

Translation

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Summary of Consolidated Financial Results for the Six Months Ended September 30, 2014 (Based on Japanese GAAP)

November 14, 2014

Company name: SOURCENEXT CORPORATION
 Stock exchange listing: Tokyo
 Stock code: 4344 URL <http://www.sourcenext.com>
 Representative: President and CEO Noriyuki Matsuda
 Inquiries: Managing Director Fumihiko Aoyama TEL 03-6430-6406
 Scheduled date to file Quarterly Securities Report: November 14, 2014
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for analysts and institutional investors)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the six months ended September 30, 2014 (from April 1, 2014 to September 30, 2014)

(1) Consolidated financial results (cumulative)

Percentages indicate year-on-year changes

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2014	2,755	4.6	608	17.6	616	22.5	692	20.4
Six months ended September 30, 2013	2,634	9.6	517	64.2	503	70.4	575	78.1

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2014	21.84	–
Six months ended September 30, 2013	18.14	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2014	4,383	3,491	79.3	110.04
As of March 31, 2014	4,120	2,788	67.4	87.87

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2014	–	0.00	–	0.00	0.00
Year ending March 31, 2015	–	0.00	–	–	–
Year ending March 31, 2015 (Forecast)	–	–	–	3.59	3.59

3. Forecast of consolidated financial results for the year ending March 31, 2015 (from April 1, 2014 to March 31, 2015)

Percentages indicate year-on-year changes

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	6,153	7.3	1,303	4.6	1,302	6.3	1,140	(6.6)	35.93

4. Notes

- (1) Changes in significant subsidiaries during the six months ended September 30, 2014
(changes in specified subsidiaries resulting in the change in scope of consolidation): No
- (2) Application of special accounting methods for preparing quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements
- Changes in accounting policies due to revisions to accounting standards and other regulations: No
- Changes in accounting policies due to other reasons: No
- Changes in accounting estimates: No
- Restatement of prior period financial statements: No

(4) Number of issued shares (common shares)

Total number of issued shares at the end of the period (including treasury shares)

As of September 30, 2014	31,732,000 shares	As of March 31, 2014	31,732,000 shares
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Number of treasury shares at the end of the period

As of September 30, 2014	6 shares	As of March 31, 2014	6 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2014	31,731,994 shares	Six months ended September 30, 2013	31,731,997 shares
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Quarterly consolidated financial statements

Consolidated balance sheets

(Thousands of yen)

	As of March 31, 2014	As of September 30, 2014
Assets		
Current assets		
Cash and deposits	1,507,418	1,619,519
Accounts receivable - trade	764,396	935,367
Securities	300,000	—
Merchandise and finished goods	80,724	101,213
Raw materials and supplies	16,340	34,370
Advance payments - trade	89,002	106,229
Deferred tax assets	347,399	472,387
Other	51,614	52,541
Total current assets	3,156,896	3,321,629
Non-current assets		
Property, plant and equipment		
Property, plant and equipment	186,064	188,454
Accumulated depreciation	(161,940)	(168,150)
Total property, plant and equipment	24,124	20,303
Intangible assets		
Software	677,522	810,125
Other	158,655	127,790
Total intangible assets	836,177	937,915
Investments and other assets		
Deferred tax assets	41,310	42,731
Other	70,354	62,770
Allowance for doubtful accounts	(8,556)	(1,800)
Total investments and other assets	103,108	103,702
Total non-current assets	963,410	1,061,921
Total assets	4,120,306	4,383,550
Liabilities		
Current liabilities		
Accounts payable - trade	206,345	238,145
Short-term loans payable	20,000	—
Current portion of long-term loans payable	352,128	—
Accounts payable - other	269,749	355,204
Income taxes payable	73,506	51,032
Provision for bonuses	14,731	12,461
Provision for sales returns	55,306	23,964
Provision for after service cost	26,206	21,698
Other	146,316	150,067
Total current liabilities	1,164,290	852,574

	(Thousands of yen)	
	As of March 31, 2014	As of September 30, 2014
Non-current liabilities		
Long-term loans payable	167,680	–
Other	–	39,221
Total non-current liabilities	167,680	39,221
Total liabilities	1,331,970	891,795
Net assets		
Shareholders' equity		
Capital stock	1,771,226	1,771,226
Capital surplus	1,611,226	1,611,226
Retained earnings	(604,603)	88,395
Treasury shares	(1)	(1)
Total shareholders' equity	2,777,847	3,470,847
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(1,106)	291
Foreign currency translation adjustment	2,207	3,317
Total accumulated other comprehensive income	1,101	3,608
Subscription rights to shares	9,386	17,298
Total net assets	2,788,335	3,491,755
Total liabilities and net assets	4,120,306	4,383,550

Consolidated statements of income (cumulative) and consolidated statements of comprehensive income (cumulative)

Consolidated statements of income (cumulative)

(Thousands of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Net sales	2,634,750	2,755,520
Cost of sales	709,460	701,023
Gross profit	1,925,290	2,054,496
Provision for sales returns	42,473	23,964
Reversal of provision for sales returns	62,024	55,306
Gross profit - net	1,944,841	2,085,838
Selling, general and administrative expenses	1,427,629	1,477,559
Operating income	517,212	608,279
Non-operating income		
Interest income	479	181
Dividend income	—	160
Gain on adjustment of account payable	1,361	5,095
Refunded consumption taxes	—	1,921
Contribution for development	—	2,916
Other	14	479
Total non-operating income	1,855	10,754
Non-operating expenses		
Interest expenses	9,489	872
Foreign exchange losses	5,756	1,036
Other	500	324
Total non-operating expenses	15,746	2,232
Ordinary income	503,321	616,801
Extraordinary income		
Gain on liquidation of subsidiaries and associates	3,195	—
Total extraordinary income	3,195	—
Extraordinary losses		
Loss on valuation of Advance payments	2,304	1,702
Total extraordinary losses	2,304	1,702
Income before income taxes and minority interests	504,213	615,099
Income taxes - current	34,110	48,670
Income taxes - deferred	(105,495)	(126,571)
Total income taxes	(71,385)	(77,900)
Income before minority interests	575,598	692,999
Net income	575,598	692,999

Consolidated statements of comprehensive income (cumulative)

(Thousands of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Income before minority interests	575,598	692,999
Other comprehensive income		
Valuation difference on available-for-sale securities	(550)	1,398
Foreign currency translation adjustment	404	1,109
Total other comprehensive income	(145)	2,507
Comprehensive income	575,452	695,507
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	575,452	695,507
Comprehensive income attributable to minority interests	—	—

Consolidated statements of cash flows

(Thousands of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Cash flows from operating activities		
Income before income taxes and minority interests	504,213	615,099
Depreciation	86,381	82,665
Amortization of software	114,196	108,369
Share-based compensation expenses	–	7,912
Amortization of trademark right	29,345	2,513
Increase (decrease) in provision for bonuses	1,996	(2,270)
Increase (decrease) in provision for sales returns	(19,551)	(31,342)
Provision for after cost periods adjustment	(52,855)	(4,508)
Interest and dividend income	(479)	(341)
Interest expenses	9,489	872
Loss (gain) on liquidation of subsidiaries and associates	(3,195)	–
Decrease (increase) in notes and accounts receivable - trade	(137,147)	(170,971)
Decrease (increase) in inventories	(17,130)	(38,518)
Decrease (increase) in advance payments	(58,579)	(17,226)
Increase (decrease) in notes and accounts payable - trade	(34,997)	31,800
Increase (decrease) in accounts payable - other	(154)	52,145
Other, net	(6,100)	42,356
Subtotal	415,432	678,555
Interest and dividend income received	439	444
Interest expenses paid	(9,052)	(2,512)
Income taxes paid	(50,444)	(69,855)
Net cash provided by (used in) operating activities	356,374	606,632
Cash flows from investing activities		
Payments into time deposits	(200,000)	–
Proceeds from withdrawal of time deposits	300,000	–
Purchase of property, plant and equipment	(4,521)	(857)
Purchase of software	(290,151)	(256,870)
Purchase of trademark right	(51,800)	–
Net cash provided by (used in) investing activities	(246,473)	(257,727)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	55,000	(20,000)
Repayments of long-term loans payable	(176,064)	(519,808)
Repayments of lease obligations	(2,631)	–
Purchase of treasury shares	(1)	–
Net cash provided by (used in) financing activities	(123,697)	(539,808)
Effect of exchange rate change on cash and cash equivalents	971	3,003
Net increase (decrease) in cash and cash equivalents	(12,825)	(187,899)
Cash and cash equivalents at beginning of period	956,836	1,807,418
Cash and cash equivalents at end of period	944,011	1,619,519