



**\* 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)	Q3 FY 2017	11,187,749 shares	FY 2016	11,187,749 shares
2) The number of shares of treasury stock at end of period	Q3 FY 2017	152 shares	FY 2016	152 shares
3) Average number of shares of common shares during period (cumulative)	Q3 FY 2017	11,187,597 shares	Q3 FY 2016	11,187,620 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)**

Supplementary explanatory materials on quarterly financial results will be provided on TDnet on Monday, January 29, 2018.

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## 1. Qualitative Information on Quarterly Financial Results

### (1) Explanation of business results

During the nine months ended December 31, 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 main market for the Company, has continued to face a challenging market environment, due mainly to the diversification of leisure and the effects of self-imposed regulations implemented in recent years by industry organizations as preventive measures against addictive gambling, leading to a gradual decrease in the population of players. In addition, the revised “Ordinance for Enforcement of the Act on Control and Improvement of Amusement and Entertainment Business, etc.” is to come into force in February 2018, and the current market environment is especially harsh due to factors such as sluggish demand for new machines at amusement facilities reflecting uncertainty about the future prospects. 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 “H2MD.” With a view to accelerating the transformation of 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 2,132 million yen from the previous corresponding period to 4,478 million yen (down 32.3% year-on-year), affected by market conditions and a rise in the percentage of reuse by major customers. With regard to the Company’s mainstay Graphics LSI products targeted at the pachinko and pachislot machine market, sales were approximately 380,000 units, approximately 360,000 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 mainly to an increase in memory-module product sales.

In terms of Graphics LSI products targeted at the embedded system market, net sales decreased 1 million yen from the previous corresponding period (down 2.2% year-on-year) to 81 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 19 million yen from the previous corresponding period (up 55.6% year-on-year) to 53 million yen. As a result, for the nine months ended December 31, 2017, the Company recorded net sales of 4,613 million yen, a decrease of 2,115 million yen from the previous corresponding period (down 31.4% year-on-year).

Along with a decrease in net sales, gross profit decreased 1,125 million yen from the previous corresponding period (down 37.4% year-on-year) to 1,880 million yen. Although the gross profit ratio of the Company’s mainstay Graphics LSI products targeted at the pachinko and pachislot machine market improved due to mass production effects, etc., the overall gross profit ratio decreased by 3.9 percentage points from the previous corresponding period to 40.8% due to a shift in the composition ratio of products sold.

Selling, general and administrative expenses decreased 320 million yen from the previous corresponding period (down 12.1% year-on-year) to 2,326 million yen, resulting mainly from a decrease in research and development expenses from the previous corresponding period, in addition to a reduction in overall expenses. Of selling, general and administrative expenses, research and development expenses decreased 249 million yen from the previous corresponding period (down 13.0% year-on-year) to 1,666 million yen.

Consequently, for the nine months ended December 31, 2017, the Company recorded an operating loss of 446 million yen (operating profit of 359 million yen for the previous corresponding period) and an ordinary loss of 432 million yen (ordinary profit of 392 million yen for the previous corresponding period). Additionally, as a result of recording 138 million yen of loss on valuation of investment securities as extraordinary losses, the Company recorded a loss of 145 million yen (profit of 243 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 third quarter of fiscal 2017 decreased 231 million yen from the end of the previous fiscal year to 11,798 million yen (down 1.9% from the end of the previous fiscal year). This was due mainly to factors such as the increase of 577 million yen in accounts receivable - trade and the increase of 589 million yen in advance payments - trade, offset by the decrease of 1,494 million yen in cash and deposits and the decrease of 136 million yen in merchandise and finished goods.

Total liabilities as of the end of the third quarter of fiscal 2017 decreased 18 million yen from the end of the previous fiscal year to 552 million yen (down 3.3% from the end of the previous fiscal year).

Total net assets as of the end of the third quarter of fiscal 2017 decreased 212 million yen from the end of the previous fiscal year to 11,245 million yen (down 1.9% from the end of the previous fiscal year). This was due mainly to factors such as the decrease of 201 million yen in retained earnings.

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

With regard to full-year forecast results for fiscal 2017, changes have been made to the forecast results stated in the “Summary of Financial Statements for the Year Ended March 31, 2017” disclosed on April 25, 2017. For details, please refer to “Notice of Revision of Earnings Forecast” released today.

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

(In millions of yen)

	FY 2016 (As of March 31, 2017)	Q3 FY 2017 (As of December 31, 2017)
<b>Assets</b>		
Current assets		
Cash and deposits	8,738	7,243
Accounts receivable - trade	178	756
Merchandise and finished goods	1,443	1,307
Raw materials and supplies	0	0
Advance payments - trade	18	607
Other	128	544
Total current assets	10,508	10,461
Non-current assets		
Property, plant and equipment	342	270
Intangible assets	46	33
Investments and other assets	1,131	1,032
Total non-current assets	1,520	1,336
Total assets	12,029	11,798
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	284	385
Other	252	132
Total current liabilities	536	517
Non-current liabilities		
Asset retirement obligations	34	35
Total non-current liabilities	34	35
Total liabilities	571	552
<b>Net assets</b>		
Shareholders' equity		
Capital stock	1,018	1,018
Capital surplus	861	861
Retained earnings	9,373	9,172
Treasury shares	(0)	(0)
Total shareholders' equity	11,254	11,053
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	203	192
Total valuation and translation adjustments	203	192
Total net assets	11,457	11,245
Total liabilities and net assets	12,029	11,798

**(2) Quarterly Statements of Income**

(Third quarter)

(In millions of yen)

	Q3 FY 2016 (From April 1, 2016 to December 31, 2016)	Q3 FY 2017 (From April 1, 2017 to December 31, 2017)
Net sales	6,728	4,613
Cost of sales	3,722	2,733
Gross profit	3,005	1,880
Selling, general and administrative expenses	2,646	2,326
Operating profit (loss)	359	(446)
Non-operating income		
Interest income	—	1
Dividend income	4	6
Foreign exchange gains	30	5
Other	5	3
Total non-operating income	40	16
Non-operating expenses		
Loss on investments in partnership	6	2
Other	0	0
Total non-operating expenses	7	2
Ordinary profit (loss)	392	(432)
Extraordinary income		
Gain on sales of investment securities	—	64
Total extraordinary income	—	64
Extraordinary losses		
Loss on valuation of investment securities	—	138
Loss on valuation of membership	—	1
Total extraordinary losses	—	139
Profit (loss) before income taxes	392	(506)
Income taxes	149	(361)
Profit (loss)	243	(145)

**(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 third quarter of fiscal 2017.

**(Major subsequent events)**

(Sale of investment securities)

The Company determined to sell a portion of investment securities held by the Company and sold them on January 24, 2018. Accordingly the Company will record gain on sales of investment securities (extraordinary income) in the fourth quarter of fiscal 2017.

1) Reason for the sale

To improve asset efficiency through the reduction of strategic shareholdings

2) Details of the sale

Stocks sold	Listed securities of a corporation
Date of the sale	January 24, 2018
Number of shares that have been sold	43,000 shares
Proceeds from the sale	117 million yen
Gain on sales of investment securities	99 million yen

**3. Others****(1) Production, orders and sales status****1) Production**

Production results for the nine months ended December 31, 2017 are as follows:

(In millions of yen)

Classification	Q3 FY 2017 (From April 1, 2017 to December 31, 2017)		Change (%)
LSI products for pachinko and pachislot machines		4,388	(26.5)
LSI products for embedded systems		108	118.8
Other		64	46.5
<b>Total</b>		<b>4,561</b>	<b>(24.7)</b>

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

**2) Orders**

Orders for the nine months ended December 31, 2017 are as follows:

(In millions of yen)

Classification	Q3 FY 2017 (From April 1, 2017 to December 31, 2017)			
	Orders received	Change (%)	Outstanding orders	Change (%)
LSI products for pachinko and pachislot machines	5,430	(16.8)	2,070	15.8
LSI products for embedded systems	88	(7.4)	51	26.8
Other	63	69.6	11	252.3
<b>Total</b>	<b>5,582</b>	<b>(16.2)</b>	<b>2,132</b>	<b>16.4</b>

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

**3) Sales**

Sales during the nine months ended December 31, 2017 are as follows:

(In millions of yen)

Classification	Q3 FY 2017 (From April 1, 2017 to December 31, 2017)		Change (%)
LSI products for pachinko and pachislot machines		4,478	(32.3)
LSI products for embedded systems		81	(2.2)
Other		53	55.6
<b>Total</b>		<b>4,613</b>	<b>(31.4)</b>

- (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	Q3 FY 2016 (From April 1, 2016 to December 31, 2016)		Q3 FY 2017 (From April 1, 2017 to December 31, 2017)	
	Amount	Percentage (%)	Amount	Percentage (%)
Midoriya Electric Co., Ltd.	5,228	77.7	3,108	67.4
Okaya Electronics Corp.	659	9.8	746	16.2

(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	1,953	1,225	—
Gross profit	604	747	527	—
Operating income (loss)	(316)	20	(150)	—
Ordinary income (loss)	(311)	22	(143)	—
Profit (loss) before income taxes	(246)	21	(281)	—
Profit (loss)	(136)	12	(21)	—
Basic earnings (loss) per share	(12.20) yen	1.14 yen	(1.90) 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	11,715	11,798	—
Net assets	11,172	11,221	11,245	—
Net assets per share	998.62 yen	1,002.98 yen	1,005.19 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)
Basic earnings (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