, offset by the decrease of 282 million yen in cash and deposits and the decrease of 364 million yen in merchandise and finished goods.

Total liabilities as of the end of the second quarter of fiscal 2016 decreased 23 million yen from the end of the previous fiscal year to 876 million yen (down 2.6% from the end of the previous fiscal year). This was due mainly to factors such as the decrease of 129 million yen in accounts payable - trade, despite the increase of 97 million yen in other current liabilities.

Total net assets as of the end of the second quarter of fiscal 2016 increased 40 million yen from the end of the previous fiscal year to 11,296 million yen (up 0.4% from the end of the previous fiscal year).

2) Status of cash flows

Cash and cash equivalents (hereinafter “funds”) as of the end of the second quarter of fiscal 2016 amounted to 7,780 million yen (down 10.1% from the end of the previous fiscal year). The status of cash flows and their contributing factors were as follows.

(Cash flows from operating activities)

Funds provided by operating activities for the second quarter of fiscal 2016 amounted to 95 million yen (funds used of 338 million yen in the previous corresponding period). This was mainly attributable to factors such as profit before income taxes for the second quarter of fiscal 2016 (63 million yen), depreciation (93 million yen), the decrease in inventories (364 million yen) and the decrease in other current assets (89 million yen), while increase in notes and accounts receivable - trade (617 million yen) and decrease in notes and accounts payable - trade (129 million yen) were recorded.

(Cash flows from investing activities)

Funds used in investing activities for the second quarter of fiscal 2016 amounted to 321 million yen (funds used of 131 million yen in the previous corresponding period). This was mainly attributable to the purchase of property, plant and equipment (163 million yen) and purchase of investment securities (135 million yen).

(Cash flows from financing activities)

Funds used in financing activities for the second quarter of fiscal 2016 amounted to 56 million yen (funds used of 2,372 million yen in the previous corresponding period). This was mainly attributable to cash dividends paid (55 million yen).

(3) Explanation of future forecast information such as results forecasts

Full-year forecast results for fiscal 2016 are as stated in the “Summary of Financial Statements for the Year Ended March 31, 2016” disclosed on April 25, 2016.

Results for the second quarter of fiscal 2016 compared to the full-year forecast results indicate progress as follows: net sales 40.1%, operating income 21.4%, ordinary income 21.3%, and profit of 22.5%. We believe that these results were generally in line with the full-year forecast plans, as the forecast results for fiscal 2016 attach weight to the second half of the fiscal year.

2. Matters Related to Summary Information (Matters of Note)

(1) Application of special accounting processes for the preparation of Quarterly Financial Statements

(Calculation of tax expenses)

Tax expenses have been calculated by multiplying profit before income taxes by an effective tax rate reasonably estimated after the application of tax effect accounting to profit before income taxes for the fiscal year including the second quarter of fiscal 2016.

(2) Changes to accounting policies, changes to accounting estimates, and restatements

Changes to accounting policies

(Application of the Practical Solution on a change in depreciation method due to Tax Reform 2016)

In line with revisions to the Corporation Tax Act, the “Practical Solution on a change in depreciation method due to Tax Reform 2016” (Practical Issues Task Force (“PITF”) No. 32, June 17, 2016) has been applied from the first quarter of fiscal 2016, and the method of depreciation for facilities attached to buildings acquired on or after April 1, 2016 has been changed from the declining-balance method to the straight-line method.

The effect of the above on profit or loss is insignificant.

(3) Additional information

(Application of the Implementation Guidance on Recoverability of Deferred Tax Assets)

“Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan Implementation Guidance No. 26, March 28, 2016) has been applied from the first quarter of fiscal 2016.

3. Quarterly Financial Statements**(1) Quarterly Balance Sheets**

	(In millions of yen)	
	FY 2015 (As of March 31, 2016)	Q2 FY 2016 (As of September 30, 2016)
Assets		
Current assets		
Cash and deposits	8,063	7,780
Accounts receivable - trade	465	1,082
Merchandise and finished goods	2,000	1,636
Raw materials and supplies	0	0
Other	531	318
Total current assets	11,061	10,818
Non-current assets		
Property, plant and equipment	336	403
Intangible assets	31	46
Investments and other assets	726	905
Total non-current assets	1,095	1,355
Total assets	12,156	12,173
Liabilities		
Current liabilities		
Accounts payable - trade	681	551
Income taxes payable	—	31
Other	161	259
Total current liabilities	843	842
Non-current liabilities		
Asset retirement obligations	34	34
Other	22	—
Total non-current liabilities	56	34
Total liabilities	900	876
Net assets		
Shareholders' equity		
Capital stock	1,018	1,018
Capital surplus	861	861
Retained earnings	9,336	9,325
Treasury shares	—	(0)
Total shareholders' equity	11,217	11,206
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	39	90
Total valuation and translation adjustments	39	90
Total net assets	11,256	11,296
Total liabilities and net assets	12,156	12,173

(2) Quarterly Statements of Income

(Second quarter)

	(In millions of yen)	
	Q2 FY 2015 (From April 1, 2015 to September 30, 2015)	Q2 FY 2016 (From April 1, 2016 to September 30, 2016)
Net sales	6,175	4,010
Cost of sales	3,300	2,182
Gross profit	2,875	1,827
Selling, general and administrative expenses	2,103	1,763
Operating income	771	64
Non-operating income		
Dividend income	1	2
Foreign exchange gains	—	2
Other	0	1
Total non-operating income	2	6
Non-operating expenses		
Loss on investments in partnership	7	6
Other	16	0
Total non-operating expenses	23	6
Ordinary income	750	63
Profit before income taxes	750	63
Income taxes	230	18
Profit	519	45

(3) Quarterly Statements of Cash Flows

	(In millions of yen)	
	Q2 FY 2015 (From April 1, 2015 to September 30, 2015)	Q2 FY 2016 (From April 1, 2016 to September 30, 2016)
Cash flows from operating activities		
Profit before income taxes	750	63
Depreciation	68	93
Interest and dividend income	(1)	(2)
Loss (gain) on investments in partnership	7	6
Decrease (increase) in notes and accounts receivable - trade	29	(617)
Decrease (increase) in inventories	(696)	364
Decrease (increase) in other current assets	(107)	89
Increase (decrease) in notes and accounts payable - trade	91	(129)
Increase (decrease) in other current liabilities	(240)	50
Other, net	(113)	130
Subtotal	(210)	49
Interest and dividend income received	1	2
Income taxes refund	—	43
Income taxes paid	(129)	—
Net cash provided by (used in) operating activities	(338)	95
Cash flows from investing activities		
Purchase of property, plant and equipment	(74)	(163)
Purchase of intangible assets	(8)	(15)
Purchase of investment securities	—	(135)
Other, net	(48)	(7)
Net cash provided by (used in) investing activities	(131)	(321)
Cash flows from financing activities		
Purchase of treasury shares	(2,000)	(0)
Repayments of lease obligations	(0)	(0)
Cash dividends paid	(371)	(55)
Net cash provided by (used in) financing activities	(2,372)	(56)
Net increase (decrease) in cash and cash equivalents	(2,843)	(282)
Cash and cash equivalents at beginning of period	11,500	8,063
Cash and cash equivalents at end of period	8,657	7,780

(4) Notes to Quarterly Financial Statements

(Notes regarding going concern assumption)

N/A

(Notes in cases where there are significant changes in amount of shareholders' equity)

N/A

4. Supplementary Information

(1) Production, orders and sales status

1) Production

Production results for the second quarter of FY 2016 are as follows:

(In millions of yen)

Classification	Q2 FY 2016 (From April 1, 2016 to September 30, 2016)	Change (%)
LSI products for pachinko and pachislot machines	3,240	(55.0)
LSI products for embedded systems	29	(47.5)
Other	29	29.6
Total	3,298	(54.6)

- (Notes) 1. Amounts are according to sales price.
2. Above figures are stated net of consumption taxes.

2) Orders

Orders for the second quarter of FY 2016 are as follows:

(In millions of yen)

Classification	Q2 FY 2016 (From April 1, 2016 to September 30, 2016)			
	Orders received	Change (%)	Outstanding orders	Change (%)
LSI products for pachinko and pachislot machines	4,723	9.0	2,659	6.3
LSI products for embedded systems	53	(50.4)	29	(47.4)
Other	29	(24.4)	2	(77.3)
Total	4,805	7.3	2,691	4.8

- (Notes) 1. Amounts are according to sales price.
2. Above figures are stated net of consumption taxes.

3) Sales

Sales during the second quarter of FY 2016 are as follows:

(In millions of yen)

Classification	Q2 FY 2016 (From April 1, 2016 to September 30, 2016)	Change (%)
LSI products for pachinko and pachislot machines	3,931	(35.1)
LSI products for embedded systems	51	(41.0)
Other	26	(4.5)
Total	4,010	(35.1)

- (Notes) 1. Above figures are stated net of consumption taxes.
2. Sales to the Company's main sales agent and the proportion of such sales to total sales over the past two fiscal years are as follows:

(In millions of yen)

Sales agent	Q2 FY 2015 (From April 1, 2015 to September 30, 2015)		Q2 FY 2016 (From April 1, 2016 to September 30, 2016)	
	Amount	Percentage (%)	Amount	Percentage (%)
Midoriya Electric Co., Ltd.	4,454	72.1	3,196	79.7

(Note) Above figures are stated net of consumption taxes.

(2) Recent trends in quarterly business results**Year ending March 31, 2017**

(In millions of yen)

	Q1 FY 2016 From April 2016 to June 2016	Q2 FY 2016 From July 2016 to September 2016	Q3 FY 2016 From October 2016 to December 2016	Q4 FY 2016 From January 2017 to March 2017
Net sales	1,696	2,314	—	—
Gross profit	814	1,013	—	—
Operating income (loss)	(33)	97	—	—
Ordinary income (loss)	(25)	89	—	—
Profit (loss) before income taxes	(25)	89	—	—
Profit (loss)	(18)	63	—	—
Profit (loss) per share	(1.64) yen	5.67 yen	—	—
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	11,975	12,173	—	—
Net assets	11,193	11,296	—	—
Net assets per share	1,000.53 yen	1,009.74 yen	—	—

Year ended March 31, 2016

(In millions of yen)

	Q1 FY 2015 From April 2015 to June 2015	Q2 FY 2015 From July 2015 to September 2015	Q3 FY 2015 From October 2015 to December 2015	Q4 FY 2015 From January 2016 to March 2016
Net sales	2,831	3,343	1,543	1,263
Gross profit	1,371	1,504	683	542
Operating income (loss)	589	182	(160)	(366)
Ordinary income (loss)	581	169	(158)	(370)
Profit (loss) before income taxes	581	169	(158)	(412)
Profit (loss)	402	116	(110)	(295)
Profit (loss) per share	32.84 yen	10.08 yen	(9.87) yen	(26.37) yen
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	14,829	12,538	11,999	12,156
Net assets	12,859	11,714	11,558	11,256
Net assets per share	1,076.49 yen	1,047.09 yen	1,033.12 yen	1,006.14 yen