Cover page

Document title	Annual Securities Report
Clause of stipulation	Article 24, paragraph 1 of the Financial Instruments and Exchange Act
Place of filing	Director-General of the Kanto Local Finance Bureau
Filing date	June 24, 2014
Fiscal year	18th term (from April 1, 2013 to March 31, 2014)
Company name	ソースネクスト株式会社 (*SOURCENEXT Kabushiki Kaisha*)
Company name in English	SOURCENEXT CORPORATION
Title and name of representative	Noriyuki Matsuda, President and CEO
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Name of contact person	Fumihiko Aoyama, Managing Director, Managing Executive Officer in charge of Administration Group
Place for public inspection	Tokyo Stock Exchange, Inc. (2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo)

A. Company information

I. Overview of the Company

1. Summary of business results

(1) Business results of the Group

Term	14th term	15th term	16th term	17th term	18th term
Fiscal year-end	March 31, 2010	March 31, 2011	March 31, 2012	March 31, 2013	March 31, 2014
Net sales (Thousands of yen)	–	3,995,664	5,287,209	5,156,693	5,736,406
Ordinary income (loss) (Thousands of yen)	–	(448,074)	266,679	728,751	1,225,535
Net income (Thousands of yen)	–	154,623	421,055	805,179	1,220,678
Comprehensive income (Thousands of yen)	–	154,623	421,055	806,091	1,220,868
Net assets (Thousands of yen)	–	330,935	751,991	1,558,082	2,788,335
Total assets (Thousands of yen)	–	2,942,433	3,064,810	3,444,651	4,120,306
Net assets per share (Yen)	–	10.43	23.70	49.10	87.87
Net income per share (Yen)	–	4.87	13.27	25.37	38.47
Diluted net income per share (Yen)	–	–	–	–	–
Equity ratio (%)	–	11.2	24.5	45.2	67.4
Return on equity (ROE) (%)	–	61.0	77.8	69.7	56.3
Price earnings ratio (PER) (Times)	–	17.2	6.8	10.5	19.4
Net cash provided by (used in) operating activities (Thousands of yen)	–	504,072	1,088,910	1,285,679	1,410,125
Net cash provided by (used in) investing activities (Thousands of yen)	–	208,622	(324,857)	(769,380)	(151,278)
Net cash provided by (used in) financing activities (Thousands of yen)	–	(353,528)	(231,034)	(528,220)	(412,354)
Cash and cash equivalents at end of period (Thousands of yen)	–	434,314	967,328	956,836	1,807,418
Number of employees (Persons)	–	73	70	75	78
[Separately, average number of temporary employees]	[–]	[3]	[3]	[3]	[3]

Notes: 1. Net sales do not include consumption taxes.

2. The preparation of consolidated financial statements began in the 15th term. Consequently, figures before the 15th term are not presented.
3. The Company implemented a 1:100 share split on common shares on October 1, 2012. Furthermore, the Company implemented a 1:2 share split on common shares on September 1, 2013. Accordingly, net assets per share and net income per share are calculated on the assumption that the said share splits were implemented at the beginning of the 15th term.
4. Diluted net income per share is not presented because there were no potential shares with dilutive effects for the 15th, 16th and 18th terms and there were no potential shares for the 17th term.
5. The number in the bracket in the "Number of employees" row refers to the yearly average number of temporary employees.

(2) Business results of the reporting company

Term	14th term	15th term	16th term	17th term	18th term
Fiscal year-end	March 31, 2010	March 31, 2011	March 31, 2012	March 31, 2013	March 31, 2014
Net sales (Thousands of yen)	6,428,669	3,995,664	5,287,209	5,156,693	5,736,406
Ordinary income (loss) (Thousands of yen)	(900,781)	(447,764)	266,560	728,395	1,224,010
Net income (loss) (Thousands of yen)	(1,065,260)	154,932	421,042	804,007	1,219,224
Investment gains and losses using the equity method (Thousands of yen)	–	–	–	–	–
Capital stock (Thousands of yen)	1,771,226	1,771,226	1,771,226	1,771,226	1,771,226
Total number of issued shares (Shares)	158,660	158,660	158,660	15,866,000	31,732,000
Net assets (Thousands of yen)	176,311	331,244	752,287	1,555,918	2,783,796
Total assets (Thousands of yen)	4,188,020	2,942,743	3,044,676	3,437,766	4,114,485
Net assets per share (Yen)	5.56	10.44	23.71	49.03	87.73
Dividends per share (Yen) [Interim dividends per share]	– [–]	– [–]	– [–]	– [–]	– [–]
Net income (loss) per share (Yen)	(36.76)	4.88	13.27	25.34	38.42
Diluted net income per share (Yen)	–	–	–	–	–
Equity ratio (%)	4.2	11.3	24.7	45.3	67.4
Return on equity (ROE) (%)	–	61.1	77.7	69.7	56.3
Price earnings ratio (PER) (Times)	–	17.2	6.8	10.5	19.4
Dividend payout ratio (%)	–	–	–	–	–
Net cash provided by (used in) operating activities (Thousands of yen)	(338,143)	–	–	–	–
Net cash provided by (used in) investing activities (Thousands of yen)	(309,472)	–	–	–	–
Net cash provided by (used in) financing activities (Thousands of yen)	(362,609)	–	–	–	–
Cash and cash equivalents at end of period (Thousands of yen)	75,258	–	–	–	–
Number of employees (Persons) [Separately, average number of temporary employees]	86 [8]	73 [3]	70 [3]	75 [3]	78 [3]

Notes: 1. Net sales do not include consumption taxes.

2. The preparation of consolidated financial statements began in the 15th term. Consequently, investment gains and losses using the equity method, net cash provided by (used in) operating activities, net cash provided by (used in) investing activities, net cash provided by (used in) financing activities, and cash and cash equivalents at end of period after the 15th term are not presented.

3. Investment gains and losses using the equity method for the 14th term are not presented as there were no associates.

4. The Company implemented a 1:100 share split on common shares on October 1, 2012. Furthermore, the Company implemented a 1:2 share split on common shares on September 1, 2013. Accordingly, net assets per share and net income (loss) per share are calculated on the assumption that the said share splits were implemented at the beginning of the 14th term.

5. Diluted net income per share for the 14th term was a net loss per share despite the existence of potential shares, and is thus not presented. Diluted net income per share is not presented because there were no potential shares with dilutive effects for the 15th, 16th and 18th terms and there were no potential shares for the 17th term.

6. Return on equity and price earnings ratio for the 14th term are not presented because a net loss was recorded for this term.

7. The number of employees indicates the number of working employees.

8. The number in the bracket in the “Number of employees” row refers to the yearly average number of temporary employees.

2. Company history

Date	Event
August 1996	Established SOURCE CORPORATION (2-6-1 Nishi-shinjuku, Shinjuku-ku, Tokyo; 10 million yen in paid-in capital) to plan, develop, and sell application software
November 1996	Relocated head office to 1-3-3 Shinkawa, Chuo-ku, Tokyo
November 1996	Took over all operations pertaining to software-related business from ssitristar Corp. (formerly AAA, Ltd., dissolved in October, 1998)
December 1996	Launched KYOUSOKU 95, utility software to increase hard disk drive speed
June 1997	Launched typing software TOKU-UCHI
October 1999	Company name changed to SOURCENEXT Corporation from SOURCE CORPORATION
June 2000	Began eSHOP for internet-based sales on own website
February 2003	Started “commoditization” strategy whereby pricing centered on 1,980 yen was applied to core products
March 2003	Launched ezPDF, PDF creation, conversion, and editing software
September 2003	Relocated head office to 6-10-1 Roppongi, Minato-ku, Tokyo
July 2006	Launched Virus Security ZERO, security software with no annual renewal fees
December 2006	Listed on Tokyo Stock Exchange Mothers
March 2007	Acquired program copyright and trademark rights for FUDEOH, postcard creation software
November 2007	Acquired program copyright and trademark rights for the B’s Recorder GOLD series of CD/DVD writing software
June 2008	Listed on the First Section of the Tokyo Stock Exchange
November 2009	Relocated head office to 3-8-21 Toranomon, Minato-ku, Tokyo
September 2011	Launched Android GENSEN Apps series of applications for Android
December 2011	Launched security software Super Security ZERO, made using Bitdefender, SRL’s engine and involving no annual renewal fees
March 2012	Began providing applications for KDDI CORPORATION’s au Smart Pass
September 2012	Established a subsidiary, SOURCENEXT Inc., in California, U.S. (currently a consolidated subsidiary)
May 2013	Began providing applications for NTT DOCOMO, INC.’s Sugo Toku Contents service

3. Description of business

The subsidiaries and associates of SOURCENEXT Corporation (the Company) comprise one consolidated subsidiary and one other associate. The business of SOURCENEXT Group (the Group: the Company and consolidated subsidiary) constitutes a single segment of the planning, development and sales of software and other services business.

Concerning our software development method, there are three scenarios under which we plan products: conducting development in-house, outsourcing to domestic or overseas development companies, and acquiring licenses for products copyrighted to other companies. When outsourcing to domestic or overseas development companies, the Company generally retains full or partial copyright for that product.

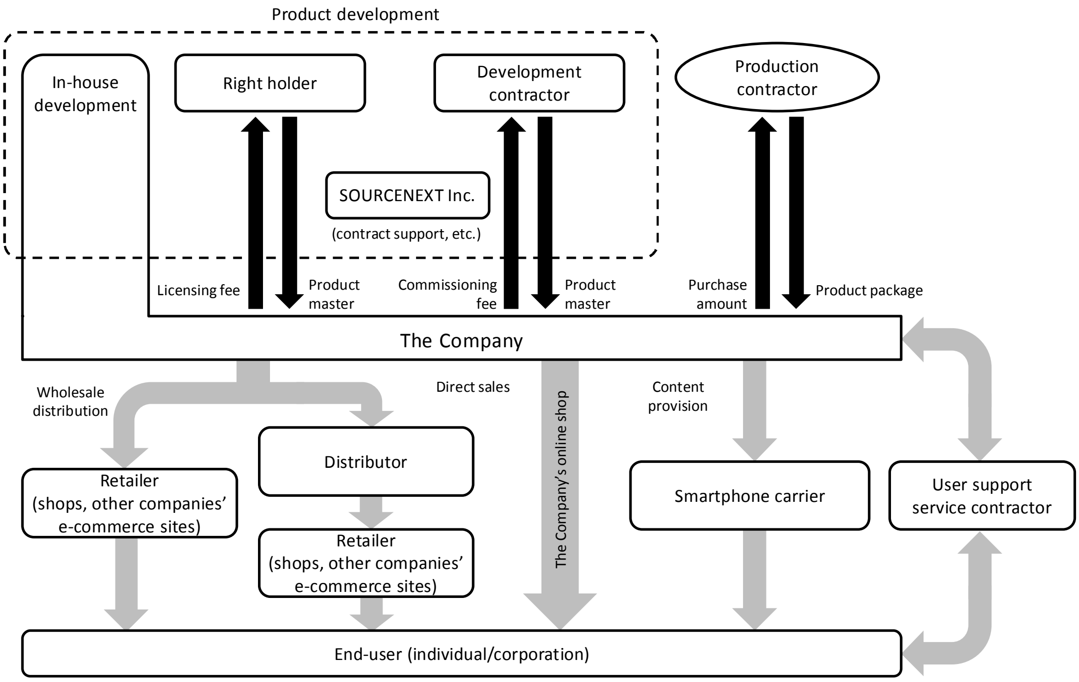
Our three sales channels comprise wholesale distribution to consumer electronics retailers and other companies' e-commerce sites, direct sales through our online shop, and providing content to smartphone carriers.

For sales to consumer electronics retailers and other companies' e-commerce sites, as well as sales through the Company's online shop, we make customers who purchase products into members by encouraging them to register as online users and receive e-mail newsletters. To improve sales stability, we take measures that include selling the Company's products and other companies' hardware products to our members.

Concerning the provision of content to smartphone carriers, we provide many software titles for KDDI CORPORATION's au Smart Pass and other all-you-can-use application services operated by carriers. We use questionnaires and other means to gather comments and requests from users through user support service contractors, then use that feedback to improve the quality of products and services.

The business activities diagram below shows the abovementioned points.

Business activities diagram



As of March 31, 2014, the Company offers a library of 609 applications (including upgrade versions, etc.). An overview of our major brands is provided below.

Virus Security ZERO	The Company has offered the Virus Security series as its own-brand security software since 2003. The Windows 8 version of Virus Security ZERO was ranked number-one in annual total unit sales in the all-genre category of the domestic over-the-counter PC software market in 2013 (*1). The total number of registered users of the series is 8.9 million.
Super Security ZERO	The Company launched Super Security ZERO in December, 2011, powered by security software from Bitdefender, SRL, owner of technology on par with the best in the world. This software was ranked first for its general performance on quality evaluation tests by AV-TEST (independent non-profit German evaluation institution) for two years in a row. Over 500 million people worldwide use products based on this software engine.
FUDEOH series	A novice-friendly address book and postcard creation software. The Company acquired trademark rights and copyright in March 2007. The software sold more than any other domestic over-the-counter software in its category for two years in a row in 2012 and 2013 (*2).
ezPDF series	The ezPDF series is a staple software product that provides users with a simple and quick way of creating, converting, and editing PDFs. This product is a long-term best seller, selling more than any other domestic software in its category for 11 years in a row. It has sold over 1.83 million copies in total and is used by some 3,800 companies.
Android GENSEN Apps series	The Company launched the Android GENSEN Apps series in 2011 as a line of applications tailored to Android smartphones. Super Camera and KYOUSOKU Memory, among others, are popular, and they are used in KDDI CORPORATION's au Smart Pass service and in NTT DOCOMO, INC.'s Sugo Toku Contents service.

*1. Based on total sales of security, business, system environment, administrative, practical, graphic, educational, utility, and other PC software categories

Compiled by GfK Marketing Services Japan Ltd. from actual sales at major consumer electronics retailers nationwide (also applies to over-the-counter unit sales below)

*2. Share by unit sales for select products in the postcard subcategory of PC software / practical software (FUDEOH Ver. 17 in 2012 and Ver. 18 in 2013)

4. Overview of subsidiaries and associates

Name	Address	Capital stock (Thousands of yen)	Principal contents of business	Ratio of voting rights holding (held) (%)	Relationship
(Consolidated subsidiary)					
SOURCENEXT Inc.	California, United States	100 (Thousands of dollars)	Discovering and engaging in contract negotiations for overseas software and technologies, and selling the Company's products in the U.S.	100.0	Signed consulting agreement Two interlocking Directors or Auditors
(Other associate)					
RS Empowerment, Inc.	Shinagawa-ku, Tokyo	66,000	Securities business	(28.1)	One interlocking Director or Auditor

5. Information about employees

(1) Consolidated companies

As of March 31, 2014

Segment name	Number of employees (Persons)
Software-related business	78 [3]
Total	78 [3]

Notes: 1. The number of employees indicates the number of working employees.
2. The number in the bracket in the "Number of employees" column refers to the yearly average number of temporary employees.
3. The business of the Group consists of a single segment.

(2) Reporting company

As of March 31, 2014

Number of employees (Persons)	Average age (Years old)	Average years of service (Years)	Average annual salary (Yen)
78 [3]	35.6	6.7	6,316,198

Notes: 1. The number of employees indicates the number of working employees.
2. Average annual salary includes bonuses and surplus wages.
3. The number in the bracket in the "Number of employees" column refers to the yearly average number of temporary employees.
4. The business of the Company consists of a single segment.

(3) Status of labor union

No labor unions have been formed, but labor-management relations are amicable.

II. Overview of business

1. Overview of business results

(1) Business results

The Japanese economy during the fiscal year ended March 31, 2014 experienced a gradual recovery due to the effects of economic policies by the government, a pickup in consumer spending, and other factors. The future outlook continues to be uncertain, however, with such issues as the impact of the consumption tax hike on consumer spending and the downturn in the global economy on the domestic economic climate creating cause for concern.

Regarding the business environment surrounding the Group, as a result of Microsoft's discontinuation of support for Windows XP and last-minute surge in demand prior to the consumption tax hike, PC units shipped for the current fiscal year were up 8.6% year-on-year, a significant increase over last year for six months in a row (JEITA data from April 2014). While there was a small year-on-year drop of 3.7% in the percentage of smartphone units shipped in the same fiscal year, smartphones comprised 74.5% of all mobile phones shipped, which continues a healthy upward trend (MM Research Institute data from March 2014).

To establish improved ordinary income as a core management emphasis amid these circumstances, the Group is focused on ongoing improvement of the balance sheet and has actively made efforts in expanding and improving its PC software lineup as well as applications for Android devices and other smartphones.

In PC software, one of our focuses is on security software, a key product of the Group. Here we have brought our Virus Security ZERO, a highly-acclaimed product that requires no annual renewal fees, together with our Super Security ZERO and Cloud Security ZERO products, integrating the ZERO brand and enabling users to choose their security software based on their needs and budget.

We have also changed our traditional licensing format for FUDEOH, a postcard creation software that boasts the most number of design elements in the industry. Customers can now use the product on up to five PCs with one account. We have also overhauled the software to better meet the needs of diversifying usage scenarios in the home. This includes adding digital photo editing functionality and launching our Net Print Service, which handles everything from purchasing to printing and mailing New Year's postcards.

Apart from this, we have continued efforts from the previous fiscal year in discovering exemplary overseas products, along with actively engaging in sales activities for new products in Japan. We have also launched a number of products in quick succession during the current fiscal year. This includes the launch of NovaBACKUP, a super high-speed backup software which is popular in the U.S. and Europe, as well as Wi-Fi Security, a security software that prevents data eavesdropping in free Wi-Fi hotspots. Furthermore, among content developed in-house, we launched Happy Eyes, which reduces blue light emitted from PC and smartphone screens with the click of a button, as well as Heart-Capturing Wedding Photo Movies, an application used for making high-quality photo movies and produced by a famous video creator.

In the rapidly-growing smartphone market, we concentrated on developing and marketing applications. For KDDI CORPORATION's au Smart Pass service, which launched in March 2012 and topped 10 million users in March 2014, we worked to further expand sales of new products along with developing new versions of existing products. In May 2013, NTT DOCOMO, INC. launched its Sugo Toku Contents monthly subscription service for smartphones, and the Group's applications were included in the content adopted for this service. As one of the many efforts made to branch into new markets, the Company's applications were used for the first time in March 2014 in Tablet for Junior tap me + (plus), the tablet for kids from MegaHouse Corporation.

Other efforts included making the Company's software such as Virus Security, FUDEOH, and ezPDF available for "All you can grab PC Software," a monthly fixed-fee subscription service which allows access to dozens of software titles. This service was started by five companies, including NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION, in May 2013.

These factors resulted in the Group's net sales of 5,736 million yen, up 11.2% year-on-year, for the current fiscal year. Operating income increased 61.2% year-on-year to 1,245 million yen, ordinary income increased 68.2% to 1,225 million yen, and net income increased 51.6% to 1,220 million yen. Operating income, ordinary income, and net income for the current fiscal year all set new records, with even the ordinary income rate reaching a new high of 21.4%.

The business of the Group consists of a single segment. An overview of operations of each sales channel is provided below. A review of our sales channels prompted a partial modification of our business classifications starting in the current fiscal year. Consequently, a comparison is drawn to the previous fiscal year using the modified classifications.

a) Consumer electronics retailers and other companies' e-commerce sites

In this sales channel, we are promoting sales of packaged software and other products at consumer electronics retailers and other companies' e-commerce sites with the goal of cultivating and expanding domestic over-the-counter markets for individual users.

The current fiscal year saw the Group's advance over-the-counter initiatives with a focus on core products for primarily consumer electronics retailers. The Windows 8 version of Virus Security ZERO was ranked number-one in annual total unit sales in the all-genre category of the domestic over-the-counter PC software market in 2013 (*1). In addition, FUDEOH products were sold more than any other domestic over-the-counter software in its category for two years in a row in 2012 and 2013 (*2). Furthermore, wide-ranging and large-scale sales promotion efforts not only at sales spaces for over-the-counter PC software but also at sales spaces for PC hardware and others, brought an appreciable increase in units sold of Happy Eyes, a new product.

As a result, although over-the-counter unit sales across the PC software market dropped 3.0% year-on-year, the Company's unit sales increased 4.2%. Meanwhile, over-the-counter sales for the PC security software market as a whole increased 6.3% year-on-year while the Company saw a 15.8% increase. Our market share also increased 0.9 percentage points year-on-year, from 8.1% to 9.0%.

This resulted in a 23.5% year-on-year sales increase to 2,292 million yen for this sales channel.

*1. Based on total sales of security, business, system environment, administrative, practical, graphic, educational, utility, and other PC software categories

Compiled by GfK Marketing Services Japan Ltd. from actual sales at major consumer electronics retailers nationwide (also applies to over-the-counter unit sales, sales, and market share by unit sales below)

*2. Share by unit sales for select products in the postcard subcategory of PC software / practical software (FUDEOH Ver. 17 in 2012 and Ver. 18 in 2013)

b) The Company's online shop

The Company annexed the SOURCENEXT eSHOP into its own website. The eSHOP sells packaged software, software downloads, and primarily PC-related hardware and other products.

Continuing efforts from the previous fiscal year, the Company has made a number of efforts aimed at improving the My Page section of the SOURCENEXT eSHOP. My Page is a webpage that provides content specific to each customer. It is only available to customers who have purchased any of the Company's products and who register as a user on our website. Through My Page, we provide customers with information about version upgrades for purchased products and promote sales of related products and services.

As one example, the Company has now launched KININARU-KAMO, a My Page service for registered users that allows them to keep track of products they may want to purchase. This service allows the Company to provide information for KININARU-KAMO users about deals on a unique list of products suiting the registered user via e-mail and other means. Many users have taken advantage of this service since its launch, and more than 100,000 products have been input into such lists as of the end of the current fiscal year.

For the current fiscal year, in addition to refining My Page, the Company has provided information about version upgrades for Windows 8-compatible products and has reviewed methods for encouraging purchases of related products as part of efforts to build a system for providing information better tailored to customer needs.

As a result, the number of registered users has seen strong growth, topping 11 million as of March 31, 2014. Net sales were down 1.2% year-on-year to 2,427 million yen.

c) Smartphone carriers

In the rapidly-growing smartphone market, the Company focused on the provision and sale of content for all-you-can-use fixed-price application services provided by carriers.

For KDDI CORPORATION's au Smart Pass, the Company added 7 new applications in the current fiscal year, bringing the total to 13 titles. One of these was Happy Eyes, which, in addition to a function for reducing harmful blue light emitted from screens, now has a function for smartphones and tablets that prevents a user's screen from being peaked at by others. The application has met with acclaim, placing towards the top of popular application rankings since its launch.

The Company now has a total of three sites catering to NTT DOCOMO, INC.'s Sugo Toku Contents service. To augment the single site that existed at launch, additional sites were added in November 2013 and March 2014. The well-received sites have been given nine new titles including Happy Eyes as well as staple applications such as Super Camera.

The number of applications for smartphones as of the end of the current fiscal year is 30 titles for Android and 5 titles for iPhone.

These factors led to a 26.2% year-on-year increase in net sales to 660 million yen.

(2) Cash flows

Cash and cash equivalents as of March 31, 2014 amounted to 1,807 million yen, an increase of 850 million yen compared with the end of the previous fiscal year.

Cash flows during the current fiscal year and their causes are as follows.

Cash flows from operating activities

Net cash provided by operating activities amounted to 1,410 million yen, an increase of 124 million yen in cash provided compared with the previous fiscal year.

The main factors were a 527 million yen increase in income before income taxes and minority interests, which was partially offset by a 154 million yen decrease in collection of notes and accounts receivable - trade, a 71 million yen increase in inventories, and an 83 million yen increase in payment of accounts payable - other.

Cash flows from investing activities

Net cash used in investing activities amounted to 151 million yen, a decrease of 618 million yen in cash used compared with the previous fiscal year.

This is mainly attributed to a 500 million yen increase in proceeds from withdrawal of time deposits and a 100 million yen decrease in payments into time deposits.

Cash flows from financing activities

Net cash used in financing activities amounted to 412 million yen, a decrease of 115 million yen in cash used compared with the previous fiscal year.

This owed primarily to a 951 million yen decrease in repayments of long-term loans payable and a 196 million yen decrease in repayments of short-term loans payable, partially offset by 1,048 million yen in proceeds from long-term loans payable in the previous fiscal year following the conclusion of a syndicated loan agreement.

2. Overview of production, orders received and sales

(1) Production

Production results are not presented as the Group has no production operations.

(2) Orders received

Orders received are not presented as the Group has no built-to-order production operations.

(3) Sales

As the business of the Group consists of a single segment, sales results are presented based on product categories. Sales results by product category and overall sales results for the current fiscal year are shown below. Certain classifications for product categories have been changed as a result of a review of our sales channels in the current fiscal year. For the comparison to the previous fiscal year, we compare using the modified classifications for the previous fiscal year.

Product category	Sales (Thousands of yen)	Year-on-year comparison (%)
Security	1,355,866	119.8
FUDEOH	765,557	112.9
Android App	668,943	118.1
PDF creation	491,269	99.0
Multimedia	438,200	130.1
Practical use	291,369	149.7
System maintenance	144,949	160.7
Other	1,580,248	95.0
Total	5,736,406	111.2

Notes: 1. Sales by sales channel

Sales channel	Sales (Thousands of yen)	Year-on-year comparison (%)
Consumer electronics retailers and other companies' e-commerce sites	2,292,570	123.5
The Company's online shop	2,427,012	98.8
Smartphone carriers	660,892	126.2
Other	355,931	111.1
Total	5,736,406	111.2

2. Sales by major transaction partner and the ratio of such sales to total sales

Transaction partner	Previous fiscal year (From April 1, 2012 to March 31, 2013)		Current fiscal year (From April 1, 2013 to March 31, 2014)	
	Sales (Thousands of yen)	Ratio (%)	Sales (Thousands of yen)	Ratio (%)
KDDI CORPORATION	523,482	10.2	596,540	10.4

3. Consumption taxes are not included in the amounts above.

3. Issues to be addressed

Regarding the industry for consumer software targeted by the Group, the Company predicts further business growth due to factors that include a trend toward lower-priced and higher performance PCs, greater adoption of digital consumer electronics, and greater demands for security concerning personal information, etc., as well as rapid expansion of the smartphone/tablet market. The result may be increased competition. To respond to these developments and create a new market, the Company is addressing the following issues.

(1) Expanding sales channels and over-the-counter sales

The Company is making a number of efforts to expand over-the-counter sales spaces at consumer electronics retailers, its primary sales channel. These include focusing on sales promotion in areas where PC systems and peripheral components are sold, in addition to PC software sales areas. We are also working to further expand sales channels by providing software tailored to smartphones, tablets, and other non-PC devices, as well as working with carriers to expand sales.

(2) Planning and developing new products

The Company is planning and developing PC software as well as software for smartphones, tablets, and other such devices. Our software title expansion involves maintaining a balance among quality, cost, and development time. It also involves coordinating with multiple development firms in and outside Japan while at the same time developing products for best-selling genres.

(3) Diversifying our customer base

The Company's product sales consist largely of over-the-counter package software for consumers in Japan and software sold through our online shop. For reasons that include long-term brand building, we continue to view these channels as very important. At the same time, it is also essential that we build new channels by working with other companies to sell to corporations, mobile carriers, communications carriers other than mobile carriers (ISPs, etc.), and the children's smartphone/tablet market (educational market). We will be actively pursuing these types of partnerships with the goal of diversifying our customer base.

(4) Improving earning power

The Company sees it as critical to conduct ongoing and effective cost management alongside efforts to expand sales. We intend to further improve earning power by continuing to commit ourselves to companywide budget control and achieve cost reductions while ensuring effective selling, general and administrative expenses.

4. Business risks

Of the items relating to the overview of business, financial information, etc. as described in the Annual Securities Report, those that may materially affect the decisions of investors are provided below.

Items in the text below that concern the future were determined by the Group as of the end of the current fiscal year.

(1) The Group's business environment

i) Software-related markets targeted by the Group

a. Impact from PC unit sales to individual customers

A large proportion of the Group's product sales consists of PC software for individual customers. As such, sales are strongly affected by changes in consumer spending, PC adoption rates, and particularly by the number of PC units sold to individual customers. This creates a situation where stagnant growth in units sold to individual customers and drop-offs in consumer spending can affect the Group's business performance.

b. Smartphone market expansion

Telecommunications carriers are releasing a steady stream of new products for smartphones, and the smartphone market is expanding quickly. The Group is developing and selling its own Android GENSEN Apps series and other smartphone applications. However, the Group's business performance could be impacted in the event that smartphone market development is impeded due to unforeseen factors including new regulations, delays in technological innovation, and trends concerning telecommunications firms, which include revisions to usage fees.

ii) Diversification of sales channels and sales models

To accommodate changes involving consumption styles driven by increased Internet penetration, broadband adoption, and delivery of software through application stores, the Group is focused on diversifying its sales channels. This includes sales of applications through its online shop as well as carriers such as smartphone carriers, in addition to over-the-counter sales. Sales through such non-over-the-counter channels comprised 60.0% of all sales for the fiscal year ended March 31, 2014. We have also begun providing applications for the rapidly growing user base for smartphones in expectation of further sales channel expansion. We will continue focusing on our online shop, which allows users to purchase and use software in a timely fashion. This diversification of sales channels and models could, however, impact the Group's business performance if the anticipated results are not achieved.

iii) Speed of technological innovation for products

Technological innovation for things such as PCs, OSs, smartphones, and web services is progressing quickly. To continue to succeed in the PC software and smartphone application market, we will need to continue developing technologies and enhancing functions while staying ahead of other companies in marketing new products and version upgrades. As we do not anticipate the speed of technological innovation will abate, the Group's business performance may be impacted in the event that the functions of the Group's products become obsolete or we are not able to respond quickly enough to technological innovation, regardless of efforts made to develop technologies or acquire licenses.

iv) OS trends

PC software can be categorized into OS software and application software, and the majority of the Group's product sales consists of application software. As a large part of these requires Microsoft's Windows OS, Windows version upgrades can prompt new demand and cause people to refrain from buying our products before the upgrades, affecting our business performance. Additionally, the Group's business operations and business performance could be impacted in the event that the appearance of alternative OSs causes a drop in the market share of Windows, which currently commands an overwhelming portion of the OS market.

The Group's ZERO series employs an income model that does not require users to pay annual renewal fees but does require the payment of renewal fees when new OS versions are released.

Consequently, the Group's business performance could be impacted if renewal rates from existing users fail to increase when new Windows versions are released. For smartphone applications, many of the Group's products require Google's OS Android. As there is a tendency for Android OS version upgrades to be released more frequently than PC OS upgrades, the Group's business performance could be impacted if there are delays in adapting our applications to the new OS.

v) Intense competition

Competition is intense in the PC software market, and the Company may lose market share to other companies in the short term.

To remain competitive, we will need to continuously offer upgrades to existing products to respond to market changes, plan and develop unique and differentiated products, and expand incomes by creating and fragmenting markets. Security software, one of the Group's core products, is a fiercely competitive category. Two products demonstrate the Group's success in creating a new market and differentiating itself from other companies. The first is Virus Security ZERO, which was launched in July 2006 and requires no annual renewal fees. The second is Super Security ZERO, which was launched in December 2011, requires no annual renewal fees, and is powered by the world-class technologies of Bitdefender, SRL. However, the Group's business performance may be impacted in the event that it is unable to adequately respond to markets for existing products or create new markets or fragment existing markets with new products.

Regarding the sales price of PC software for individual customers, the Group has been an industry leader in launching products at low price points ranging from 1,980 yen to 4,980 yen, including tax. However, new adopters of this pricing scheme are beginning to appear, and we may need to lower our products' prices in response to increasing competition among PC software manufacturers and among over-the-counter vendors, including consumer electronics retailers. The Group's business performance may be impacted if we are forced to lower the sales prices of products due to this kind of price competition.

For smartphone applications, such applications are now generally distributed via application stores operated by OS vendors and carriers. We may therefore be unable to achieve success with marketing strategies so far employed, making it difficult to maintain a competitive edge while differentiating ourselves from other companies. Such situations could impact the Group's business performance.

(2) The Group's management policy

i) The importance of marketing

Marketing that targets individual consumption is vital in the market for software targeting individuals. The below describes the characteristics of the Group's marketing strategies.

a. Package design

The Group places a prime emphasis on package design as a part of its over-the-counter marketing strategies. We handle all package design in-house, and make decisions about flyers, advertisements, promotional materials, web design, and other things in a holistic approach centered on package design. The Group recognizes the importance of and focuses on finding top-level designers capable of creating package designs effective in marketing operations. An inability to keep such designers could disrupt our marketing operations and affect the Group's business performance.

b. Large-scale sales promotion in the over-the-counter market

The Group views the improvement of over-the-counter exposure for its products as an important marketing strategy, and, therefore, seeks to establish specially-built areas for its products in over-the-counter spaces such as at consumer electronics retailers. Although we view this marketing involving the use of over-the-counter space as having some measure of effect, there is no guarantee of expected effect. Should such effect fail to be achieved, the Group's business performance may be impacted.

c. Brand assets and customer assets

The Group has worked to establish its brand as a PC software manufacturer by making effective use of advertising in the form of things such as television commercials and magazine ads. Such advertisements have allowed us to lock in a variety of consumers by offering a wide range of products. As of March 31, 2014, the Group has more than 11.78 million registered users.

The Group expects to make its marketing operations more effective by using such intangible assets as brand and customer assets. Nevertheless, our marketing activities may not always achieve the desired effect. Our advertising expenses in the fiscal year ended March 31, 2014 were 144 million yen and promotion expenses were 439 million yen. Although we view these expenditures as contributing to our bottom line, there is no guarantee that we will achieve our intended effect and, if we do not, the Group's business performance may be impacted.

ii) The importance of corporate and product image

Due to the importance of corporate and product image in the market for software targeting individuals, we see effective advertising and the improvement of customer support functions as critical. In the event that a problem or defect is discovered in a product, or if a user starts a legal dispute or issues a complaint that cannot be predicted at present, the resulting blemish to corporate or product image may impact the Group's business performance.

iii) Group strategies for the ZERO series

For our security software, a core product of the Group, we have integrated Super Security ZERO and Cloud Security ZERO into the ZERO brand along with Virus Security ZERO, which requires no annual renewal fees. As an OS-version-changeover-type revenue model is adopted, upgrades for ZERO products are provided free of charge as long as the user's OS is still officially supported. However, when higher-than-expected aftercare costs are incurred, incomes may be negatively impacted.

iv) Overseas operations

The Group has endeavored to discover stand-out technologies and products in and outside of Japan, and has planned, developed, and sold PC software and Android applications in the Japanese market. We also established an overseas subsidiary in Silicon Valley, the U.S. in September 2012. Through efforts that include business partnerships with ten companies, including Rovio Entertainment ltd., in the current fiscal year, we are making steady progress with sales in Japan.

However, in the course of conducting our overseas operations, there are numerous potential risks posed by each country's laws and regulations, institutions, politics, economics, exchange rates, and other factors. Consequently, incidents occurring due to these factors could impact the Group's business performance.

(3) Factors behind business performance fluctuations over the last five fiscal years

Business performance over the last five fiscal years for the Group has seen dramatic fluctuations in net sales, ordinary income and loss, and net income and loss. The primary factors behind these fluctuations in income and loss for each fiscal year are as follows.

Fiscal year ended March 31, 2010	The Group launched CHOUJIMAKU English language learning software series featuring the complete subtitles of Hollywood movies in June 2009. It ranked number 16 in Nikkei Trendy magazine's (publisher: Nikkei Business Publications, Inc.) list of 30 hit products for 2009. This and other exposure created strong media interest in the product. However, continuing from the previous fiscal year, the first half of the current fiscal year saw inventory adjustments in the over-the-counter channel centered on consumer electronics retailers, and the impact of competitor products led to lower over-the-counter sales. This caused a drop in net sales, along with a recording of ordinary and net losses.
Fiscal year ended March 31, 2011 (Consolidated)	In April 2010, certain computer systems experienced a problem with the Virus Security series, a core Group product. In response, we suspended promotion of the product. The impact of this incident was a drop in net sales and an ordinary loss. As for net income, the transfer of copyright and trademark rights for our CHOUJIMAKU products to Nagase Brothers Inc. in September 2010 resulted in extraordinary income of 588 million yen and net income of 154 million yen.
Fiscal year ended March 31, 2012 (Consolidated)	The Group launched 10 new titles under the Android GENSEN Apps series for the rapidly-growing smartphone market in September 2011. Then in December 2011 we launched Super Security ZERO, featuring no annual renewal fees and powered by the world-class technologies of Bitdefender, SRL. This brought a dramatic increase in net sales over the previous fiscal year. Reducing selling, general and administrative expenses achieved a significant rise in our income structure, with gains recorded for both ordinary and net income.
Fiscal year ended March 31, 2013 (Consolidated)	Following a review of its product lineup, the Group prioritized sales of high added-value software products and the provision of services. As a result, there was a significant rise in sales for Android GENSEN Apps series products such as Super Power Saver and KYOUSOKU Memory, which have been adopted by au Smart Pass, a KDDI CORPORATION monthly subscription service for Android smartphone users. FUDEOH Ver. 17 reached the top position in its genre for 2012 based on annual unit sales. The impact of these factors was a slight drop in net sales compared with the previous fiscal year, but a significant rise in operating income and ordinary income, and a new high for net income.
Fiscal year ended March 31, 2014 (Consolidated)	Continuing the trend from the previous fiscal year, the Group made proactive efforts to expand and improve its lineup of PC software and Android smartphone applications. Sales were brisk for Virus Security ZERO and FUDEOH, core products, as well as new products. Along with adding titles to au Smart Pass, we provided smartphone applications to NTT DOCOMO, INC.'s Sugo Toku Contents service. Sales with a high gross margin ratio were strong, resulting in new highs for operating income, ordinary income, and net income.

(4) Reliance on certain suppliers, etc.

Reliance on certain contractors

The Group contracts operations that include development, production, logistics, and customer support to certain third-party organizations. Although we practice operational management that includes progress, quality, and cost management for contracted operations in order to maintain the integrity of services entrusted to contractors, such efforts may be insufficient due to the indirect nature of these methods. Although we believe we will continue to be able to maintain contractual relationships with existing contractors, in the event that this becomes untenable and costs related to contracting increase, the Group's business operations and performance could be impacted.

a. Reliance on other companies for development operations

The Group relies on the development capabilities of other companies for some of the programs used in its products. In the Group, we select development contractors capable of delivering quality services with short development times. However, there are a limited number of development contractors who satisfy these conditions. Each development contractor has different technical strengths, and combining these effectively to create products is important. Although we intend to continue strengthening relationships with development contractors while securing new partners who can satisfy the conditions of the Group, failure to find and create combinations of development contractors like the ones we have now could impact our product development framework and business performance.

b. Reliance on other companies for production and logistics operations

The Group contracts production and logistics operations to companies it deems suitable in order to achieve a balance among development and annual production schedules and costs, etc. Although we have the option of replacing the contractors currently performing these operations, such replacement requires a certain amount of time and costs. We are therefore focused on finding and developing new contractors. Despite these efforts, the Group's business operations and performance could be impacted if we are unable to find alternative contractors in the event of an immediate need for contracted services that cannot be addressed by current contractors.

c. Reliance on other companies for customer support operations

For its customer support services, the Group responds to inquiries concerning how to use products and product defects via a special helpline and via e-mail. We contract a portion of these services to external parties and have preparations in place to replace contractors currently conducting these operations in the event such need arises, but such replacement requires a certain amount of time and costs. As such, the Group's business operations and performance could be impacted if we are unable to find alternative contractors in the event of an immediate need for contracted services that cannot be addressed by current contractors.

(5) Returned products and inventory

To the extent provided for in a contract and under certain conditions, the Group accepts returns of the Group's products from consumer electronics retailers and other retail stores and distributors. Although the rate of product return is currently low due to efforts to track actual sales and ensure proper shipments, this rate might increase sharply if the Group's products become obsolete as a result of technological innovations and version upgrades or other such factors. Furthermore, shifts in policy concerning inventory levels at consumer electronics retailers and other retail stores and distributors could result in an unexpectedly high volume of returns. We prepare for losses arising from returned goods after the last day of the fiscal year by recording a provision for sales returns based on past returns data. However, the Group's business performance may be impacted when the provision for sales returns increases in the event that we accept returns beyond original estimates. For inventory of Group products, including returns, we work towards and are currently achieving appropriate inventory levels. However, losses could be incurred due to product obsolescence and the Group's business performance may be impacted should a related incident occur.

(6) Intellectual property rights

i) Usage of rights belonging to third parties

In addition to products for which the Group holds all copyrights, the Group also provides products for which licenses are acquired from third parties that permit full or partial usage of things such as programs and characters.

As standard license contracts and sales contracts have an expiration, licenses and distribution rights may be withdrawn at contract end. Furthermore, the Group may decide not to renew such contracts for reasons related to things such as increasing royalties at the time of renewal. In such cases, there is also the possibility that development or sales plans created based on these contracts will be changed or scrapped, which could impact the Group's business performance. Regarding the acquisition of licenses, we use a fully pay-as-you-go system wherein royalties are paid based on sales volume. In some cases, however, we may pay a certain amount of royalties as a minimum guarantee prior to product launch. In such cases, these amounts are capitalized as advance payments - trade when paying royalties and are amortized based on estimated sales volume. Consequently, when there is a significant difference between estimated sales volume and actual sales volume, a loss due to additional amortization may be incurred and the Group's business performance may be affected.

ii) Acquisition of intellectual property rights

The Group endeavors to acquire intellectual property rights. Some of the patent rights—the products of research and development—that the Group has acquired in Japan and the U.S. include a "USB cable and method for charging battery of external apparatus by using USB cable" for KEIKAI DENWA, as well as the TOKU-UCHI Method, which provides a fun way of teaching keyboard beginners finger positioning without having to look at the keyboard.

We register trademarks for the names of nearly all the products we market. The Group views trademark rights as exceedingly important to better differentiating our products from competitors' and improving the effectiveness of advertising and other marketing initiatives.

We must also protect patent rights, utility model rights, trademark rights, and copyrights for other technologies and business models, as well. Although we aim to acquire such rights for all products for which this may apply, this may not always be possible. When the Group's technologies or expertise are not protected by patent or other such rights and are patented by a competitor, this can disrupt the development or sale of the Group's products and impact our business performance.

iii) Violation of a third party's intellectual property rights

The Group utilizes a system for ensuring that third parties' rights are not violated. This involves heeding the advice of experts such as legal advisors and patent attorneys in conducting trademark investigations for product names and patent/design investigations for product functions and designs. The Group is not aware of any violations of third parties' intellectual property rights for any current Group products. However, this does not preclude the possibility of future lawsuits or complaints brought against us citing intellectual property right infringement. Possible outcomes should such incidents occur include being requested to pay damages, suffering a loss of credit worthiness, and being compelled to discontinue sale of products, all of which could impact the Group's business performance.

(7) Related laws and regulations

As one of the methods of selling its products, the Group sells directly to consumers over the Internet. This method is regulated by laws and regulations, and the policies and guidelines of regulatory agencies. These include the Act on Prohibition of Unauthorized Computer Access, the Consumer Contract Act, the Act on Specified Commercial Transactions, the Act on Special Provisions to the Civil Code Concerning Electronic Consumer Contracts and Electronic Acceptance Notice, and the Act on Regulation of Transmission of Specified Electronic Mail. The enactment or revision of such laws and regulations, or the creation of new guidelines and voluntary rules or revisions thereto, can place new restrictions on the Group's business. Additionally, the tightening of existing regulations can affect the Group's business operations, operating results, and financial standing.

(8) Personal information protection

i) Risks of personal information leaks in the course of providing services

In order to provide services, the Group collects and uses member information, credit card information, and other such personal information. We are therefore obligated to protect personal information under the Act on the Protection of Personal Information. We appoint a privacy officer and institute privacy policies, privacy rules, and other guidelines, and strictly manage workflows that involve the handling of personal information. We have also established a Security Committee to improve in-house education for employees and to raise awareness concerning the handling of not only personal information, but all information management companywide. We reinforce security initiatives pertaining to the Group's online systems, which handle a particularly large volume of personal information, and related departments, and we receive reviews from independent organizations and have obtained ISO27001 certification (see note). However, serious incidents including the leak of personal information could result in claims for damages and a loss of credit worthiness, among other outcomes that could impact the Group's business operations and business performance.

Note: ISO 27001 is a standard that forms the basis of third-party conformity assessment systems aimed at building a security system to protect all information assets, including personal information, and earn the trust of stakeholders.

ii) Risks of confidential information and personal information leaks by certain contractors

For operations where confidential information is handled, the Group signs confidentiality contracts with contractors it has deemed trustworthy. In the event of the leak or unauthorized usage of confidential information by a contractor despite our rigorous efforts to manage such information, the resulting loss of credibility could impact the Group's business operations and performance. Furthermore, the Group utilizes a strict system that prevents the leak of personal information for operations that involve entrusting customers' personal information to contractors for the sake of providing customer support, shipping products, or other such operations. In principle, this includes selecting only contractors who are Privacy Mark certified and conducting regular security audits of these contractors. However, should any leaks of personal information by contractors occur despite our rigorous efforts to manage such information, the resulting claims for damages and a loss of credit worthiness, among other outcomes could impact the Group's business operations and business performance.

(9) Our management system

i) Our internal control system

The Group is an organization comprised of nine Directors and Auditors as well as 81 employees (as of March 31, 2014; includes three temporary employees), and its management system is appropriate for the organization's current size. We plan to expand our workforce and further strengthen our management system in preparation for future business growth and increased business volume. In the event that human resource recruiting and developing and the strengthening of our management system do not go as planned, the organization will be unable to take appropriate action and business operations could be disrupted.

ii) Recruiting human resources

The Group's competitive strength relies on product planning and marketing. To achieve continued growth, it is important to recruit and develop highly-capable planning and marketing personnel. However, recruiting these kinds of personnel is proving difficult due to their scarcity value in the labor market. Moreover, our system for developing human resources is not as robust as it could be due to the relatively small size of the organization. Thus, although we will continue to focus efforts on recruiting and developing human resources as a key management concern, if such efforts fail to keep up with the rate of change in the market, the Group's business performance may be impacted.

iii) Risks related to information security

In the course of conducting its operations, the Group is often in the position of handling a variety of confidential information pertaining to its customers. We therefore work to strengthen the security of information systems such as the computer networks needed to provide our services. However, losses may occur due to the leak of or damage to important data or the illegal modification of computer programs, which can result from such things as third-party intrusions into computer systems using unauthorized means, computer viruses, natural disasters, or by suddenly flooding the network. To prevent these kinds of incidents, the Group's systems department has put in place an information security management system (ISMS) to build information security and strengthen its information management system through efforts that include the provision of server load balancing to cope in times of concentrated access, which can be achieved by putting the servers in the cloud. The Group's business operations and business performance may, however, be impacted in the event that an unplanned incident occurs.

5. Critical contracts for operation

   Not applicable.

6. Research and development activities

   The Group develops new software for PCs and for devices such as smartphones and tablets.

   Our research and development system involves developing and selling products in a wide variety of categories, each of which is populated with programmers who specialize in their field and use different development languages. We are therefore focused on building flexible development systems on a per project basis by creating partnerships with multiple external partners, rather than directly hiring a number of in-house programmers.

   In conformance with software accounting standards, development costs for completely new products are recorded as research and development expenses, while version upgrade costs and copyright acquisition expenses for existing products are recorded as software assets. Research and development expenses of 23 million yen, primarily for new products launched in the coming fiscal year, were recorded for the current fiscal year.

7. Analysis of financial position, operating results and cash flows

   Items in the text below that concern the future were determined by the Group as of the end of the current fiscal year.

(1) Analysis of operating results

In the current fiscal year, with improving ordinary income as a core management emphasis, the Group is focused on improvement of the balance sheet and has actively made efforts in expanding and improving its PC software lineup as well as applications for Android devices and other smartphones.

In PC software, we have worked to discover exemplary overseas products and vigorously engaged in sales activities for products in Japan, while also maintaining a focus on our core products, Virus Security ZERO, Super Security ZERO, and FUDEOH. We have also received high acclaim for new products developed in-house, including Happy Eyes and Heart-Capturing Wedding Photo Movies.

In smartphone applications, we have added seven new titles to KDDI CORPORATION's au Smart Pass, a service launched in 2012. This brings the total number of titles to 13. We also added nine titles to the Sugo Toku Contents service, a service launched in May 2013 by NTT DOCOMO, INC.

As a result, operating income increased 61.2% year-on-year to 1,245 million yen and ordinary income rose 68.2% to 1,225 million yen. Net income stood at 1,220 million yen, a 51.6% year-on-year increase and a new high for the Group.

(2) Analysis of financial position

Total assets as of the end of the current fiscal year stood at 4,120 million yen, an increase of 675 million yen compared with the end of the previous fiscal year. Current assets were 3,156 million yen, an increase of 742 million yen, and non-current assets were 963 million yen, a decrease of 67 million yen. The increase in current assets was due mainly to an increase in cash and deposits of 250 million yen, an increase in accounts receivable - trade of 107 million yen, an increase in securities of 300 million yen and an increase in deferred tax assets of 72 million yen. The decrease in non-current assets was due mainly to a decrease in investments in capital of subsidiaries (non-consolidated) of 61 million yen.

Total liabilities as of the end of the current fiscal year stood at 1,331 million yen, a decrease of 554 million yen compared with the end of the previous fiscal year. Current liabilities were 1,164 million yen, a decrease of 202 million yen, and non-current liabilities were 167 million yen, a decrease of 352 million yen. The decrease in current liabilities was due mainly to a decrease in short-term loans payable of 117 million yen and a decrease in accounts payable - other of 72 million yen. The decrease in non-current liabilities was due mainly to a decrease in long-term loans payable as a result of repayments. As a result of the above, the quick ratio increased 80.8 percentage points over the previous fiscal year to 220.9%, the current ratio increased 94.5 percentage points to 271.1%, and the Group's financial structure improved substantially.

Net assets as of the end of the current fiscal year stood at 2,788 million yen, an increase of 1,230 million yen compared with the end of the previous fiscal year. The increase in net assets was due mainly to net income of 1,220 million yen. As a result of this increase in net assets, the equity ratio stood at 67.4%, an increase of 22.2 percentage points from 45.2% at the end of the previous fiscal year.

(3) Analysis of cash flows

Cash and cash equivalents as of the end of the current fiscal year amounted to 1,807 million yen, an increase of 850 million yen compared with the end of the previous fiscal year.

The status as well as increases and decreases of cash flows are noted in "II. Overview of business, 1. Overview of business results, (2) Cash flows."

III. Information about facilities

1. Overview of capital expenditures, etc.

The total amount of capital expenditures made for the current fiscal year stood at 473 million yen. This consisted mainly of 249 million yen for improvements to and purchases of software programs for sale and 216 million yen for software for in-house use.

2. Major facilities

Reporting company

As of March 31, 2014

Office name (Location)	Segment name	Facilities	Book value (Thousands of yen)					Number of employees (Persons)
			Buildings	Tools, furniture and fixtures	Software	Leased assets	Total	
Head office (Minato-ku, Tokyo)	Software-related business	Office equipment for development and management, and EC systems	8,404	11,816	677,522	–	697,743	78 [3]

Notes: 1. Consumption taxes are not included in the amounts above.
2. All amounts for the buildings above are for interior equipment, etc. in offices currently being leased.
3. No facility is currently out of service.
4. The number of employees indicates the number of working employees.
5. The number in the bracket in the "Number of employees" column refers to the yearly average number of temporary employees.
6. The business of the Group consists of a single segment.
7. Head office building space is being leased. Annual leasing fees are 69,406 thousand yen.

3. Planned additions, retirements, etc. of facilities

(1) Additions of significant facilities

As of March 31, 2014

Company name	Office name (Location)	Segment name	Facilities	Planned investment amount		Funds procurement method	Start	Scheduled completion	Increase in capacity after completion
				Total amount (Thousands of yen)	Amount already paid (Thousands of yen)				
Reporting company	Head office (Minato-ku, Tokyo)	Software-related business	Business systems	315,800	–	Own funds	April 2014	March 2015	–

Notes: 1. Consumption taxes are not included in the amount above.
2. Increase in capacity after completion is not presented as a reasonable calculation is difficult.
3. The business of the Group consists of a single segment.

(2) Retirements of significant facilities

There are no planned retirements of significant facilities except for retirements for renewal of facilities.

IV. Information about reporting company

1. Information about shares, etc.

(1) Total number of shares, etc.

i) Total number of shares

Class	Total number of authorized shares (Shares)
Common shares	90,280,000
Total	90,280,000

ii) Issued shares

Class	Number of issued shares as of the fiscal year-end (Shares) (March 31, 2014)	Number of issued shares as of the date of filing (Shares) (June 24, 2014)	Name of financial instruments exchange where the shares of the Company is traded or the name of authorized financial instruments firms association where the Company is registered	Details
Common shares	31,732,000	31,732,000	First section of the Tokyo Stock Exchange	The number of shares per share unit is 100 shares.
Total	31,732,000	31,732,000	–	–

(2) Subscription rights to shares, etc.

The Company issues stock options based on provisions of Articles 236, 238 and 240 of the Companies Act. An overview of this system is provided below.

Stock options resolved at the Board of Directors meeting held on August 29, 2013, pursuant to the provisions of Articles 236, 238 and 240 of the Companies Act (4th series)

	As of March 31, 2014	As of May 31, 2014
Number of subscription rights to shares (Rights)	606 (Note 1)	600 (Note 1)
Number of treasury subscription rights to shares (Rights)	–	–
Class of shares to be issued upon exercise of subscription rights to shares	Common shares	Same as left
Number of shares to be issued upon exercise of subscription rights to shares (Shares)	60,600 (Note 1)	60,000 (Note 1)
Amount to be paid in upon exercise of subscription rights to shares (Yen)	898 yen per share (Note 2)	Same as left
Exercise period of subscription rights to shares	August 30, 2015 – August 29, 2023	Same as left
Issue price of shares and additional paid-in capital in cases where shares are issued upon exercise of subscription rights to shares (Yen)	Issue price: 898 yen Additional paid-in capital: 449 yen	Same as left
Conditions for exercising subscription rights to shares	Holders of the subscription rights to shares are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the “Subscription Rights to Shares Allotment Agreement” entered into between the Company and the person who has been granted subscription rights to shares.	Same as left
Matters regarding transfer of subscription rights to shares	Acquisition of subscription rights to shares through transfer shall be subject to approval by the resolution of the Company’s Board of Directors.	Same as left
Matters regarding surrogate payment	–	–
Matters regarding delivery of subscription rights to shares accompanied by act of organizational restructuring	(Note 3)	Same as left

Notes: 1. The number of shares to be issued upon exercise of one subscription right to shares shall be 100.

In the event that the Company conducts a share split (includes an allotment of the Company’s common shares without contribution, the same applies below) or a share consolidation after the date of allotment of subscription rights to shares, an adjustment shall be made using the formula below. Notwithstanding, said adjustment shall be made only with respect to the number of shares to be issued upon exercise of those subscription rights to shares remaining unexercised as of the relevant date, and any fractions of less than one share that arise as a result of adjustment shall be rounded down.

$$\text{Number of shares granted after adjustment} = \text{Number of shares granted before adjustment} \times \text{Ratio of split (or consolidation)}$$

Additionally, in the event that the Company implements a merger, company split, or a decrease in the amount of capital or in equivalent cases necessitating an adjustment to the number of shares granted after the date of allotment of subscription rights to shares, the number of shares granted shall be adjusted appropriately to the extent reasonable.

2. In the event that the Company conducts a share split or a share consolidation after the date of allotment of subscription rights to shares, an adjustment shall be made to the exercise price using the formula below, and any fractions of less than one yen due to the adjustment shall be rounded up.

$$\begin{matrix}\text{Exercise price} \\ \text{after adjustment}\end{matrix} = \begin{matrix}\text{Exercise price} \\ \text{before adjustment}\end{matrix} \times \frac{1}{\text{Ratio of split (or consolidation)}}$$

Additionally, in the event that the Company issues new shares or disposes of treasury shares at a price below the market value of the Company's common shares after the date of allotment of subscription rights to shares (excludes issuance of new shares and disposal of treasury shares based on the exercise of subscription rights to shares and the transfer of treasury shares due to the share exchange), an adjustment shall be made to the exercise price using the formula below, and any fractions of less than one yen due to the adjustment shall be rounded up.

$$\begin{matrix}\text{Exercise} \\ \text{price after} \\ \text{adjustment}\end{matrix} = \begin{matrix}\text{Exercise} \\ \text{price before} \\ \text{adjustment}\end{matrix} \times \frac{\begin{matrix}\text{Number of shares} \\ \text{already issued}\end{matrix} + \dfrac{\begin{matrix}\text{Number of shares} \\ \text{newly issued}\end{matrix} \times \text{Amount to be paid per share}}{\text{Market value per share before new issuance}}}{\text{Number of shares already issued} + \text{Number of shares newly issued}}$$

In the formula above, "Number of shares already issued" shall be the number obtained by subtracting the number of treasury shares (common shares) from the total number of issued shares (common shares). In the event that the Company disposes of treasury shares (common shares), "Number of shares newly issued" shall read "Number of treasury shares to be disposed." In addition, "Market value" in the formula above shall be the average value of the closing price (includes indicative quote, the same applies below) in ordinary trading of the Company's common shares on the Tokyo Stock Exchange for 30 trading days (excludes days with no closing price) starting on the 45th trading day prior to the day following the effective date (the payment date for said issue or disposal (where a payment period is set out, the final day of said payment period)) (when there is a record date, from the day following said record date). Note that the "average value" shall be calculated in yen to two decimal places and rounded to one decimal place.

Additionally, aside from the aforementioned, in the event that the Company merges with another company, implements a company split, or in equivalent cases necessitating an adjustment to the exercise price after the date of allotment of subscription rights to shares, the exercise price shall be adjusted appropriately to the extent reasonable.

3. In the event that the Company implements a merger (limited to a case in which the Company ceases to exist due to the merger), absorption-type split, incorporation-type split, share exchange or share transfer (hereinafter collectively referred to as "act of organizational restructuring"), the Company shall grant subscription rights to shares of a company specified in (a) through (e) under Article 236, paragraph 1, item 8 of the Companies Act (hereinafter, "the restructured company") to owners of subscription rights to shares on the effective date of the act of organizational restructuring in accordance with the conditions below. This shall be limited to the case where the grant of subscription rights to shares of the restructured company is stipulated in the absorption-type merger agreement, consolidation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement, or share transfer plan.

(1) The number of subscription rights to shares in the restructured company to be granted

The same number of subscription rights to shares as the number of subscription rights to shares owned by respective holders shall be granted.

(2) The class of shares of the restructured company to be issued upon exercise of subscription rights to shares

The class of shares shall be common shares of the restructured company.

(3) The number of shares of the restructured company to be issued upon exercise of subscription rights to shares

The number of shares of the restructured company to be issued upon exercise of subscription rights to shares shall be determined in accordance with the aforementioned Note 1, taking into consideration the conditions of the act of organizational restructuring.

(4) The amount of assets to be contributed upon exercise of subscription rights to shares

The amount of assets to be contributed upon exercise of each subscription right to shares granted shall be the amount obtained by multiplying the post restructuring exercise price obtained after adjusting the exercise price by taking into consideration the conditions and other factors of the act of organizational restructuring, by the number of shares of the restructured company to be issued upon exercise of the said subscription rights to shares determined in accordance with the aforementioned Note 3 (3).

(5) Exercise period of subscription rights to shares

The exercise period of subscription rights to shares shall begin on the date of commencement of the exercise period stipulated above or the effective date of the act of organizational restructuring, whichever is later, and end on the closing date of the exercise period stipulated above.

(6) Matters concerning increase in capital stock and legal capital surplus in the event of issuance of shares upon exercise of subscription rights to shares

i) The amount of increase in capital stock in the event of issuance of shares upon exercise of subscription rights to shares shall be an amount that is half of the upper limit for an increase in capital stock to be calculated in accordance with Article 17, paragraph 1 of the Ordinance on Accounting of Companies. Any fractions of less than one yen arising as a result of the calculation shall be rounded up to the nearest one yen.

ii) The amount of increase in legal capital surplus in the event of issuance of shares upon exercise of subscription rights to shares shall be the upper limit for an increase in capital stock stated in i) above less the amount of increase in capital stock stipulated therein.

(7) Restriction on the acquisition of subscription rights to shares by transfer

Any acquisition of subscription rights to shares by transfer shall be subject to approval by the resolution of the board of directors of the restructured company.

(8) Other conditions for the exercise of subscription rights to shares

To be determined in accordance with "Conditions for exercising subscription rights to shares" above.

(9) Reasons and conditions for acquisition of subscription rights to shares

i) In the event of approval for a merger agreement under which the Company ceases to exist, a split agreement or split plan for a company split under which the Company is the splitting company, or a share exchange agreement or a share transfer plan under which the Company becomes a wholly-owned subsidiary by the shareholders meeting (the resolution of the Board of Directors in the event that approval of the shareholders meeting is not required), the Company may acquire all subscription rights to shares for no consideration on arrival of the date stipulated separately by the Company's Board of Directors.

ii) In the event that subscription rights to shares can no longer be exercised under the provisions stipulated in Note 3 (8) above before the holders of subscription rights to shares exercise such rights, the Company may acquire subscription rights to shares for no consideration.

(10) Other conditions shall be determined in accordance with the conditions of the restructured company.

(3) Exercises, etc. of moving strike convertible bonds, etc.

Not applicable.

(4) Description of rights plan

Not applicable.

(5) Changes in the number of issued shares, capital stock, etc.

Date	Change in the total number of issued shares (Shares)	Balance of the total number of issued shares (Shares)	Change in capital stock (Thousands of yen)	Balance of capital stock (Thousands of yen)	Change in legal capital surplus (Thousands of yen)	Balance of legal capital surplus (Thousands of yen)
June 17, 2009 (Note 1)	10,000	135,020	139,250	1,469,935	139,250	1,309,935
September 28, 2009 (Note 2)	23,640	158,660	301,291	1,771,226	301,291	1,611,226
October 1, 2012 (Note 3)	15,707,340	15,866,000	–	1,771,226	–	1,611,226
September 1, 2013 (Note 4)	15,866,000	31,732,000	–	1,771,226	–	1,611,226

Notes: 1. Third-party allotment

Issue price 27,850 yen Additional paid-in capital 13,925 yen

Allottee Yodobashi Camera Co., Ltd.

2. Third-party allotment

   Issue price 25,490 yen Additional paid-in capital 12,745 yen

   Allottee RS Empowerment, Inc.

3. The Company implemented a 1:100 share split on common shares on October 1, 2012.
4. The Company implemented a 1:2 share split on common shares on September 1, 2013.

(6) Shareholding by shareholder category

As of March 31, 2014

Category	Shareholding status (Number of shares per share unit: 100 shares)								Fractional shares (Shares)
	Public sector	Financial institutions	Financial instruments business operators	Other corporations	Foreign investors		Individuals, etc.	Total	
					Companies, etc.	Individuals			
Number of shareholders (Persons)	–	18	34	24	45	6	3,959	4,086	–
Number of shares held (Units)	–	26,176	4,066	132,442	18,860	429	135,337	317,310	1,000
Shareholding ratio (%)	–	8.24	1.28	41.73	5.94	0.13	42.65	100.00	–

Note: Six treasury shares are included and stated in “Fractional shares.”

(7) Major shareholders

As of March 31, 2014

Name	Address	Number of shares held (Shares)	Shareholding ratio (%)
Noriyuki Matsuda	Minato-ku, Tokyo	8,966,400	28.25
RS Empowerment, Inc.	4-12-3 Higashi-shinagawa, Shinagawa-ku, Tokyo	8,928,000	28.13
Yodobashi Camera Co., Ltd.	3-20-1 Kita-shinjuku, Shinjuku-ku, Tokyo	3,609,600	11.37
Satomi Matsuda	Minato-ku, Tokyo	924,000	2.91
Japan Trustee Services Bank, Ltd. (Held in trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	633,200	1.99
Shin Shin Co., Ltd.	2-17-25 Mita, Minato-ku, Tokyo	564,400	1.77
Trust & Custody Services Bank, Ltd. (Held in pension trust account)	1-8-12 Harumi, Chuo-ku, Tokyo	522,500	1.64
BNYML-NON TREATY ACCOUNT (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	2-4 RUE EUGENE RUPPERT L-2453 LUXEMBOURG GRAND DUCHY OF LUXEMBOURG (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	439,599	1.38
JAPAN SECURITIES FINANCE CO., LTD.	1-2-10 Nihombashi Kayabacho, Chuo-ku, Tokyo	277,800	0.87
SOURCENEXT Employee Shareholding Association	3-8-21 Toranomon, Minato-ku, Tokyo	239,300	0.75
Total	–	25,104,799	79.11

Note: 631,700 of the above-mentioned number of shares held by Japan Trustee Services Bank, Ltd. relate to the trust business. 522,500 of the above-mentioned number of shares held by Trust & Custody Services Bank, Ltd. relate to the trust business.

(8) Voting rights

i) Issued shares

As of March 31, 2014

Category	Number of shares (Shares)	Number of voting rights (Rights)	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury shares, etc.)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury shares, etc.)	–	–	–
Shares with full voting rights (Other)	Common shares: 31,731,000	317,310	Standard shares without any limitations on the shareholders' rights
Fractional shares	Common shares: 1,000	–	Same as above
Total number of issued shares	31,732,000	–	–
Total number of voting rights	–	317,310	–

Note: The "Fractional shares" row includes six treasury shares.

ii) Treasury shares, etc.

As of March 31, 2014

Name of shareholder	Address of shareholder	Number of shares held under own name (Shares)	Number of shares held under the name of others (Shares)	Total number of shares held (Shares)	Shareholding ratio (%)
–	–	–	–	–	–
Total	–	–	–	–	–

(9) Details of employee stock option program

The Company has adopted a stock option program. The issuance of subscription rights to shares under the program was resolved at the Board of Directors meeting held on August 29, 2013, pursuant to the provisions of Articles 236, 238, and 240 of the Companies Act.

The details of the program are as below.

Resolution date	August 29, 2013
Category and number of people to whom stock options are granted	79 employees
Class of shares to be issued upon exercise of subscription rights to shares	Details are described in "(2) Subscription rights to shares, etc."
Number of shares (Shares)	Same as above
Amount to be paid in upon exercise of subscription rights to shares (Yen)	Same as above
Exercise period of subscription rights to shares	Same as above
Conditions for exercising subscription rights to shares	Same as above
Matters regarding transfer of subscription rights to shares	Same as above
Matters regarding surrogate payment	–
Matters regarding delivery of subscription rights to shares accompanied by act of organizational restructuring	Same as above

2. Acquisitions, etc. of treasury shares

Classes of shares, etc. Acquisition of common shares falling under Article 155, item 7 of the Companies Act

(1) Acquisitions by resolution of shareholders meeting

Not applicable.

(2) Acquisitions by resolution of Board of Directors meeting

Not applicable.

(3) Acquisitions not based on resolution of shareholders meeting or Board of Directors meeting

Category	Number of shares (Shares)	Total value (Yen)
Treasury shares acquired during the fiscal year ended March 31, 2014	6	1,818
Treasury shares acquired during the period from April 1, 2014 until the filing date of this Annual Securities Report	–	–

Note: "Treasury shares acquired during the period from April 1, 2014 until the filing date of this Annual Securities Report" do not include shares through purchase of fractional shares from June 1, 2014 until the filing date of this Annual Securities Report.

(4) Disposals or holding of acquired treasury shares

Category	Fiscal year ended March 31, 2014		From April 1, 2014 until the filing date of this Annual Securities Report	
	Number of shares (Shares)	Total disposal price (Yen)	Number of shares (Shares)	Total disposal price (Yen)
Acquired treasury shares offered for subscription	–	–	–	–
Acquired treasury shares that were disposed	–	–	–	–
Acquired treasury shares transferred for merger, share exchange and company split	–	–	–	–
Other (—)	–	–	–	–
Treasury shares held	6	–	6	–

Note: The number of treasury shares held in the "From April 1, 2014 until the filing date of this Annual Securities Report" column does not include shares through purchase or sale of fractional shares from June 1, 2014 until the filing date of this Annual Securities Report.

3. Dividend policy

The Company believes that improving performance into the future will increase corporate value and result in meeting the expectations of shareholders. The basic dividend policy is to implement the distribution of profits with comprehensive consideration of performance, the dividend payout ratio and the amount of investment required for medium- and long-term corporate growth. Moreover, while the Company's basic policy on dividend of surplus is to pay a dividend once a year, as a rule, in the form of the year-end dividend, the Articles of Incorporation stipulate that the Company may pay an interim dividend, pursuant to the provisions of Article 454, paragraph 5 of the Companies Act. The organizational bodies that determine dividends are the Board of Directors for the interim dividend and the Shareholders Meeting for the year-end dividend.

The Company did not pay a year-end dividend in the current fiscal year as a result of the loss carried forward following the previous fiscal year.

As it has become likely that a framework for dividends will be in place, due in part to the sustained strong performance during the current fiscal year, the Company will resume the payment of dividends for the first time in seven years since the fiscal year ended March 31, 2008 and plans to pay a year-end dividend of 3.59 yen per share, giving a forecast dividend payout ratio of 10% in the fiscal year ending March 31, 2015.

Going forward, the Company is committed to firmly maintaining a policy of paying stable dividends while taking business conditions into account.

4. Historical records of share price

(1) Highest and lowest share price of each fiscal year in last five years

Term	14th term	15th term	16th term	17th term	18th term
Fiscal year-end	March 31, 2010	March 31, 2011	March 31, 2012	March 31, 2013	March 31, 2014
Highest (Yen)	40,500	43,000	21,860	20,000 (Note 2) *565	1,647 (Note 3) *1,336
Lowest (Yen)	16,000	12,300	13,500	14,150 (Note 2) *151	408 (Note 3) *594

Notes: 1. The highest and lowest share prices were those recorded on the first section of the Tokyo Stock Exchange.
2. * shows the ex-rights share price due to a share split (October 1, 2012, 1 share: 100 shares).
3. * shows the ex-rights share price due to a share split (September 1, 2013, 1 share: 2 shares).

(2) Highest and lowest share price of each month in last six months

Month	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014
Highest (Yen)	1,336	965	900	979	776	829
Lowest (Yen)	796	654	780	710	594	650

Note: The highest and lowest share prices were those recorded on the first section of the Tokyo Stock Exchange.

5. Information about Directors and Auditors

Title	Position	Name	Date of Birth	Career Summary		Term	Number of Shares Held (Shares)
President and CEO (Representative Director)	–	Noriyuki Matsuda	May 28, 1965	Apr. 1989 Sep. 1993 Aug. 1996 Sep. 2010 Sep. 2012	Joined IBM Japan Established AAA, Ltd., Representative Director and President, AAA, Ltd. Established the Company, President and CEO, the Company (current position) Representative Director, CHOUJIMAKU Corporation President & CEO, SOURCENEXT Inc. (current position)	(Note 6)	8,966,400
Senior Managing Director (Representative Director)	–	Satomi Matsuda	Jul. 5, 1965	Aug. 1990 Jan. 1992 Jan. 1994 Aug. 1996 May 2002 Sep. 2012	Joined KITAGAWA INDUSTRIES CO., LTD. Joined TFC Corporation Joined AAA, Ltd., Senior Managing Director, AAA, Ltd. Senior Managing Director, the Company Executive Managing Director, the Company (current position) Secretary, SOURCENEXT Inc. (current position)	(Note 6)	924,000
Managing Director	Managing Executive Officer, In charge of Administra-tion Group	Fumihiko Aoyama	Aug. 3, 1967	Oct. 1991 Jul. 1999 Apr. 2000 Apr. 2002 Jun. 2004 Jun. 2005 Sep. 2005 Jan. 2009 Jun. 2012	Joined Deloitte Touche Tohmatsu LLC Joined Deloitte Tohmatsu Consulting Joined the Company Executive Officer, the Company Managing Director, the Company Resigned as Managing Director, the Company (due to completion of the term of office) Managing Director, the Company Executive Director, the Company Managing Director, the Company (current position)	(Note 6)	74,600
Senior Managing Director	Managing Executive Officer, In charge of Planning and Sales Group	Tomoaki Kojima	Jun. 3, 1977	Sep. 2001 Jun. 2006 Jun. 2008 Jan. 2009 Jun. 2012	Joined the Company Executive Officer, the Company Managing Director, the Company Executive Director, the Company Managing Director, the Company (current position)	(Note 6)	19,600

Title	Position	Name	Date of Birth	Career Summary		Term	Number of Shares Held (Shares)
Managing Director	–	Masaharu Ikuta	Jan. 19, 1935	Apr. 1957	Joined Mitsui Steamship Co., Ltd. (currently Mitsui O.S.K. Lines, Ltd.)	(Note 6)	22,900
				Jun. 1994	Representative Director and President, Mitsui O.S.K. Lines, Ltd.		
				Jun. 2000	Representative Director and Chairman, Mitsui O.S.K. Lines, Ltd.		
				Apr. 2003	President, Japan Post		
				Mar. 2007	Resigned as President, Japan Post		
				Apr. 2007	Corporate Advisor, Mitsui O.S.K. Lines, Ltd.		
				Jun. 2008	Outside Director, Terumo Corporation (current position)		
				Jun. 2008	Outside Director, the Company (current position)		
				May 2009	Outside Director, Aeon Co., Ltd. (current position)		
				Feb. 2010	Senior Counselor, Mitsui O.S.K. Lines, Ltd. (current position)		
Managing Director	–	Hiroshi Takasawa	Jun. 13, 1960	Apr. 1984	Joined Kajima Corporation	(Note 6)	–
				Apr. 1988	Joined Nomura Securities Co., Ltd.		
				Jan. 2000	CFO, GMAC Commercial Mortgage Japan		
				May 2001	Representative Director, GMAC Commercial Holdings Japan		
				May 2005	Representative Director, Rakuten Strategic Partners, Inc.		
				Nov. 2006	Executive Officer, Rakuten, Inc. (current position)		
				Aug. 2009	Representative Director, RS Empowerment, Inc. (current position)		
				Jun. 2010	Outside Director, the Company (current position)		
				Nov. 2012	Chairman of the Board, Rakuten Investment Management, Inc. (non-executive) (current position)		
				Nov. 2012	Vice President and Director, Rakuten Securities, Inc. (non-executive) (current position)		
				Nov. 2012	Vice President and Representative Director, AIRIO Life Insurance Co., Ltd. (currently Rakuten Life Insurance Co., Ltd.) (current position)		

Title	Position	Name	Date of Birth	Career Summary		Term	Number of Shares Held (Shares)
Managing Director	–	Hideaki Kubori	Aug. 29, 1944	Apr. 1971	Registered as Attorney-at-Law Joined Mori Sogo	(Note 6)	–
				Apr. 1998	Representative, HIBIYA PARK LAW OFFICES (current position)		
				Apr. 2001	President, Daini Tokyo Bar Association, and Vice President, Japan Federation of Bar Associations		
				Oct. 2001	Outside Director, Nomura Holdings, Inc.		
				Feb. 2003	Outside Auditor, the Company		
				Apr. 2004	Professor, Omiya Law School (current position)		
				Jun. 2008	Member of the Supervisory Committee, The Norinchukin Bank (current position)		
				Jun. 2011	Outside Director, Tokyo Stock Exchange Group, Inc. (currently Japan Exchange Group, Inc.) (current position) Outside Governor, Tokyo Stock Exchange Regulation (currently Japan Exchange Regulation) (current position)		
				Jun. 2014	Outside Director, the Company (current position)		
Standing Auditor	–	Shozaburo Takano	Jan. 11, 1938	Jan. 1968	Joined Fuji Heavy Industries Ltd.	(Note 7)	59,500
				Sep. 1980	Joined Japan Data General Co., Ltd.		
				Mar. 1991	Joined Nippon Computer Systems Corporation		
				Dec. 1999	Advisor, the Company		
				Jun. 2000	Auditor, the Company (current position)		
Auditor	–	Tetsuya Kobayashi	Sep. 5, 1958	Apr. 1991	Registered as Attorney-at-Law (Daini Tokyo Bar Association)	(Note 8)	–
				Jul. 1999	Temporary staff in charge of judicial system reform, Japan Federation of Bar Associations		
				Apr. 2003	Member of Examination Board for foundation of incorporated educational institution and university (Law school special examination board), Ministry of Education, Culture, Sports, Science and Technology		
				Apr. 2004	Vice President, Daini Tokyo Bar Association		
				Jun. 2006	Outside Auditor, the Company (current position)		
				May 2007	Expert committee member, Committee for Certified Evaluation and Accreditation of Law Schools, National Institution for Academic Degrees and University Evaluation (current position)		
				Jun. 2007	Chairman, Training Center, Japan Federation of Bar Associations		
				Apr. 2008	Part-time instructor, Faculty of Law, Keio University		
				Jun. 2011	Outside Auditor, Mochida Pharmaceutical Co., Ltd. (current position)		
				Apr. 2012	Executive Governor, Japan Federation of Bar Associations		

Title	Position	Name	Date of Birth	Career Summary		Term	Number of Shares Held (Shares)
Auditor	–	Kakuji Takano	Apr. 7, 1940	Mar. 1963	Graduated from School of Commerce, Meiji University	(Note 8)	–
				Apr. 1963	Joined Kohkoku Chemical Industry (currently ACHILLES CORPORATION)		
				May 1968	Joined Eiko Accounting Audit Corporation (currently Ernst & Young ShinNihon LLC)		
				May 1975	Established Takano Sogo Accounting Firm		
				Dec. 1996	Representative Partner, Century Audit Corporation (currently Ernst & Young ShinNihon LLC)		
				Apr. 2007	Non-executive Auditor, MARUZEN CO., LTD.		
				Jun. 2007	Non-executive Auditor, NIPPON SHUPPAN HANBAI INC. (current position)		
				Jul. 2010	Managing Partner, Takano Sogo Accounting Firm (current position)		
				Jun. 2014	Outside Auditor, the Company (current position)		
Total							10,067,000

Notes: 1. Senior Managing Director Satomi Matsuda is the spouse of President and CEO Noriyuki Matsuda.

2. Managing Directors Masaharu Ikuta, Hiroshi Takasawa, and Hideaki Kubori are Outside Directors.

3. Auditors Tetsuya Kobayashi and Kakuji Takano are Outside Auditors.

4. The Company adopted an executive officer system in June 2006 in order to revitalize the Board of Directors and increase management efficiency. The person with responsibility for each group is designated as the Executive Officer, and all of the Directors, except for the Representative Directors and the Outside Directors, serve concurrently as Executive Officers. In addition, the Company has five full-time Executive Officers. Kiyoaki Morimoto is responsible for the Creative Group and the CI Office, Kousuke Fujimoto is responsible for the Business Development Office, Kunihiko Mochizuki is responsible for the Development and CS Group, Michiko Taoka is responsible for the EC Group, and Hajime Kawatake is responsible for the Technology Strategy Office.

5. At the Annual Shareholders Meeting on June 23, 2014, the Company appointed one Substitute Auditor to be ready in case the number of Auditors falls short of the number stipulated by laws and regulations. The career summary of the Substitute Auditor is as shown below.

Name	Date of Birth	Career Summary		Number of Shares Held (Shares)
Takeshi Yamashita	Jan. 31, 1946	Mar. 1968	Graduated from School of Law, Osaka University	–
		Jun. 1972	Withdrew from Doctoral Degree, Graduate Judicial Affairs Course, Kyoto University	
		Apr. 1985	Professor, Hiroshima University	
		Apr. 1997	Professor, Tokai University	
		Jul. 1997	Registered as Attorney-at-Law	
		Mar. 2002	Resigned from Tokai University	
		Jun. 2003	Corporate Auditor, Prima Meat Packers, Ltd.	
		Dec. 2003	Joined HIBIYA PARK LAW OFFICES	
		Apr. 2004	Professor, Omiya Law School	
		Jun. 2005	Auditor, Resona Bank, Limited (current position)	
		Jun. 2006	Substitute Auditor, the Company	
		Apr. 2007	Professor, Judicial Affairs Course, Graduate School, Meiji Gakuin University	
		Jun. 2012	Outside Director, Prima Meat Packers, Ltd. (current position)	

Takeshi Yamashita, Substitute Auditor, meets the requirements for Outside Auditor.

6. From the conclusion of the Annual Shareholders Meeting for the fiscal year ended March 31, 2014 to the conclusion of the Annual Shareholders Meeting for the fiscal year ending March 31, 2015.

7. From the conclusion of the Annual Shareholders Meeting for the fiscal year ended March 31, 2012 to the conclusion of the Annual Shareholders Meeting for the fiscal year ending March 31, 2016.
8. From the conclusion of the Annual Shareholders Meeting for the fiscal year ended March 31, 2014 to the conclusion of the Annual Shareholders Meeting for the fiscal year ending March 31, 2018.
9. Number of shares held is as of March 31, 2014.

6. Explanation about corporate governance, etc.

(1) Explanation about corporate governance

Basic philosophy on corporate governance

The Company recognizes that strengthening and enhancing corporate governance is a key managerial challenge for maintaining and increasing its competitive edge in the long-term. While fulfilling our social responsibility to all stakeholders, including shareholders, consumers, and business partners, we are promoting efficient management and striving to increase corporate value, aiming for a high profit structure.

i) Implementation status of corporate governance policies

A. Basic explanation of company organizational structures

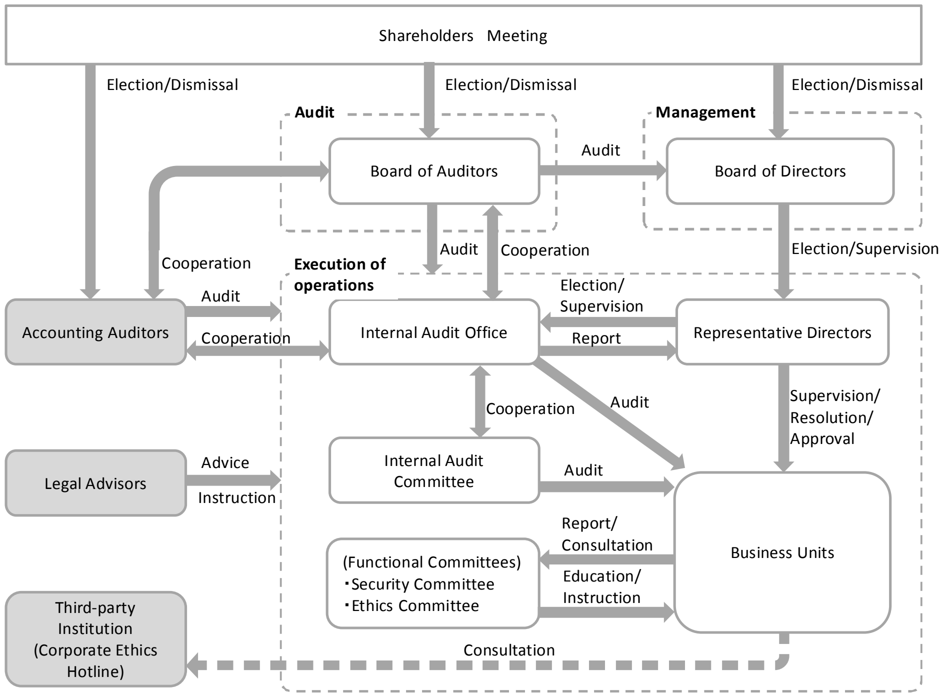
The Company has adopted an auditor system, and the Board of Directors and the Board of Auditors monitor and supervise the execution of operations.

The Board of Directors is composed of seven Directors. It is designated as the organizational structure which deliberates on and determines matters provided for by the Companies Act and key issues related to the management of the Company. As a rule, meetings of the Board of Directors are held once a month. Auditors attend all meetings of the Board of Directors and provide their opinions. The Board of Auditors is designated as the organizational structure which comprehensively checks the legality and efficiency of management. As a rule, meetings of the Board of Auditors are held once a month. Two of the three Auditors are independent Outside Auditors. The objective of this is to ensure the soundness of management through the implementation of auditors' audits from a neutral and objective perspective by people with ample knowledge and experience in a variety of fields.

Additionally, three of the seven Directors are Outside Directors. The objective of this is to bring in perspectives from outside of management, strengthen corporate governance even more, and further reinforce the function of supervising the execution of operations.

The Company aims for effective governance, combining auditors' audits implemented through the active collaboration of the Board of Auditors, which includes a number of independent Outside Auditors with expert legal and other knowledge, with the Accounting Auditors and the internal audit departments, and planning of management strategy and supervision of execution of operations by the Board of Directors, which includes independent Outside Directors with high levels of management experience and insight. The aforementioned structures of the Company have been deemed effective in achieving and ensuring corporate governance, and capable of implementing appropriate and efficient corporate management. Consequently, the Company has adopted the said system of governance.

The status of the Company's corporate governance is as follows.



B. Establishment of internal control system

The Company ensures compliance and constantly strives to improve and enhance the internal control system in order to promote operations effectively and efficiently.

a. Basic philosophy on the internal control system

The Company has explicitly stipulated “being genuinely good” as a condition for “EXCITING,” which is our ultimate strategy. Our basic policy is that every single Director, Auditor and employee not only complies with the laws and regulations inside and outside Japan, but also acts in accordance with corporate ethics to fulfill the Company’s social role and responsibility.

b. Compliance system

We provide training on compliance, and the Company’s regulations and other rules for all Directors and all employees through e-learning (online testing) implemented by the legal department and the Security Committee. Moreover, we also conduct group training in the form of lectures for all employees, which we offered on a total of six themes in the current fiscal year.

In addition, the internal audit departments audit the status of compliance in operational audits and regularly report these activities to Management Meetings attended by all managers.

Apart from this, the Company has established and operates the Corporate Ethics Hotline to which employees can anonymously report legally questionable conduct to the Company through an independent third-party institution with no interests in the Company.

c. Internal audit system

The Company recognizes that the internal audit function performs a vital role in internal control. The Internal Audit Office and the Internal Audit Committee, with one member and nine members respectively, are designated as the departments with responsibility for implementing internal audits. The Internal Audit Office is a department that was newly established in July 2007 as an organizational structure directly under the Executive Managing Director in order to further strengthen the internal control environment, and the Company has assigned one full-time employee to it. The principal duties of the Internal Audit Office are formulating the fiscal year internal auditing plan, establishing the priority issues for auditing, producing the final audit report, and taking responsibility for other extraordinary audits. The Internal Audit Office implements highly independent and neutral audit operations in collaboration with the Internal Audit Committee.

Reports on the results of audits are made in writing to its supervising officer, the Executive Managing Director. The internal control system is further strengthened by the process of providing audited departments with instructions for improvements based on the results of auditing and ensuring that they report on the status of improvements afterwards, without delay, to assure the effectiveness of internal audits.

Reports on the status of internal auditing are issued monthly in collaboration with the Board of Auditors.

d. Internal control in order to eliminate anti-social forces

The Company's basic policy is to block any relationships, including provision of funds, with anti-social forces that threaten the order and safety of society as a whole and to respond, with measures including both civil and criminal legal responses, to any unreasonable demands made by such anti-social forces, standing resolute as an entire organization and cooperating closely with the specialist external organizations, including the police and attorneys.

In terms of arrangements aimed at eliminating anti-social forces, the departments in charge of responding have established internal structures, employee education through once-yearly compliance training, and a response manual. In addition, the Company is a member of Tokubouren (the Special Anti-Violence Countermeasures Federation of the Metropolitan Police Department) and strives to gather information about anti-social forces and develop close cooperative relationships, by participating in training sessions and seminars organized by the Federation.

Moreover, as well as conducting an investigation into affiliations for all transactions with our business partners, we establish a clause in agreements for termination with immediate effect that allows us to terminate agreements without notification in the event that a business partner is an anti-social force or has engaged in transactions with an anti-social force. This provides a structure that allows an agreement to be terminated based on the clause in the event that these grounds become known.

ii) Establishment of risk management system

The Company, primarily the Internal Audit Office, identifies internal and external risks once a year, as a rule, and creates a map to quantitatively evaluate company-wide risks. Risks with high scores based on this risk map are reflected in the internal audit plan as priority risks, and the establishment and operation of preventive measures and crisis management measures are checked through auditing.

In addition, the Company has established the Security Committee as an internal, functional committee related to the protection of personal information, prevention of leakage of confidential information, and information security, and it provides security training and guidance for employees.

The Company's legal advisors include HIBIYA PARK LAW OFFICES to which Hideaki Kubori, an Outside Director of the Company, belongs, KATO-NISHIDA & HASEGAWA LAW FIRM, Murata Tamami Law Firm, and CITY-YUWA PARTNERS, and the Company requests advice whenever it is needed.

iii) Details of remuneration for Directors and Auditors

A. Total amount of remuneration, etc. by each category of Directors, Auditors, and Outside Directors and Auditors, total amount of remuneration, etc. by type, and number of Directors, Auditors, and Outside Directors and Auditors to be paid

Category	Total amount of remuneration (Thousands of yen)	Total amount of remuneration by type (Thousands of yen)				Number to be paid (Persons)
		Basic remuneration	Stock options	Bonuses	Retirement benefits	
Directors (excluding Outside Directors)	34,261	34,261	–	–	–	4
Auditors (excluding Outside Auditors)	10,080	10,080	–	–	–	1
Outside Directors and Auditors	18,540	18,540	–	–	–	3

B. Total amount of consolidated remuneration, etc. per Director and Auditor

Omitted as there is no Director or Auditor for whom the total amount of consolidated remuneration, etc. is 100 million yen or more.

C. Significant employee salary for employees serving concurrently as Directors or Auditors

Total amount (Thousands of yen)	Number to be paid (Persons)	Details
24,965	2	Amount corresponding to employee salary (includes bonuses) for employees of the reporting company serving concurrently as Directors or Auditors

D. Policy on determination of remuneration, etc. for Directors and Auditors

a. Remuneration, etc. for Directors

The structure of remuneration, etc. for Directors is made up of basic remuneration and bonuses.

The basic remuneration is established as a base amount in accordance with the scope of responsibility of each Director. However, the amount is variable within a certain range according to factors such as level of contribution, ability to drive strategy and planning, and compliance. Bonuses are determined as an amount allocated separately depending on each Director's achievement of targets and ability to drive strategy and planning, etc.

b. Remuneration, etc. for Auditors

The structure of remuneration, etc. for Auditors is made up of basic remuneration and bonuses.

The amount of remuneration, etc. is determined through consultation among Auditors to ensure that the amount for each Auditor is fair and to make the auditing function operate effectively.

iv) Organizational structure, personnel and procedures for internal audits and auditors' audits, and coordination of internal audits, auditors' audits and accounting audits

The Company has adopted an auditor system, and there are three Auditors, including two Outside Auditors. In addition to attending meetings of the Board of Directors, the Auditors perform tasks that include hearing about the execution of operations directly from Directors and others, attending important meetings, hearing reports on business, and inspecting materials for key resolutions.

Additionally, the Company has appointed an Auditor with a considerable degree of knowledge concerning finance and accounting as outlined below.

Shozaburo Takano, the Standing Auditor, was engaged in financial accounting for over 15 years in total, having been involved in financial accounting operations, including U.S. accounting, in the management department at Japan Data General Co., Ltd. and accounting and finance operations in the accounting department at Nippon Computer Systems Corporation.

The Internal Audit Office and the Internal Audit Committee, which are composed of one and nine members respectively, verify the legality and propriety of operations in operational audits and report the results to the Representative Directors. The Internal Audit Office and the Internal Audit Committee implement assessments of internal control related to financial reporting. The Internal Audit Office reports the content of internal audit implementation and the status of improvements directly to the Standing Auditor in a timely manner. The Accounting Auditors regularly exchange opinions with the Auditors and the Internal Audit Office and aim for coordination with internal audits and auditors' audits.

Moreover, the Auditors, Accounting Auditors, and the Internal Audit Office exchange information on every occasion relating to assessments of internal control, forming a framework that enables them to collaborate and identify common issues.

At the Annual Shareholders Meeting held on June 23, 2014, the Company elected one Substitute Auditor to be ready in case the number of Auditors falls short of the number stipulated by laws and regulations.

v) Ownership of shares

A. Investment shares held for any purpose other than pure investment

Number of issues: 1 issue

Total carrying amount: 8,250 thousand yen

B. Issue, ownership category, number, carrying amount and purpose of holding of investment shares held for any purpose other than pure investment

(Fiscal year ended March 31, 2013)

Specified investment stocks

There are no issues with a carrying amount that exceeds 1/100 of capital amount.

(Fiscal year ended March 31, 2014)

Specified investment stocks

Issue	Number of shares (Shares)	Carrying amount (Thousands of yen)	Purpose of holding
Joshin Denki Co., Ltd.	10,000	8,250	To maintain and strengthen business relationships

C. Investment shares held for the purpose of pure investment

Not applicable.

vi) Names of certified public accountants who executed the audit duties, name of audit firm to which they belong, number of years of auditing in the event that the certified public accountant has been continuously engaged in audit duties related to the reporting company's financial documents, and structure of assistants who supported the audit duties

Certified public accountants who executed the audit duties		Audit firm to which they belong	Number of years of continuous auditing
Designated Limited Liability Partner Engagement Partner	Noboru Saito	KPMG AZSA LLC	5 years
Designated Limited Liability Partner Engagement Partner	Hideaki Takao	KPMG AZSA LLC	2 years

Note: The number of years of continuous auditing based on the rotation system for engagement partners who execute audit duties stipulated in Article 34-11-3 of the Certified Public Accountants Act applied since April 1, 2004 is five years for Noboru Saito and two years for Hideaki Takao.

Certified public accountant	8 persons
Other	8 persons

Note: "Other" above are people who have passed the Certified Public Accountants Examination and systems auditors.

vii) Human, capital, and business relationships with and other interests in the reporting company of the Outside Directors and Outside Auditors and mutual cooperation

The Company has three Outside Directors. There are also two Outside Auditors.

Of the three Outside Directors, Masaharu Ikuta is Outside Director at Terumo Corporation, Outside Director at Aeon Co., Ltd. and Senior Counselor at Mitsui O.S.K. Lines, Ltd. There are no capital relationships, business relationships, and interests between any of these companies and the Company.

Hiroshi Takasawa is Executive Officer at Rakuten, Inc., Chairman of the Board (non-executive) at Rakuten Investment Management, Inc., Representative Director at RS Empowerment, Inc., Vice President and Director (non-executive) at Rakuten Securities, Inc., and Vice President and Representative Director at Rakuten Life Insurance Co., Ltd.

RS Empowerment, Inc. is a shareholder of the Company, owning 8,928,000 of the Company's shares. There is no direct capital relationship between Rakuten, Inc., Rakuten Investment Management, Inc., Rakuten Securities, Inc., Rakuten Life Insurance Co., Ltd. and the Company. There is no business relationship between Rakuten Investment Management, Inc., RS Empowerment, Inc., Rakuten Securities, Inc., Rakuten Life Insurance Co., Ltd. and the Company. However, transactions between Rakuten, Inc., the sole parent company of RS Empowerment, Inc., and the Company include sales of the Company's products. Sales of the Company's products are determined in accordance with ordinary transaction conditions.

Hideaki Kubori serves concurrently as Representative of HIBIYA PARK LAW OFFICES, and the Company has concluded an advisory agreement with HIBIYA PARK LAW OFFICES. The Outside Director himself has no direct interest in this transaction. Hideaki Kubori is also Outside Director at Japan Exchange Group, Inc. There are no capital or business relationships between Japan Exchange Group, Inc. and the Company.

Of the two Outside Auditors, Tetsuya Kobayashi is an attorney-at-law and has no business relationships with or interests in the Company. Tetsuya Kobayashi is also Outside Auditor at Mochida Pharmaceutical Co., Ltd. There are no capital or business relationships between Mochida Pharmaceutical Co., Ltd. and the Company.

Kakuji Takano is a certified public accountant and has no business relationships with or interests in the Company. Kakuji Takano is also Non-executive Auditor at NIPPON SHUPPAN HANBAI INC. There are no capital or business relationships between NIPPON SHUPPAN HANBAI INC. and the Company.

The Outside Directors serve a role as an advisory function for the Company's management from an external perspective and further strengthen the management supervisory function of the Board of Directors by participating from a standpoint that is independent of the execution of operations. The

Outside Directors also exchange opinions with the Board of Auditors whenever necessary, increasing coordination between them.

The Outside Auditors, together with the Standing Auditor, ensure the effectiveness of audits through close collaboration with the Internal Audit Office and the Accounting Auditors, including regularly exchanging information on audit plans and audit results and holding hearings on reports concerning the establishment of internal control and the results of assessments.

Moreover, as the policy concerning the independence of Outside Directors and Outside Auditors from the Company, we focus on independence when making appointments to enable each of them to provide supervision, auditing, advice and recommendations from a perspective outside of the Company utilizing their expert knowledge and experience based on a neutral and objective standpoint with no possibility of a conflict of interest with ordinary shareholders.

viii) Overview of the contracts for limitation of liability

The Company has concluded contracts for limitation of liability for damages with the Outside Directors Masaharu Ikuta, Hiroshi Takasawa, and Hideaki Kubori, and with the Outside Auditors Tetsuya Kobayashi and Kakuji Takano, pursuant to the provision of Article 427, paragraph 1 of the Companies Act.

An overview of these contracts is as below.

- In the event that the Outside Director or Outside Auditor is liable for damages to the Company due to the neglect of duties, the Outside Director or Outside Auditor will bear the liability limited to 10,000 thousand yen or the minimum amount prescribed in laws and regulations, whichever is higher.
- Recognition of the above-mentioned limitation of liability shall be restricted to when the Outside Director or Outside Auditor acted in good faith and without gross negligence in the execution of the duties that led to the liability.

ix) Number of Directors

The Articles of Incorporation stipulate that the Company shall have no more than ten Directors.

x) Requirements of resolutions for the appointment and dismissal of Directors

The Articles of Incorporation stipulate that a resolution to appoint a Director of the Company shall require a majority of the voting rights when shareholders who own at least one third of the voting rights of shareholders who can exercise voting rights are in attendance. The Articles of Incorporation also stipulate that a resolution to appoint a Director shall not be held by cumulative voting.

The Articles of Incorporation further stipulate that a resolution to dismiss a Director of the Company shall require at least two thirds of the voting rights when shareholders who own at least one third of the voting rights of shareholders who can exercise voting rights are in attendance.

xi) Method for an extraordinary resolution of the shareholders meeting

The Articles of Incorporation stipulate that a resolution provided for under Article 309, paragraph 2 of the Companies Act shall require at least two thirds of the voting rights when shareholders who own at least one third of the voting rights of shareholders who can exercise voting rights are in attendance. The objective of this is to ensure a quorum at the shareholders meeting to provide for its reliable and smooth operation.

xii) Matters for resolution by the shareholders meeting that can be resolved by the Board of Directors

The Articles of Incorporation stipulate that the Board of Directors can resolve the following without a resolution of the shareholders meeting.

A. Exemption from liability of Directors and Auditors

Pursuant to the provision of Article 426, paragraph 1 of the Companies Act, the Articles of Incorporation of the Company stipulate that a resolution by the Board of Directors may exempt Directors and Auditors (including former Directors and Auditors) from liability for damages due to neglect of duties within the limit provided for by laws and regulations when there is good faith and no gross negligence. The objective of this is for Directors and Auditors to adequately fulfill their expected duties without the chilling effect due to the possibility of bearing excessive liability.

B. Acquisition of treasury shares

Pursuant to the provision of Article 165, paragraph 2 of the Companies Act, the Articles of Incorporation stipulate that the Company may acquire treasury shares in market and other transactions based on the resolution of the Board of Directors. The objective of this is the flexible implementation of capital strategy in response to changes in economic and other conditions.

C. Dividend policy

As prescribed in the Articles of Incorporation, the Company has adopted an interim dividend system, as provided for by the provisions of Article 454, paragraph 5 of the Companies Act, and the Board of Directors is the organizational body that determines the interim dividend. The objective of this is the flexible payment of dividends.

(2) Details of audit fee, etc.

i) Details of remuneration to certified public accountants

Category	Fiscal year ended March 31, 2013		Fiscal year ended March 31, 2014	
	Fees for audit certification services (Thousands of yen)	Fees for non-audit services (Thousands of yen)	Fees for audit certification services (Thousands of yen)	Fees for non-audit services (Thousands of yen)
Reporting company	23,000	–	18,000	–
Consolidated subsidiaries	–	–	–	–
Total	23,000	–	18,000	–

ii) Other material remuneration to certified public accountants

Not applicable.

iii) Details of non-audit services rendered by certified public accountants

Not applicable.

iv) Policy on determining audit fee

Not applicable.

V. Financial information

1. Preparation policy of the consolidated financial statements

   The consolidated financial statements of the Company are prepared in accordance with the "Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements" (Ordinance of the Ministry of Finance No. 28 of 1976; hereinafter referred to as the "Ordinance on Consolidated Financial Statements").

   The comparative information included in the consolidated financial statements for the current fiscal year (from April 1, 2013 to March 31, 2014) was prepared based on the Ordinance on Consolidated Financial Statements before its revision, pursuant to Article 3, paragraph 2 of the Supplementary Provisions of the "Cabinet Office Ordinance for Partial Revision of the Ordinance on Terminology, Forms and Preparation Methods of Financial Statements, etc." (Cabinet Office Ordinance No. 61 of September 21, 2012).

2. Audit certification

   The consolidated financial statements for the fiscal year from April 1, 2013 to March 31, 2014 were audited by KPMG AZSA LLC in accordance with Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act.

3. Remarkable efforts to ensure fair presentation of consolidated financial statements, etc.

   The Company takes remarkable efforts to ensure fair presentation of consolidated financial statements, etc. Specifically, to ensure correct understanding of accounting standards, etc. and organize the system capable of responding to these accounting standards, the Company has a subscription to specialized magazines explaining accounting standards and systems, and attends training seminars held by external institutions including audit firms on changes of accounting standards and other topics.

Consolidated financial statements, etc.

(1) Consolidated financial statements

i) Consolidated balance sheet

(Thousands of yen)

	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)
Assets		
Current assets		
Cash and deposits	1,256,836	1,507,418
Accounts receivable - trade	657,064	764,396
Securities	–	300,000
Merchandise and finished goods	63,788	80,724
Raw materials and supplies	12,310	16,340
Advance payments - trade	82,943	89,002
Deferred tax assets	274,911	347,399
Other	66,108	51,614
Total current assets	2,413,964	3,156,896
Non-current assets		
Property, plant and equipment		
Buildings	79,417	79,417
Accumulated depreciation	(65,002)	(71,013)
Buildings, net	14,415	8,404
Vehicles	4,801	5,253
Accumulated depreciation	(320)	(1,401)
Vehicles, net	4,480	3,852
Tools, furniture and fixtures	94,969	101,393
Accumulated depreciation	(81,930)	(89,525)
Tools, furniture and fixtures, net	13,039	11,867
Leased assets	20,028	–
Accumulated depreciation	(17,941)	–
Leased assets, net	2,086	–
Total property, plant and equipment	34,021	24,124
Intangible assets		
Trademark right	46,814	19,851
Software	665,473	677,522
Other	59,827	138,804
Total intangible assets	772,115	836,177
Investments and other assets		
Investment securities	8,980	8,250
Deferred tax assets	47,150	41,310
Other	* 168,418	62,104
Allowance for doubtful accounts	–	(8,556)
Total investments and other assets	224,549	103,108
Total non-current assets	1,030,687	963,410
Total assets	3,444,651	4,120,306

(Thousands of yen)

	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)
Liabilities		
Current liabilities		
Accounts payable - trade	207,085	206,345
Short-term loans payable	137,244	20,000
Current portion of long-term loans payable	352,128	352,128
Accounts payable - other	341,876	269,749
Income taxes payable	58,217	73,506
Provision for bonuses	8,312	14,731
Provision for sales returns	62,024	55,306
Provision for after-sale services	75,456	26,206
Other	124,221	146,316
Total current liabilities	1,366,567	1,164,290
Non-current liabilities		
Long-term loans payable	519,808	167,680
Other	193	–
Total non-current liabilities	520,001	167,680
Total liabilities	1,886,568	1,331,970
Net assets		
Shareholders’ equity		
Capital stock	1,771,226	1,771,226
Capital surplus	1,611,226	1,611,226
Retained earnings	(1,825,282)	(604,603)
Treasury shares	–	(1)
Total shareholders’ equity	1,557,170	2,777,847
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(376)	(1,106)
Foreign currency translation adjustment	1,288	2,207
Total accumulated other comprehensive income	912	1,101
Subscription rights to shares	–	9,386
Total net assets	1,558,082	2,788,335
Total liabilities and net assets	3,444,651	4,120,306

ii) Consolidated statement of income and consolidated statement of comprehensive income

Consolidated statement of income

(Thousands of yen)

	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)
Net sales	5,156,693	5,736,406
Cost of sales	*1 1,684,642	*1 1,506,785
Gross profit	3,472,051	4,229,621
Provision for sales returns	62,024	55,306
Reversal of provision for sales returns	79,141	62,024
Gross profit - net	3,489,167	4,236,339
Selling, general and administrative expenses		
Promotion expenses	411,788	439,246
Salaries	389,830	397,099
Provision of allowance for doubtful accounts	–	8,556
Provision for bonuses	8,312	14,731
Business consignment expenses	671,762	827,306
Other	*2 1,234,625	*2 1,303,685
Total selling, general and administrative expenses	2,716,318	2,990,626
Operating income	772,848	1,245,713
Non-operating income		
Interest income	471	958
Dividend income	–	160
Gain on adjustment of account payable	5,488	1,361
Reversal of provision for loss on liquidation of foreign subsidiaries	3,859	–
Other	105	578
Total non-operating income	9,925	3,058
Non-operating expenses		
Interest expenses	27,355	16,223
Foreign exchange losses	10,706	5,803
Commission fee	15,000	–
Other	960	1,208
Total non-operating expenses	54,022	23,235
Ordinary income	728,751	1,225,535
Extraordinary income		
Gain on liquidation of subsidiaries and associates	–	928
Contribution for development	–	20,730
Total extraordinary income	–	21,658
Extraordinary losses		
Loss on valuation of advance payments	13,570	4,339
Total extraordinary losses	13,570	4,339
Income before income taxes and minority interests	715,180	1,242,854
Income taxes - current	50,534	88,822
Income taxes - deferred	(140,533)	(66,647)
Total income taxes	(89,998)	22,175
Income before minority interests	805,179	1,220,678
Net income	805,179	1,220,678

Consolidated statement of comprehensive income

(Thousands of yen)

	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)
Income before minority interests	805,179	1,220,678
Other comprehensive income		
Valuation difference on available-for-sale securities	(376)	(730)
Foreign currency translation adjustment	1,288	919
Total other comprehensive income	* 912	* 189
Comprehensive income	806,091	1,220,868
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	806,091	1,220,868
Comprehensive income attributable to minority interests	–	–

iii) Consolidated statement of changes in equity

Previous fiscal year (From April 1, 2012 to March 31, 2013)

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,771,226	1,611,226	(2,630,462)	–	751,991
Changes of items during period					
Net income			805,179		805,179
Purchase of treasury shares					
Net changes of items other than shareholders' equity					
Total changes of items during period	–	–	805,179	–	805,179
Balance at end of current period	1,771,226	1,611,226	(1,825,282)	–	1,557,170

	Accumulated other comprehensive income			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	–	–	–	–	751,991
Changes of items during period					
Net income					805,179
Purchase of treasury shares					–
Net changes of items other than shareholders' equity	(376)	1,288	912	–	912
Total changes of items during period	(376)	1,288	912	–	806,091
Balance at end of current period	(376)	1,288	912	–	1,558,082

Current fiscal year (From April 1, 2013 to March 31, 2014)

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,771,226	1,611,226	(1,825,282)	–	1,557,170
Changes of items during period					
Net income			1,220,678		1,220,678
Purchase of treasury shares				(1)	(1)
Net changes of items other than shareholders' equity					
Total changes of items during period	–	–	1,220,678	(1)	1,220,677
Balance at end of current period	1,771,226	1,611,226	(604,603)	(1)	2,777,847

	Accumulated other comprehensive income			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	(376)	1,288	912	–	1,558,082
Changes of items during period					
Net income					1,220,678
Purchase of treasury shares					(1)
Net changes of items other than shareholders' equity	(730)	919	189	9,386	9,575
Total changes of items during period	(730)	919	189	9,386	1,230,252
Balance at end of current period	(1,106)	2,207	1,101	9,386	2,788,335

iv) Consolidated statement of cash flows

(Thousands of yen)

	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)
Cash flows from operating activities		
Income before income taxes and minority interests	715,180	1,242,854
Depreciation	189,049	172,014
Amortization of software	184,156	221,147
Share-based compensation expenses	–	9,386
Amortization of trademark right	72,975	31,858
Increase (decrease) in allowance for doubtful accounts	–	8,556
Increase (decrease) in provision for bonuses	5,297	6,418
Increase (decrease) in provision for sales returns	(17,116)	(6,718)
Increase (decrease) in provision for after-sale services	12,870	(49,249)
Increase (decrease) in provision for loss on liquidation of foreign subsidiaries	(3,859)	–
Interest and dividend income	(471)	(1,118)
Interest expenses	27,355	16,223
Commission fee	15,000	–
Loss (gain) on liquidation of subsidiaries and associates	–	(928)
Decrease (increase) in notes and accounts receivable - trade	47,651	(107,331)
Decrease (increase) in inventories	50,885	(20,966)
Decrease (increase) in advance payments	48,829	(6,058)
Increase (decrease) in notes and accounts payable - trade	2,616	(740)
Increase (decrease) in accounts payable - other	31,977	(51,796)
Other, net	(73,504)	37,765
Subtotal	1,308,894	1,501,317
Interest and dividend income received	303	1,183
Interest expenses paid	(20,983)	(17,596)
Income taxes paid	(2,534)	(74,778)
Net cash provided by (used in) operating activities	1,285,679	1,410,125
Cash flows from investing activities		
Payments into time deposits	(300,000)	(200,000)
Proceeds from withdrawal of time deposits	–	500,000
Purchase of property, plant and equipment	(10,711)	(8,484)
Purchase of software	(422,345)	(439,328)
Purchase of trademark right	(26,666)	(51,800)
Purchase of investment securities	(9,356)	–
Payments for lease and guarantee deposits	(300)	–
Proceeds from collection of lease and guarantee deposits	–	48,335
Net cash provided by (used in) investing activities	(769,380)	(151,278)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(253,000)	(57,000)
Proceeds from long-term loans payable	1,048,000	–
Repayments of long-term loans payable	(1,303,146)	(352,128)
Commission fee paid	(15,000)	–
Repayments of lease obligations	(5,074)	(3,224)
Purchase of treasury shares	–	(1)
Net cash provided by (used in) financing activities	(528,220)	(412,354)
Effect of exchange rate change on cash and cash equivalents	1,430	4,089
Net increase (decrease) in cash and cash equivalents	(10,491)	850,582
Cash and cash equivalents at beginning of period	967,328	956,836
Cash and cash equivalents at end of period	* 956,836	* 1,807,418

Notes

Significant matters forming the basis of preparing the consolidated financial statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries 1

Name of consolidated subsidiary SOURCENEXT Inc.

All the shares of CHOUJIMAKU Corporation were sold in the current fiscal year, and thus this company was excluded from the scope of consolidation. However, profits and losses of this company generated until the shares were sold are included in the consolidated statement of income.

(2) Names of non-consolidated subsidiaries

Not applicable.

2. Application of equity method

Not applicable.

3. Fiscal years, etc. of consolidated subsidiaries

The consolidated subsidiary whose balance sheet date is different from the consolidated balance sheet date is as follows:

Company name	Balance sheet date
SOURCENEXT Inc.	December 31 *

* The financial data is based on the financial statements that were prepared on the basis of a provisional closing of its accounts as of the consolidated balance sheet date pursuant to procedures for the fiscal year-end closing.

4. Accounting policies

(1) Valuation bases and methods for significant assets

i) Securities

Other securities

Securities with available fair market values

Stated at fair value based on the market price or the like on the balance sheet date (unrealized gains and losses are included in a separate component of net assets, and cost of sales is determined based on the moving-average method).

Securities without available fair market values

Stated at cost using the moving-average method.

ii) Inventories

Merchandise and finished goods

Stated at cost using the gross average method (balance sheet amounts are determined based on the method of writing down book value in accordance with decreased profitability of assets).

Supplies

Stated at cost using the last purchase cost method (balance sheet amounts are determined based on the method of writing down book value in accordance with decreased profitability of assets).

(2) Depreciation and amortization methods for significant depreciable and amortizable assets

i) Property, plant and equipment (excluding leased assets)

Depreciated mainly using the declining-balance method.

The estimated useful lives of major items are as follows:

Buildings	six years
Tools, furniture and fixtures	five to eight years

ii) Intangible assets (excluding leased assets)

Software for commercial sale

Amortized at either the amortization amount based on projected sales profit, or the equally allocated amount based on the residual estimated useful life (three years), whichever is larger.

Software for internal use

Amortized using the straight-line method over the estimated useful life as internally determined (five years).

Trademark right

Amortized mainly using the straight-line method over five years.

iii) Leased assets

Leased assets in finance lease transactions that do not transfer ownership

Depreciated using the straight-line method assuming the lease periods as useful lives without residual value.

(3) Accounting policy for significant provisions

i) Allowance for doubtful accounts

To prepare for losses from bad debt, an estimated uncollectible amount is provided either by making an estimation using the historical rate of credit loss in the case of general receivables, or based on individual consideration of collectibility in the case of specific receivables such as highly doubtful receivables.

ii) Provision for sales returns

To prepare for losses from sales returns, provision for sales returns is provided based on the historical rate of sales returns.

iii) Provision for bonuses

To prepare for the payment of bonuses to employees, the amount based on the historical record and expected amount to be paid is provided.

iv) Provision for after-sale services

To prepare for the provision of after-sale update services for the ZERO series of products for free, provision for after-sale services is provided based on estimated expenses for those services expected to be incurred in the period that can be reasonably estimated, according to the sales performance, so that the expenses correspond to each product's sales amount that is planned in the period.

(4) Scope of cash and cash equivalents in consolidated statement of cash flows

The funds (cash and cash equivalents) consist of cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

(5) Other significant matters for preparing the consolidated financial statements

Accounting policy for consumption taxes

Items subject to consumption taxes are accounted for at amounts exclusive of consumption taxes.

Consolidated balance sheet

* Investments in non-consolidated subsidiaries

(Thousands of yen)

	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)
Other under investments and other assets (Investments in capital of subsidiaries and associates)	61,065	–

Consolidated statement of income

*1. The book value write-down of inventories held for ordinary sale due to their decreased profitability, etc. is as follows:

(Thousands of yen)

	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)
Valuation loss on finished goods	9,085	12,053
Loss on abandonment of finished goods	35,871	18,972

*2. Research and development expenses included in general and administrative expenses are as follows:

(Thousands of yen)

	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)
Research and development expenses	35,920	23,393

Consolidated statement of comprehensive income

* Reclassification adjustments and tax effects relating to other comprehensive income

(Thousands of yen)

	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)
Valuation difference on available-for-sale securities		
Amount arising during the year	(376)	(730)
Reclassification adjustments	–	–
Before tax effects adjustments	(376)	(730)
Tax effects	–	–
Valuation difference on available-for-sale securities	(376)	(730)
Foreign currency translation adjustment		
Amount arising during the year	1,288	919
Reclassification adjustments	–	–
Before tax effects adjustments	1,288	919
Tax effects	–	–
Foreign currency translation adjustment	1,288	919
Total other comprehensive income	912	189

Consolidated statement of changes in equity

Previous fiscal year (From April 1, 2012 to March 31, 2013)

1. Class and total number of issued shares and class and number of treasury shares

Class of shares	As of April 1, 2012	Increase	Decrease	As of March 31, 2013
Issued shares				
Common shares (Shares)	158,660	15,707,340	–	15,866,000
Total	158,660	15,707,340	–	15,866,000
Treasury shares				
Common shares (Shares)	–	–	–	–
Total	–	–	–	–

Note: The increase of 15,707,340 in the number of common shares is due to a 1:100 share split implemented on October 1, 2012.

2. Subscription rights to shares and treasury subscription rights to shares

   Not applicable.

3. Dividends

(1) Dividends paid

Not applicable.

(2) Dividends for which record date is in the current fiscal year with effective date in the following fiscal year

Not applicable.

Current fiscal year (From April 1, 2013 to March 31, 2014)

1. Class and total number of issued shares and class and number of treasury shares

Class of shares	As of April 1, 2013	Increase	Decrease	As of March 31, 2014
Issued shares				
Common shares (Shares)	15,866,000	15,866,000	–	31,732,000
Total	15,866,000	15,866,000	–	31,732,000
Treasury shares				
Common shares (Shares)	–	6	–	6
Total	–	6	–	6

Note: The increase of 15,866,000 in the total number of issued shares of common shares is due to a 1:2 share split implemented on September 1, 2013.

The increase of six in the number of treasury shares of common shares is due to purchase requests of fractional shares.

2. Subscription rights to shares and treasury subscription rights to shares

Category	Breakdown of subscription rights to shares	Class of shares to be issued upon exercise of subscription rights to shares	Number of shares to be issued upon exercise of subscription rights to shares (Shares)				Balance as of March 31, 2014 (Thousands of yen)
			As of April 1, 2013	Increase	Decrease	As of March 31, 2014	
Reporting company (Parent company)	Subscription rights to shares as stock options	–	–	–	–	–	9,386
Total			–	–	–	–	9,386

Note: The first day of the exercise period for the subscription rights to shares has not yet arrived.

3. Dividends

(1) Dividends paid

Not applicable.

(2) Dividends for which record date is in the current fiscal year with effective date in the following fiscal year

Not applicable.

Consolidated statement of cash flows

* Reconciliation of cash and cash equivalents at end of period and the amount recorded in the consolidated balance sheet

(Thousands of yen)

	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)
Cash and deposits	1,256,836	1,507,418
Time deposits with maturities over three months	(300,000)	–
Securities	–	300,000
Cash and cash equivalents	956,836	1,807,418

Leases

1. Finance lease transactions

Lessee

Finance lease transactions that do not transfer ownership

i) Leased assets

(A) Property, plant and equipment

EC systems

(B) Intangible assets

EC system software

ii) Depreciation method for leased assets

Depreciated using the straight-line method assuming the lease periods as useful lives without residual value.

2. Operating lease transactions

Future lease payments (non-cancellable)

Lessee

(Thousands of yen)

	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)
Within one year	36,759	–
Over one year	–	–
Total	36,759	–

Financial instruments

1. Status of financial instruments

(1) Policy for financial instruments

The Group limits the fund management method to short-term deposits, etc. The policy for financial instruments is to raise funds through bank loans and bond issues. The Group utilizes derivatives for the purposes of hedging the risks of interest rate fluctuations on loans payable and does not enter into speculative transactions.

(2) Content and risks of financial instruments and risk management system therefor

Accounts receivable - trade, which are operating receivables, are exposed to credit risks of customers. To control these risks, in accordance with the Company's credit management regulations, payment dates and balances are managed for each customer, and information on the credit status of major customers is obtained where appropriate.

Since securities are joint money trusts with characteristics similar to deposits and settled in a short period, their liquidity risks are considered low.

Investment securities are listed stocks and exposed to risks of market price fluctuations, but the fair values of those securities are obtained periodically.

Most of accounts payable - trade and accounts payable - other, which are operating debts, become due within one year.

Most of income taxes payable become due within two months.

Short-term loans payable are principally for raising ordinary operating funds, while long-term loans payable and bonds are mainly for raising funds for capital investment and investment in development of products. Loans payable with floating interest rates are exposed to risks of interest rate fluctuations, but the risks are considered low because of the insignificant amount of these loans.

Accounts payable, income taxes payable, loans payable and bonds are exposed to liquidity risks, but the Company manages these liabilities by formulating a funding plan where appropriate and other methods.

(3) Supplementary remarks on fair values of financial instruments

Fair values of financial instruments include prices based on market prices as well as values that are reasonably calculated if there is no market price. Because the calculation of such values incorporates variable factors, the values may vary in case where different assumptions, etc. are used.

2. Fair values of financial instruments

Carrying amounts, fair values and their differences are as follows. The amounts shown in the following tables do not include financial instruments whose fair values are deemed to be extremely difficult to determine (see Note 2).

Previous fiscal year (As of March 31, 2013)

(Thousands of yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	1,256,836	1,256,836	–
(2) Accounts receivable - trade	657,064	657,064	–
(3) Investment securities	8,980	8,980	–
Total assets	1,922,881	1,922,881	–
(1) Accounts payable - trade	207,085	207,085	–
(2) Accounts payable - other	341,876	341,876	–
(3) Short-term loans payable	137,244	137,244	–
(4) Income taxes payable	58,217	58,217	–
(5) Long-term loans payable (*)	871,936	874,892	2,956
Total liabilities	1,616,359	1,619,314	2,956

* Current portion of long-term loans payable is included.

Current fiscal year (As of March 31, 2014)

(Thousands of yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	1,507,418	1,507,418	–
(2) Accounts receivable - trade	764,396	764,396	–
(3) Securities	300,000	300,000	–
(4) Investment securities	8,250	8,250	–
Total assets	2,580,064	2,580,064	–
(1) Accounts payable - trade	206,345	206,345	–
(2) Accounts payable - other	269,749	269,749	–
(3) Short-term loans payable	20,000	20,000	–
(4) Income taxes payable	73,506	73,506	–
(5) Long-term loans payable (*)	519,808	519,808	–
Total liabilities	1,089,409	1,089,409	–

* Current portion of long-term loans payable is included.

Notes: 1. Methods of fair value measurement of financial instruments and matters relating to securities and derivative transactions

Assets

(1) Cash and deposits, (2) Accounts receivable - trade, (3) Securities

The book value is used as the fair value of these assets, given that the fair value is almost equivalent to the amount of the book value, as they are settled in a short time.

(4) Investment securities

Fair values of shares in investment securities are based on the prices on exchanges.

Liabilities

(1) Accounts payable - trade, (2) Accounts payable - other, (3) Short-term loans payable,
(4) Income taxes payable

The book value is used as the fair value of these liabilities, given that the fair value is almost equivalent to the amount of the book value, as they are settled in a short time.

(5) Long-term loans payable

Long-term loans payable were fully prepaid as of the end of April 2014. The book value is used as the fair value of long-term loans payable, given that the fair value is almost equivalent to the amount of the book value, like short-term loans payable.

2. Financial instruments whose fair values are deemed to be extremely difficult to determine

(Thousands of yen)

Category	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)
Investments in capital of subsidiaries and associates	61,065	–

The fair value of the above item is not presented because it has no market prices and its fair value is deemed to be extremely difficult to determine.

3. Redemption schedule for monetary receivables after the consolidated balance sheet date

Previous fiscal year (As of March 31, 2013)

(Thousands of yen)

	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	1,256,836	–	–	–
Accounts receivable - trade	657,064	–	–	–
Total	1,913,900	–	–	–

Current fiscal year (As of March 31, 2014)

(Thousands of yen)

	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	1,507,418	–	–	–
Accounts receivable - trade	764,396	–	–	–
Securities and investment securities				
Other securities with maturity	300,000	–	–	–
Total	2,571,814	–	–	–

4. Repayment schedule for long-term loans payable and other interest-bearing debts after the consolidated balance sheet date

Previous fiscal year (As of March 31, 2013)

(Thousands of yen)

	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term loans payable	137,244	–	–	–	–	–
Long-term loans payable	352,128	352,128	167,680	–	–	–
Total	489,372	352,128	167,680	–	–	–

Current fiscal year (As of March 31, 2014)

(Thousands of yen)

	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term loans payable	20,000	–	–	–	–	–
Long-term loans payable	352,128	167,680	–	–	–	–
Total	372,128	167,680	–	–	–	–

Note: Long-term loans payable were fully prepaid as of the end of April 2014. Short-term loans payable also became due at the end of May 2014 and were fully paid.

Securities

Other securities

Previous fiscal year (As of March 31, 2013)

(Thousands of yen)

	Type	Carrying amount	Acquisition cost	Difference
Items whose carrying amount exceeds acquisition cost	(1) Stocks	–	–	–
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	–	–	–
Items whose carrying amount does not exceed acquisition cost	(1) Stocks	8,980	9,356	(376)
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	8,980	9,356	(376)
Total		8,980	9,356	(376)

Current fiscal year (As of March 31, 2014)

(Thousands of yen)

	Type	Carrying amount	Acquisition cost	Difference
Items whose carrying amount exceeds acquisition cost	(1) Stocks	–	–	–
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	–	–	–
Items whose carrying amount does not exceed acquisition cost	(1) Stocks	8,250	9,356	(1,106)
	(2) Bonds	–	–	–
	(3) Other	300,000	300,000	–
	Subtotal	308,250	309,356	(1,106)
Total		308,250	309,356	(1,106)

Derivatives

Not applicable.

Retirement benefits

Not applicable.

Stock options, etc.

1. Account title and amount of stock options charged as expenses

(Thousands of yen)

	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)
Selling, general and administrative expenses (Other)	–	9,386

2. Details, size and changes in the number of stock options

(1) Details of stock options

Company name	Reporting company
Resolution date	August 29, 2013
Category and number of people to whom stock options are granted	79 employees of the Company
Class and number of shares granted	Common shares: 64,400 shares
Grant date	September 20, 2013
Vesting conditions	Holders of the subscription rights to shares are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the "Subscription Rights to Shares Allotment Agreement" entered into between the Company and the person who has been granted subscription rights to shares.
Vesting period	Not specified.
Exercise period	August 30, 2015 – August 29, 2023

(2) Size and changes in the number of stock options

The following describes the number of stock options that existed during the current fiscal year (fiscal year ended March 31, 2014). The number of stock options is translated into the number of shares.

i) Number of stock options

Company name	Reporting company
Resolution date	August 29, 2013
Before vested (Shares)	
As of March 31, 2013	–
Granted	64,400
Forfeited	3,800
Vested	–
Unvested	60,600
After vested (Shares)	
As of March 31, 2013	–
Vested	–
Exercised	–
Forfeited	–
Exercisable	–

ii) Per share price

Company name	Reporting company
Resolution date	August 29, 2013
Exercise price (Yen)	898
Average price per share upon exercise (Yen)	–
Fair value per share at grant date (Yen)	569

3. Method for estimating the fair value per share of stock options granted during the fiscal year ended March 31, 2014

(1) Valuation method Black-Scholes Model

(2) Main basic numerical values and estimation method

Volatility of share price (Note 1)	73.51%
Estimated remaining outstanding period (Note 2)	5.94 years
Estimated dividend (Note 3)	0 yen per share
Risk-free interest rate (Note 4)	0.293%

Notes: 1. Calculated based on the stock market performance in the period from October 12, 2007 to September 20, 2013.

2. With difficulty in reasonable estimation due to insufficient data, the remaining outstanding period is estimated based on the assumption that stock options would be exercised at a midpoint of exercise period.

3. Dividend was estimated to be zero yen based on the actual latest dividends.

4. This is the yield of Japanese Government bonds on September 20, 2019, the redemption date, on the base date for valuation.

4. Method for estimating the number of stock options vested

As it is difficult, in principle, to reasonably estimate the number of stock options that will be forfeited in the future, the number here reflects only stock options that have actually been forfeited.

Tax effect accounting

1. Breakdown of deferred tax assets and deferred tax liabilities by major cause

(Thousands of yen)

	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)
Deferred tax assets		
Valuation loss on finished goods	3,453	4,295
Provision for sales returns	23,575	19,711
Provision for after-sale services	28,680	9,340
Loss on valuation of advance payments	4,942	1,716
Amortization of software	17,155	12,527
Amortization of trademark right	144,277	114,231
Loss carried forward	987,567	601,561
Other	30,248	36,259
Subtotal	1,239,902	799,643
Valuation allowance	(917,840)	(410,934)
Total deferred tax assets	322,062	388,709
Net deferred tax assets	322,062	388,709

2. Breakdown of the main items that caused differences between the normal effective statutory tax rate and the actual effective tax rate after tax effect accounting

	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)
Normal effective statutory tax rate	38.0%	38.0%
(Adjustments)		
Permanent differences not deductible for tax purposes such as entertainment expenses	0.8%	0.7%
Per capita inhabitant taxes	0.3%	0.2%
Reduction in year-end deferred tax assets due to tax rate change	–	2.1%
Valuation allowance	(51.1)%	(38.3)%
Other	(0.6)%	(0.9)%
Actual effective tax rate after tax effect accounting	(12.6)%	1.8%

3. Adjustment of deferred tax assets and liabilities due to change in corporate tax rates

   On March 31, 2014, the government promulgated the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 10 of 2014), which repeals the special reconstruction corporation surtax effective from the fiscal year starting on and after April 1, 2014. Accordingly, the normal effective statutory tax rate of 38.0% applied for the previous fiscal year in calculating the amount of deferred tax assets and liabilities has been reduced to 35.6% for the current fiscal year with respect to the temporary differences expected to be resolved in the fiscal year beginning April 1, 2014.

   As a result, net deferred tax assets decreased by 25,848 thousand yen and income taxes - deferred recorded in the current fiscal year decreased by 25,848 thousand yen.

Asset retirement obligations

The Company recognized obligations to restore the property to its original condition at the time of leaving it as asset retirement obligations under the real estate leasing agreement for the head office.

For the asset retirement obligations, the Company used the method where the amount of leasehold deposits under the real estate leasing agreement that are eventually unlikely to be collected is reasonably estimated and the portion of this estimated amount that is borne in the current fiscal year is recorded as expenses, instead of recording such obligations as liabilities.

Segment information, etc.

Segment information

Previous fiscal year (From April 1, 2012 to March 31, 2013)

Segment information has been omitted since the Group operates a single segment of the planning, development and sales of software and other services business.

Current fiscal year (From April 1, 2013 to March 31, 2014)

Segment information has been omitted since the Group operates a single segment of the planning, development and sales of software and other services business.

Information associated with reportable segments

Previous fiscal year (From April 1, 2012 to March 31, 2013)

1. Information by product and service

   This information has been omitted as net sales to external customers in a single product and service category account for more than 90% of net sales recorded on the consolidated statement of income.

2. Geographical information

(1) Net sales

This information has been omitted as net sales to external customers in Japan account for more than 90% of net sales recorded on the consolidated statement of income.

(2) Property, plant and equipment

(Thousands of yen)

Japan	United States	Total
29,462	4,559	34,021

3. Information by major customer

   This information has been omitted as there is no external customer that accounts for 10% or more of net sales recorded on the consolidated statement of income.

Current fiscal year (From April 1, 2013 to March 31, 2014)

1. Information by product and service

   This information has been omitted as net sales to external customers in a single product and service category account for more than 90% of net sales recorded on the consolidated statement of income.

2. Geographical information

(1) Net sales

This information has been omitted as net sales to external customers in Japan account for more than 90% of net sales recorded on the consolidated statement of income.

(2) Property, plant and equipment

(Thousands of yen)

Japan	United States	Total
20,221	3,903	24,124

3. Information by major customer

(Thousands of yen)

Name of customer	Net sales	Related segment
KDDI CORPORATION	596,540	Software-related business

Information on impairment loss on non-current assets by reportable segment

Not applicable.

Information on amortization and unamortized balance of goodwill by reportable segment

Not applicable.

Information on gain on bargain purchase by reportable segment

Not applicable.

Related parties

1. Transactions with related parties

(1) Transactions between the company submitting consolidated financial statements and related parties

(A) Parent company and major shareholders (limited to companies, etc.) of the company submitting consolidated financial statements

Previous fiscal year (From April 1, 2012 to March 31, 2013)

Not applicable.

Current fiscal year (From April 1, 2013 to March 31, 2014)

Type	Name	Location	Capital stock or investments in capital (Thousands of yen)	Nature of business or occupation	Voting rights holding (held) (%)	Relationship	Transaction details	Transaction amount (Thousands of yen)	Account title	Balance as of March 31, 2014 (Thousands of yen)
Major shareholder	Yodobashi Camera Co., Ltd.	Shinjuku-ku, Tokyo	30,000	Retail business	(Held) Direct 11.3	Sale of finished goods (Note 2)	Sale of finished goods	278,058	Accounts receivable - trade	45,896

Notes: 1. The transaction amount does not include consumption taxes while the balance as of the fiscal year end does.

2. Determined in the same way as general terms and conditions.

(B) Non-consolidated subsidiaries and associates of the company submitting consolidated financial statements

Previous fiscal year (From April 1, 2012 to March 31, 2013)

Type	Name	Location	Capital stock or investments in capital (Thousands of euro)	Nature of business or occupation	Voting rights holding (held) (%)	Relationship	Transaction details	Transaction amount (Thousands of yen)	Account title	Balance as of March 31, 2013 (Thousands of yen)
Non-consolidated subsidiary	SOURCENEXT GmbH (Note 1)	Düsseldorf, Germany	500	Dormant company	(Holding) Direct 100.0	Interlocking of Directors or Auditors	Payment of interest (Note 2)	1,498 (9 thousand euro)	Short-term loans payable	60,244 (499 thousand euro)
									Accrued expenses	4,444 (36 thousand euro)

Current fiscal year (From April 1, 2013 to March 31, 2014)

Type	Name	Location	Capital stock or investments in capital (Thousands of euro)	Nature of business or occupation	Voting rights holding (held) (%)	Relationship	Transaction details	Transaction amount (Thousands of yen)	Account title	Balance as of March 31, 2014 (Thousands of yen)
Non-consolidated subsidiary	SOURCENEXT GmbH (Note 1)	Düsseldorf, Germany	500	Liquidated company	(Holding) Direct 100.0	Interlocking of Directors or Auditors	Repayment of loans payable	60,244 (499 thousand euro)	–	–

Notes: 1. The liquidation of SOURCENEXT GmbH was completed as of March 31, 2014.

2. Interest rates for loans (denominated in euro) are reasonably determined in consideration of the market interest rate.

(C) Directors and Auditors, and major shareholders (limited to individuals) of the company submitting consolidated financial statements

Previous fiscal year (From April 1, 2012 to March 31, 2013)

Type	Name	Location	Capital stock or investments in capital (Thousands of yen)	Nature of business or occupation	Voting rights holding (held) (%)	Relationship	Transaction details	Transaction amount (Thousands of yen)	Account title	Balance as of March 31, 2013 (Thousands of yen)
Company, etc. of which the majority of voting rights are held by a Director, Auditor, and his or her close family member (including a subsidiary of the company, etc.)	HIBIYA PARK LAW OFFICES	Chiyoda-ku, Tokyo	–	Law office	–	–	Attorney's fee (Note 2)	15,700	–	–

Current fiscal year (From April 1, 2013 to March 31, 2014)

Type	Name	Location	Capital stock or investments in capital (Thousands of yen)	Nature of business or occupation	Voting rights holding (held) (%)	Relationship	Transaction details	Transaction amount (Thousands of yen)	Account title	Balance as of March 31, 2014 (Thousands of yen)
Company, etc. of which the majority of voting rights are held by a Director, Auditor, and his or her close family member (including a subsidiary of the company, etc.)	HIBIYA PARK LAW OFFICES	Chiyoda-ku, Tokyo	–	Law office	–	–	Attorney's fee (Note 2)	16,200	–	–

Notes: 1. The transaction amount does not include consumption taxes while the balance as of the fiscal year end does.

2. Attorney's fees are determined under the same conditions as fees for other attorneys by reference to the previous compensation standards regulations established by the Japan Federation of Bar Associations.

(2) Transactions between consolidated subsidiaries of the company submitting consolidated financial statements and related parties

Not applicable.

2. Notes on the parent company and significant associates

Not applicable.

Special purpose entities subject to disclosure

Not applicable.

Per share information

	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)
Net assets per share	49.10 yen	87.87 yen
Net income per share	25.37 yen	38.47 yen

Notes: 1. Diluted net income per share is not presented because there were no potential shares for the previous fiscal year and there were no potential shares with dilutive effects for the current fiscal year.

2. The Company implemented a 1:100 share split on common shares on October 1, 2012. Furthermore, the Company implemented a 1:2 share split on common shares on September 1, 2013. Accordingly, net assets per share and net income per share are calculated on the assumption that the said share splits were implemented at the beginning of the previous fiscal year.

3. The basis for calculation of net income per share is as follows:

	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)
Net income recorded on the consolidated statement of income (Thousands of yen)	805,179	1,220,678
Amounts not attributable to common shareholders (Thousands of yen)	–	–
Net income related to common shares (Thousands of yen)	805,179	1,220,678
Average number of common shares outstanding during the period (Shares)	31,732,000	31,731,995
Potential shares excluded from the calculation of diluted net income per share because they do not have dilutive effects	–	Stock options resolved at the Board of Directors meeting held on August 29, 2013 Common shares: 60,600 shares

Note: The Company implemented a 1:100 share split on common shares on October 1, 2012. Furthermore, the Company implemented a 1:2 share split on common shares on September 1, 2013. Accordingly, the above average numbers of common shares outstanding during the period are calculated on the assumption that the said share splits were implemented at the beginning of the previous fiscal year.

Significant events after reporting period

Not applicable.

v) Annexed consolidated detailed schedules

Annexed consolidated detailed schedule of corporate bonds

Not applicable.

Annexed consolidated detailed schedule of borrowings

Category	Balance as of April 1, 2013 (Thousands of yen)	Balance as of March 31, 2014 (Thousands of yen)	Average interest rate (%)	Repayment date
Short-term loans payable	137,244	20,000	1.15	–
Current portion of long-term loans payable	352,128	352,128	1.98	–
Current portion of lease obligations	3,224	–	5.14	–
Long-term loans payable (excluding current portion)	519,808	167,680	1.98	July 2015
Lease obligations (excluding current portion)	–	–	–	–
Other interest-bearing debts	–	–	–	–
Total	1,012,405	539,808	–	–

Notes: 1. The average interest rate represents the weighted-average rate applicable to the year-end balance of the loans payable and others.

2. The above current portion of long-term loans payable and long-term loans payable were fully prepaid as of the end of April 2014. Short-term loans payable also became due at the end of May 2014 and were fully paid.

Annexed consolidated detailed schedule of asset retirement obligations

For the asset retirement obligations, the Company used the method where the amount of leasehold deposits under the real estate leasing agreement that are eventually unlikely to be collected is reasonably estimated and the portion of this estimated amount that is borne in the current fiscal year is recorded as expenses, instead of recording such obligations as liabilities. Thus, there is nothing to be reported in this section.

(2) Other information

Quarterly information for the fiscal year ended March 31, 2014

(Cumulative period)	First three months	First six months	First nine months	Current fiscal year
Net sales (Thousands of yen)	1,262,076	2,634,750	4,412,917	5,736,406
Income before income taxes and minority interests (Thousands of yen)	261,847	504,213	982,815	1,242,854
Net income (Thousands of yen)	293,974	575,598	1,046,809	1,220,678
Net income per share (Yen)	9.26	18.14	32.99	38.47

Note: The Company implemented a 1:2 share split on common shares on September 1, 2013. Accordingly, net income per share is calculated on the assumption that the said share split was implemented at the beginning of the fiscal year.

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Net income per share (Yen)	9.26	8.88	14.85	5.48

Note: The Company implemented a 1:2 share split on common shares on September 1, 2013. Accordingly, net income per share is calculated on the assumption that the said share split was implemented at the beginning of the fiscal year.

VI. Overview of operational procedures for shares

Fiscal year	From April 1 to March 31
Annual Shareholders Meeting	Within three months after the closing of the fiscal year
Record date	March 31
Record dates for dividends of surplus	September 30 March 31
Number of shares per share unit	100 shares
Purchase of fractional shares	
Office for handling business	(Special account) 1-4-1 Marunouchi, Chiyoda-ku, Tokyo Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Limited
Shareholder register administrator	(Special account) 1-4-1 Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited
Forwarding office	—
Handling charge for purchase	No charge
Method of public notice	The public notices of the Company shall be given by electronic means. Provided, however, in case of unavoidable circumstances such as an accident which prevent the use of the public notice by electronic means, they shall be placed in the Nihon Keizai (Nikkei) Shimbun. The electronic public notices are presented at the following Web site: http://www.sourcenext.com.
Special benefits for shareholders	Not applicable.

Note: The rights of shareholders holding fractional shares were established by resolution on the partial amendment of the Articles of Incorporation at the 18th Annual Shareholders Meeting held on June 23, 2014. The holders of the Company's fractional shares shall not be entitled to exercise the rights of shareholders in connection with such fractional shares other than those rights listed below:

- Right set forth in items of Article 189, paragraph 2 of the Companies Act
- Right to make requests pursuant to the provisions of Article 166, paragraph 1 of the Companies Act
- Right to receive an allotment of shares for subscription or an allotment of subscription rights to shares for subscription in accordance with the number of shares held by the shareholder

VII. Reference information of reporting company

1. Information about parent company, etc. of reporting company

   The Company does not have a parent company, etc.

2. Other reference information

   From the beginning of this fiscal year until the filing date of this Annual Securities Report, the Company has filed the following documents.

(1) Annual Securities Report and Appendices, and Written Confirmation

17th term (from April 1, 2012 to March 31, 2013)

Filed to Director-General of Kanto Local Finance Bureau on June 26, 2013

(2) Internal Control Report and Appendices

Filed to Director-General of Kanto Local Finance Bureau on June 26, 2013

(3) Quarterly Securities Reports and Written Confirmations

1st quarter of the 18th term (from April 1, 2013 to June 30, 2013)

Filed to Director-General of Kanto Local Finance Bureau on August 7, 2013

2nd quarter of the 18th term (from July 1, 2013 to September 30, 2013)

Filed to Director-General of Kanto Local Finance Bureau on November 7, 2013

3rd quarter of the 18th term (from October 1, 2013 to December 31, 2013)

Filed to Director-General of Kanto Local Finance Bureau on February 12, 2014

(4) Extraordinary Securities Reports

Extraordinary Securities Report based on Article 19, paragraph 2, item 9-2 (Results of exercise of voting rights at the Shareholders Meeting) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Filed to Director-General of Kanto Local Finance Bureau on June 26, 2013

B. Information about company which provides guarantee to reporting company

Not applicable.