

Brief Statement of Accounts (Japanese Accounting Standards) for the First Three Quarters of the Year Ending March 31, 2014 (Consolidated)

January 31, 2014

MegaChips Corporation

Code number: 6875

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Scheduled date for submission of quarterly report: February 12, 2014

Scheduled date of start of payment of dividends: –

Supplementary documents for quarterly results: Yes

Quarterly results briefing: Yes (for institutional investors and analysts)

(Amounts less than one million yen are omitted)

1. Consolidated operating results for the first three quarters of the year ending March 31, 2014

(From April 1, 2013 to December 31, 2013)

(1) Consolidated operating results (Figures in % refer to change from the same period a year earlier)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First three quarters of the year ending March 31, 2014	46,721	14.2	3,885	3.3	3,940	2.4	4,902	32.1
First three quarters of the year ended March 31, 2013	40,919	39.9	3,761	21.0	3,846	14.1	3,711	67.8

(Note) Comprehensive income: ¥5,204 million (46.5%) for the first three quarters of the year ending March 31, 2014
¥3,552 million (–%) for the first three quarters of the year ending March 31, 2013

	Net income per share	Net income per share (fully diluted)
	Yen	Yen
First three quarters of the year ending March 31, 2014	209.96	–
First three quarters of the year ended March 31, 2013	155.76	–

(2) Consolidated financial condition

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
First three quarters of the year ending March 31, 2014	51,614	32,006	62.0	1,370.78
Year ended March 31, 2013	44,075	27,595	62.6	1,181.89

(Reference) Shareholders' equity: As of the first three quarters of the year ending March 31, 2014: ¥32,006 million
Year ended March 31, 2013: ¥27,595 million

2. Dividends

	Dividend per share				
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2013	–	–	–	34.00	34.00
Year ending March 31, 2014	–	–	–		
Year ending March 31, 2014 (forecast)				–	–

(Note) Revisions made to the forecasts dividend published most recently: No

We pay dividends once per year based on the dividend policy, using the year-end date as the record date. Dividends are determined based on either a dividend payout ratio of around 30% or a dividend on equity (DOE) ratio of around 2%, whichever is higher, while taking into consideration the consolidated operating results, financial position, investment plans and so forth. (However, this excludes special factors related to the settlement of accounts.) Since the concrete dividend forecast is yet to be decided, “–” is shown for the annual dividend forecast. Regarding dividend policy, please refer to page 4 of the Accompanying Materials to the Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2013, released on May 8, 2013.

3. Forecast of consolidated operating results (from April 1, 2013 to March 31, 2014)

(Figures in % indicate change from the corresponding period of the year ended March 31, 2013)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
Full-year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	58,500	9.1	3,500	△11.7	3,600	△12.6	4,600	13.7	197.01

(Note) Revisions to operating results forecasts published most recently: Yes

* Notes

(1) Changes in key subsidiaries during the term

(changes in specific subsidiaries resulting in changes in the scope of consolidation): Yes

New: 1 company (MegaChips Taiwan Corporation)

Exception: 1 company (Kawasaki Microelectronics, Inc.)

(Note) For details, please refer to the Accompanying Materials, page 3, 2. Matters Relating to Summary Information (Notes).

(2) Adoption of unique accounting method to the preparation of quarterly consolidated financial statements: Yes

(Note) For details, please refer to the Accompanying Materials, page 3, 2. Matters Relating to Summary Information (Notes).

(3) Changes in accounting policies and changes or restatement of accounting estimates:

1) Changes in accounting policies due to revised accounting standards: None

2) Changes in accounting policies other than that described above: None

3) Changes in accounting estimates: None

4) Restatement: None

(4) Number of shares outstanding (common stock)

1) Number of outstanding shares at the end of the period (including treasury stock)

First three quarters of the year ending March 31, 2014 24,038,400 shares

Year ended March 31, 2013 24,038,400 shares

2) Number of shares of treasury stock at the end of the period

First three quarters of the year ending March 31, 2014 689,450 shares

Year ended March 31, 2013 689,486 shares

3) Average number of shares outstanding during the period (or the cumulative consolidated accounting period as of the end of the term)

First three quarters of the year ending March 31, 2014 23,348,979 shares

First three quarters of the year ended March 31, 2013 23,829,428 shares

* Status of quarterly review

This financial summary does not need to undergo a quarterly review under the Financial Instruments and Exchange Act. The quarterly consolidated financial statements under the Financial Instruments and Exchange Act have not been reviewed at the time of the announcement of this financial summary.

* Note: Request for appropriate use of the business outlook and other remarks

(Note on the description of the future and other matters)

Forward-looking statements, such as the operating results forecast included in this document, are based on information available to the Company and certain assumptions that are considered reasonable as of the date of the publication of this release. The Company does not guarantee the projected results. Actual results could differ materially depending on various factors that may arise in the future.

(Method to acquire supplementary documents for quarterly results)

Supplementary documents for quarterly results will be presented on the Company's website immediately after disclosure of the summary of consolidated quarterly financial results.

Accompanying Materials

Accompanying Materials – Contents

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1. Qualitative Information on the Consolidated Operating Results for the First Three Quarters of the Year Ending March 31, 2014

(1) Explanation of consolidated operating results

During the first three quarters of the consolidated fiscal year under review, corporate earnings showed improvement, centering on large companies, as production increased modestly and capital spending also picked up in some areas of market due mainly to an improvement in the export environment brought about by the new phase of monetary easing and the effective economic measures. With consumer spending also improving, the economy staged a modest recovery. However, downside risks, such as the potential downturn of overseas economies and a stagnation after the last-minute demand before the consumption tax hike, yet persisted.

In the electronic machinery and equipment industry, in which the MegaChips Group operates, demand for consumer and industrial electronic equipment declined despite year-on-year growth in market for certain electronic components and devices. As a result, demand for the electronic machinery and equipment continuously decreased on a year-to-year basis.

Under these challenging conditions, the Company merged with Kawasaki Microelectronics, Inc. (hereinafter “Kawasaki Micro”) and began operating as the new MegaChips Corporation effective April 1, 2013.

The MegaChips Group is promoting business focusing on applications, systems planning, and the provision of solutions, using its stable support system, which covers upstream logical design, downstream physical design, manufacturing operations and quality assurance for product planning and supply as its new source of strength, in addition to offering diverse LSI products and original solutions based on original technologies for compressing and decompressing images, audio and music and telecommunications that comprise its expertise.

The Group is developing and selling LSIs, such as memory for specific-use applications, system LSIs, and electronic components mounting the Group’s own LSIs, for its leading customers both inside and outside Japan mainly in the areas of amusement, digital home electronics, office machines, energy-saving products, and home networking equipment.

In the area of security monitoring, the Group is promoting the development and sale of the system devices and equipment on which its system LSIs are mounted, centering on the transmission and recording of digital video.

Both consolidated revenues and profits increased year on year for the first three quarters under review, reflecting the contributions made by new LSIs for digital cameras and steady sales of LSIs for liquid crystal panels and office equipment. Consolidated net sales for the first three quarters of the fiscal year under review totaled ¥46,721 million (up 14.2% year on year). Consolidated operating income stood at ¥3,885 million (rising 3.3%). Consolidated ordinary income was ¥3,940 million (an increase of 2.4%). Consolidated net income amounted to ¥4,902 million (up 32.1%) thanks mainly to a ¥588 million gain on sales of investment securities and a ¥2,450 million gain on a tax adjustment due to the posting of deferred tax assets as a result of the Company’s merger with Kawasaki Micro.

(2) Explanation of consolidated financial position

Total assets as of the end of the first three quarters of the fiscal year under review amounted to ¥51,614 million (up ¥7,539 million from the previous fiscal year). Comparing major asset items with the previous fiscal year, notes and accounts receivable—trade increased by ¥6,885 million, deferred tax assets (current assets) by ¥829 million, and deferred tax assets (noncurrent assets) by ¥1,630 million, despite a decrease in cash and deposits of ¥1,476 million.

Total liabilities were ¥19,607 million (an increase of ¥3,128 million from the previous fiscal year). Major items compared to the previous fiscal year were increases in notes and accounts payable—trade by ¥818 million and short-term loans payable for working capital purposes by ¥5,000 million, offsetting a decrease in long-term loans payable by ¥2,124 million.

Total net assets stood at ¥32,006 million (up ¥4,410 million from the previous year). As a result, the shareholders’ equity ratio declined 0.6 percentage point from the previous year, to 62.0%.

Cash and cash equivalents (“net cash”) at the end of the first three quarters of the fiscal year under review decreased ¥1,511 million from the previous fiscal year, to ¥8,920 million (compared with an increase of ¥261 million in the same period of the previous fiscal year). The status of cash flows for the first three quarters of the consolidated fiscal year under review was as follows:

Net cash used in operating activities was ¥3,618 million (compared with net cash used of ¥250 million in the same period of the previous consolidated fiscal year). This was chiefly attributable to net income before taxes of ¥4,175 million (down 19.7% year on year), and an increase in notes and accounts payable-trade of ¥746 million, and a ¥6,834 million increase in notes and accounts receivable-trade, a ¥1,087 million decrease in other current liabilities, and income taxes paid of ¥1,237 million.

Net cash used in investment activities was ¥502 million (compared with net cash of ¥9,330 million used in the same period of the previous fiscal year). This was chiefly attributable to proceeds from sales of investment securities of ¥1,043 million, and a ¥259 million expenditure for the purchase of property, plant, and equipment, an outlay for the purchase of long-term prepaid expenses of ¥496 million and outgoings of ¥503 million for other investment activities including expenditure for the purchase of IP. As a result, free cash flow, which is the sum of the net cash provided by or used in operating activities and the net cash provided by or used in investment activities, resulted in a net cash use of ¥4,121 million yen (compared with ¥9,581 million in net cash used in the same period of the previous fiscal year).

Net cash provided by financing activities was ¥2,085 million (compared with net cash such activities provided of ¥9,648 million in the same period of the previous fiscal year). This was chiefly attributable to an increase of ¥5,000 million in short-term loans payable for working capital purposes, the repayment of long-term loans payable of ¥2,124 million, and cash dividend payments of ¥789 million.

(3) Explanation of information on future forecasts, such as consolidated operating results forecasts

Please refer to the “Notice of Revision of Full-Year Results Forecasts” announced today, for details about revisions to the consolidated full-year results forecasts for the fiscal year ending March 31, 2014, announced on November 1, 2013.

2. Matters Relating to Summary Information (Notes)

(1) Changes in key subsidiaries during the term

Material changes in the scope of consolidation

Starting in the first quarter of this fiscal year, the Company eliminated Kawasaki Microelectronics, Inc., which had been a consolidated subsidiary, from its scope of consolidation, as the subsidiary ceased to exist after an absorption-type merger in which the Company became the surviving company.

The Company established MegaChips Taiwan Corporation during the first half of the fiscal year under review to take over the operations previously conducted by its Taiwan branch office (Taipei City, Republic of China), and included it in the scope of consolidation.

(2) Adoption of unique accounting method to the preparation of quarterly consolidated financial statements

Calculation of tax expenses

Tax expenses are calculated based on a logical estimate of the effective tax rate after applying tax effect accounting to net income before tax for the consolidated fiscal year and then multiplying net income before tax for the quarter by the estimated effective tax rate.

3. Consolidated Financial Statements

(1) Consolidated balance sheet

(Thousand yen)

	FY 2012 (As of March 31, 2013)	Q3 FY 2013 (As of December 31, 2013)
Assets		
Current assets:		
Cash and deposits	10,431,546	8,955,379
Notes and accounts receivable-trade	16,877,890	23,763,469
Merchandise and finished goods	1,298,176	1,731,959
Work in process	1,510,267	1,291,678
Raw materials and supplies	892,883	716,941
Deferred tax assets	1,343,077	2,172,841
Other	734,991	771,685
Allowance for doubtful accounts	(924)	(1,673)
Total current assets	33,087,908	39,402,281
Noncurrent assets:		
Property, plant and equipment		
Buildings	3,853,526	3,853,654
Accumulated depreciation	(2,794,865)	(2,802,788)
Buildings, net	1,058,661	1,050,866
Other	6,862,290	6,845,486
Accumulated depreciation	(6,027,057)	(6,048,839)
Other, net	835,232	796,647
Total property, plant and equipment	1,893,893	1,847,513
Intangible assets		
Other	689,330	620,151
Total intangible assets	689,330	620,151
Investments and other assets		
Investment securities	2,440,619	1,770,384
Long-term prepaid expenses	1,754,537	1,946,927
Deferred tax assets	2,961,178	4,591,192
Other	1,247,542	1,435,655
Total investment and other assets	8,403,876	9,744,159
Total noncurrent assets	10,987,100	12,211,824
Total assets	44,075,009	51,614,106

(Thousand yen)

	FY 2012 (As of March 31, 2013)	Q3 FY 2013 (As of December 31, 2013)
Liabilities		
Current liabilities:		
Notes and accounts payable—trade	3,443,211	4,261,272
Short-term loans payable	—	5,000,000
Current portion of long-term loans payable	2,833,332	2,833,332
Income taxes payable	529,310	967,573
Provision for bonuses	633,554	352,481
Provision for loss on construction contracts	759,978	632,723
Other provision	—	110,001
Other	2,897,931	2,310,603
Total current liabilities	11,097,317	16,467,986
Noncurrent liabilities:		
Long-term loans payable	4,250,002	2,125,003
Other	1,131,944	1,014,733
Total noncurrent liabilities	5,381,946	3,139,736
Total liabilities	16,479,263	19,607,722
Net assets		
Shareholders' equity		
Capital stock	4,840,313	4,840,313
Capital surplus	6,181,300	6,181,300
Retained earnings	17,364,960	21,473,370
Treasury stock	(1,056,030)	(1,055,975)
Total shareholders' equity	27,330,543	31,439,008
Other accumulated comprehensive income		
Valuation difference on available-for-sale securities	267,293	7,931
Foreign currency translation adjustment	(2,091)	559,442
Total other accumulated comprehensive income	265,201	567,374
Total net assets	27,595,745	32,006,383
Total liabilities and net assets	44,075,009	51,614,106

(2) Consolidated statements of income and statements of comprehensive income
(Consolidated first three quarters)

(Thousand yen)

	Q3 FY 2012 (From April 1, 2012 to December 31, 2012)	Q3 FY 2013 (From April 1, 2013 to December 31, 2013)
Net sales	40,919,120	46,721,532
Cost of sales	30,799,203	34,866,858
Gross profit	10,119,917	11,854,674
Selling, general and administrative expenses	6,358,440	7,969,391
Operating income	3,761,476	3,885,282
Non-operating income		
Interest income	5,296	6,400
Dividends income	61,001	7,930
Gain on investments in partnership	—	4,875
Gain on forfeiture of unclaimed dividends	7,807	6,306
Foreign exchange gains	29,682	76,417
Miscellaneous income	24,655	8,523
Total non-operating income	128,443	110,453
Non-operating expenses		
Interest expenses	38,187	42,623
Loss on investments in partnership	2,371	—
Miscellaneous loss	2,968	12,722
Total non-operating expenses	43,528	55,346
Ordinary income	3,846,391	3,940,389
Extraordinary income		
Gain on sales of noncurrent assets	13	—
Gain on sales of investment securities	—	588,519
Gain on negative goodwill	1,406,607	—
Total extraordinary income	1,406,620	588,519
Extraordinary loss		
Loss on valuation of inventories	—	197,113
Loss on sales of noncurrent assets	92	—
Loss on retirement of noncurrent assets	4,413	35,961
Loss on valuation of investment securities	—	120,070
Head office transfer cost	46,382	—
Total extraordinary loss	50,888	353,145
Net income before taxes	5,202,123	4,175,763
Income taxes	1,490,352	(726,517)
Income before minority interests	3,711,770	4,902,281
Net income	3,711,770	4,902,281
Income before minority interests	3,711,770	4,902,281
Other comprehensive income		
Valuation difference on available-for-sale securities	(325,123)	(259,361)
Foreign currency translation adjustment	166,011	561,533
Total other comprehensive income	(159,111)	302,172
Comprehensive income	3,552,658	5,204,453
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	3,552,658	5,204,453
Comprehensive income attributable to minority interests	—	—

(3) Consolidated statements of cash flows

(Thousand yen)

	Q3 FY 2012 (From April 1, 2012 to December 31, 2012)	Q3 FY 2013 (From April 1, 2013 to December 31, 2013)
Net cash provided by (used in) operating activities		
Net income before taxes	5,202,123	4,175,763
Depreciation and amortization	383,538	466,721
Amortization of long-term prepaid expenses	389,550	729,115
Gain on negative goodwill	(1,406,607)	—
Increase (decrease) in provision for bonuses	(64,507)	(281,073)
Increase (decrease) in provision for loss on construction contracts	31,710	(127,255)
Interest and dividends income	(66,297)	(14,330)
Interest expenses	38,187	42,623
Loss (gain) on sales of investment securities	—	(588,519)
Loss (gain) on valuation of investment securities	—	120,070
Decrease (increase) in notes and accounts receivable—trade	(4,856,221)	(6,834,485)
Decrease (increase) in inventories	(331,130)	98,841
Increase (decrease) in notes and accounts payable—trade	1,935,592	746,440
Decrease (increase) in other current assets	543,968	199,319
Increase (decrease) in other current liabilities	(577,139)	(1,087,393)
Other	24,780	1,896
Subtotal	1,247,549	(2,352,264)
Interest and dividends income received	65,609	14,645
Interest expenses paid	(31,607)	(43,883)
Income taxes refund	198	318
Income taxes paid	(1,532,449)	(1,237,067)
Net cash provided by (used in) operating activities	(250,699)	(3,618,252)
Net cash provided by (used in) investment activities		
Payments into time deposits	—	(35,162)
Purchase of property, plant and equipment	(477,892)	(259,142)
Purchase of intangible assets	(101,408)	(122,754)
Proceeds from sales of investment securities	—	1,043,034
Purchase of investment securities	—	(30,726)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(6,752,303)	—
Purchase of long-term prepaid expenses	(997,033)	(496,214)
Payments of loans receivable	(573,120)	(98,590)
Other	(429,032)	(503,432)
Net cash provided by (used in) investment activities	(9,330,789)	(502,987)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	3,000,000	5,000,000
Proceeds from long-term loans payable	8,500,000	—
Repayment of long-term loans payable	(708,333)	(2,124,999)
Proceeds from disposal of treasury stock	—	95
Purchase of treasury stock	(500,117)	(48)
Cash dividends paid	(642,586)	(789,360)
Net cash provided by (used in) financing activities	9,648,962	2,085,686
Effect of exchange rate change on cash and cash equivalents	193,553	524,223
Net increase (decrease) in cash and cash equivalents	261,027	(1,511,329)
Cash and cash equivalents at beginning of period	7,228,018	10,431,546
Cash and cash equivalents at end of period	7,489,046	8,920,217

(4) Notes relating to quarterly consolidated financial statements

Note on going concern assumptions

None

Notes to significant changes in shareholders' equity

First three quarters of the year ended March 31, 2013 (from April 1, 2012 to December 31, 2012)

The Company acquired 305,400 treasury stocks from September 7, 2012 to September 13, 2012 in accordance with a resolution on the acquisition of treasury stock (the Company's common stock) on September 3, 2012 pursuant to Article 370 of the Companies Act (resolutions based on documents in lieu of resolutions by the Board of Directors). As a result, the value of treasury stock increased by ¥499,994,000.

First three quarters of the year ending March 31, 2014 (from April 1, 2013 to December 31, 2013)

None