

*** Matters of Note**

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

(Note) For details, please refer to [Appendix] P. 6 “2. Quarterly Financial Statements and Primary Notes

(3) Notes to Quarterly Financial Statements (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.: None

2) Changes to accounting policies other than 1) above: None

3) Changes to accounting estimates: None

4) Restatements: None

(3) Number of shares issued (common shares)

1) The number of shares issued at end of period (including treasury stock)	Q1 FY 2017	11,187,749 shares	FY 2016	11,187,749 shares
2) The number of shares of treasury stock at end of period	Q1 FY 2017	152 shares	FY 2016	152 shares
3) Average number of shares of common shares during period (cumulative)	Q1 FY 2017	11,187,597 shares	Q1 FY 2016	11,187,749 shares

*** These quarterly financial results are outside the scope of quarterly review.**

*** 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.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of business results

During the three months ended June 30, 2017, a moderate recovery trend continued in the Japanese economy including improvements in the employment and income conditions, along with signs of moderate improvements in personal consumption. However, the global economic outlook has remained uncertain due mainly to impact of volatility in the financial and capital markets, in addition to the escalation of uncertainties over the global economy.

The pachinko and pachislot machine market, which is the primary market for the Company, continued to face a challenging market environment, due to the effects of self-imposed regulations implemented by industry organizations leading to trends such as diminishing sales of pachinko and pachislot machines, 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 business activities for Graphics LSI products for customers in the embedded system market (Note), as well as new fields including software IP and middleware products such as the movie middleware “H2MD.” Aiming to transform its revenue structure in line with new business development, the Company actively considered initiatives including alliances and investments.

As for various LSI products targeted at the pachinko and pachislot machine market, net sales decreased 266 million yen from the previous corresponding period to 1,388 million yen (down 16.1% year-on-year), affected by market conditions. With regard to the Company’s mainstay Graphics LSI products targeted at the pachinko and pachislot machine market, sales were approximately 140,000 units, approximately 80,000 units less compared to the previous corresponding period. As for other products targeted at the said market (LED driver LSI products, memory-module products, etc.), sales increased from the previous corresponding period due to an increase in memory-module product sales.

In terms of Graphics LSI products targeted at the embedded system market, net sales decreased 3 million yen from the previous corresponding period (down 13.2% year-on-year) to 25 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, software IP and middleware products such as “H2MD,” net sales increased 8 million yen from the previous corresponding period (up 75.4% year-on-year) to 20 million yen. As a result, for the three months ended June 30, 2017, the Company recorded net sales of 1,434 million yen, a decrease of 261 million yen from the previous corresponding period (down 15.4% year-on-year).

Along with a decrease in net sales, gross profit decreased 210 million yen from the previous corresponding period (down 25.8% year-on-year) to 604 million yen, and gross profit ratio decreased by 5.9 percentage points from the previous corresponding period to 42.2%. The decline in gross profit ratio is primarily attributable to a shift in the composition ratio of products sold.

Selling, general and administrative expenses increased 73 million yen from the previous corresponding period (up 8.7% year-on-year) to 921 million yen, resulting mainly from recording a portion of prototype development expenses for next-generation mainstay products, although the Company worked to reduce overall expenses. Of selling, general and administrative expenses, research and development expenses increased 129 million yen from the previous corresponding period (up 22.4% year-on-year) to 705 million yen.

Consequently, for the three months ended June 30, 2017, the Company recorded an operating loss of 316 million yen (operating loss of 33 million yen for the previous corresponding period) and an ordinary loss of 311 million yen (ordinary loss of 25 million yen for the previous corresponding period). Additionally, as a result of recording 64 million yen of gain on sales of investment securities as extraordinary income, the Company recorded a loss of 136 million yen (loss of 18 million yen for the previous corresponding period).

(Note) “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.

(2) Explanation of financial position

Total assets as of the end of the first quarter of fiscal 2017 decreased 420 million yen from the end of the previous fiscal year to 11,608 million yen (down 3.5% from the end of the previous fiscal year). This was due mainly to factors such as the increase of 809 million yen in accounts receivable - trade, offset by the decrease of 1,089 million yen in cash and deposits and the decrease of 303 million yen in merchandise and finished goods.

Total liabilities as of the end of the first quarter of fiscal 2017 decreased 135 million yen from the end of the previous fiscal year to 436 million yen (down 23.7% from the end of the previous fiscal year). This was due mainly to factors such as the decrease of 70 million yen in accounts payable - trade and the decrease of 68 million yen in other current liabilities.

Total net assets as of the end of the first quarter of fiscal 2017 decreased 285 million yen from the end of the previous fiscal year to 11,172 million yen (down 2.5% from the end of the previous fiscal year). This was due mainly to factors such as the decrease of 192 million yen in retained earnings.

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

Forecast results for fiscal 2017 are as stated in the “Summary of Financial Statements for the Year Ended March 31, 2017” disclosed on April 25, 2017. Additionally, during the three months ended June 30, 2017, as the initial plan had incorporated the reactionary decline from the replacement demand caused by the removal of the “pachinko machines whose performance may differ from the models submitted for inspection” implemented towards the end of the previous year, results for the first quarter of fiscal 2017 are considered to have generally progressed in line with forecasts.

2. Quarterly Financial Statements and Primary Notes**(1) Quarterly Balance Sheets**

(In millions of yen)

	FY 2016 (As of March 31, 2017)	Q1 FY 2017 (As of June 30, 2017)
Assets		
Current assets		
Cash and deposits	8,738	7,648
Accounts receivable - trade	178	988
Merchandise and finished goods	1,443	1,139
Raw materials and supplies	0	0
Other	147	344
Total current assets	10,508	10,121
Non-current assets		
Property, plant and equipment	342	325
Intangible assets	46	41
Investments and other assets	1,131	1,120
Total non-current assets	1,520	1,486
Total assets	12,029	11,608
Liabilities		
Current liabilities		
Accounts payable - trade	284	213
Income taxes payable	—	4
Other	252	183
Total current liabilities	536	401
Non-current liabilities		
Asset retirement obligations	34	34
Total non-current liabilities	34	34
Total liabilities	571	436
Net assets		
Shareholders' equity		
Capital stock	1,018	1,018
Capital surplus	861	861
Retained earnings	9,373	9,181
Treasury shares	(0)	(0)
Total shareholders' equity	11,254	11,061
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	203	110
Total valuation and translation adjustments	203	110
Total net assets	11,457	11,172
Total liabilities and net assets	12,029	11,608

(2) Quarterly Statements of Income

(First quarter)

(In millions of yen)

	Q1 FY 2016 (From April 1, 2016 to June 30, 2016)	Q1 FY 2017 (From April 1, 2017 to June 30, 2017)
Net sales	1,696	1,434
Cost of sales	881	829
Gross profit	814	604
Selling, general and administrative expenses	848	921
Operating loss	(33)	(316)
Non-operating income		
Interest income	—	0
Dividend income	2	4
Foreign exchange gains	4	0
Other	1	0
Total non-operating income	8	5
Non-operating expenses		
Loss on retirement of non-current assets	0	—
Total non-operating expenses	0	—
Ordinary loss	(25)	(311)
Extraordinary income		
Gain on sales of investment securities	—	64
Total extraordinary income	—	64
Loss before income taxes	(25)	(246)
Income taxes	(6)	(109)
Loss	(18)	(136)

(3) 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

(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 first quarter of fiscal 2017.

3. Others

(1) Production, orders and sales status

1) Production

Production results for the three months ended June 30, 2017 are as follows:

(In millions of yen)

Classification	Q1 FY 2017 (From April 1, 2017 to June 30, 2017)	Change (%)
LSI products for pachinko and pachislot machines	811	(25.4)
LSI products for embedded systems	42	168.0
Other	21	57.7
Total	875	(21.6)

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

2) Orders

Orders for the three months ended June 30, 2017 are as follows:

(In millions of yen)

Classification	Q1 FY 2017 (From April 1, 2017 to June 30, 2017)			
	Orders received	Change (%)	Outstanding orders	Change (%)
LSI products for pachinko and pachislot machines	2,075	(0.8)	1,805	(21.7)
LSI products for embedded systems	13	(63.5)	31	(10.6)
Other	20	69.8	1	134.2
Total	2,109	(1.5)	1,838	(21.5)

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

3) Sales

Sales during the three months ended June 30, 2017 are as follows:

(In millions of yen)

Classification	Q1 FY 2017 (From April 1, 2017 to June 30, 2017)	Change (%)
LSI products for pachinko and pachislot machines	1,388	(16.1)
LSI products for embedded systems	25	(13.2)
Other	20	75.4
Total	1,434	(15.4)

- (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	Q1 FY 2016 (From April 1, 2016 to June 30, 2016)		Q1 FY 2017 (From April 1, 2017 to June 30, 2017)	
	Amount	Percentage (%)	Amount	Percentage (%)
Midoriya Electric Co., Ltd.	1,524	89.9	1,050	73.2
Okaya Electronics Corp.	73	4.3	287	20.1

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

(2) Recent trends in quarterly business results**Year ending March 31, 2018**

(In millions of yen)

	Q1 FY 2017 From April 2017 to June 2017	Q2 FY 2017 From July 2017 to September 2017	Q3 FY 2017 From October 2017 to December 2017	Q4 FY 2017 From January 2018 to March 2018
Net sales	1,434	—	—	—
Gross profit	604	—	—	—
Operating income (loss)	(316)	—	—	—
Ordinary income (loss)	(311)	—	—	—
Profit (loss) before income taxes	(246)	—	—	—
Profit (loss)	(136)	—	—	—
Profit (loss) per share	(12.20) yen			—
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	11,608	—	—	—
Net assets	11,172	—	—	—
Net assets per share	998.62 yen	—	—	—

Year ended 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	2,718	1,284
Gross profit	814	1,013	1,177	540
Operating income (loss)	(33)	97	294	(217)
Ordinary income (loss)	(25)	89	328	(229)
Profit (loss) before income taxes	(25)	89	328	(229)
Profit (loss)	(18)	63	198	(150)
Profit (loss) per share	(1.64) yen	5.67 yen	17.72 yen	(13.44) 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	12,492	12,029
Net assets	11,193	11,296	11,502	11,457
Net assets per share	1,000.53 yen	1,009.74 yen	1,028.13 yen	1,024.16 yen