Brief Statement of Accounts for the First Half of the Year Ending March 31, 2010

October 30, 2009

Company Name: MegaChips Corporation Listed exchange: TSE
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Scheduled date for submission of quarterly report: November 13, 2009

(Amounts less than one million yen are omitted)

1. Consolidated operating results for the first half of the year ending March 31, 2010
(from April 1, 2009 to September 30, 2009)

(1) Consolidated operating results (accumulated) (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 half of the year ending March 31, 2010	22,323	(17.7)	2,370	(15. 4)	2,300	(17.0)	1,457	11.8
First half of the year ended March 31, 2009	27,123	–	2,801	–	2,770	–	1,303	–

	Net income per share	Net income per share (fully diluted)
	Yen	Yen
First half of the year ending March 31, 2010	60.09	59.92
First half of the year ended March 31, 2009	53.70	53.67

(2) Consolidated financial position

	Total assets	Net assets	Net worth ratio	Net assets per share
	Million yen	Million yen	%	Yen
First half of the year ending March 31, 2010	35,909	23,105	64.3	951.15
Year ended March 31, 2009	33,115	20,564	62.1	849.02

(Reference) Shareholders' equity: As of the first half of the year ending March 31, 2010: 23,105 million yen
As of March 31, 2009: 20,564 million yen

2. Dividends

	Dividends per share				
(Record date)	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2009	–	–	–	33. 00	33. 00
Year ending March 31, 2010	–	–			
Year ending March 31, 2010 (forecast)			–	–	–

(Note 1) Revisions made to the forecast dividends at the end of the current term: None

(Note 2) 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. Since the concrete dividend forecast is yet to be decided, "—" is shown for the year-end dividend and annual dividend forecast.

3. Forecast of consolidated operating results (from April 1, 2009 to March 31, 2010)

(Figures in % indicate change from the corresponding period of the year ended March 31, 2009)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Annual	43,000	(18.5)	4,100	(14.8)	4,100	(16.2)	2,650	(0.8)	109.09

(Note) Revisions made to figures in the consolidated business outlook at the end of the current term from the previous announcement: Yes

4. Others

(1) Changes in key subsidiaries during the term (changes in specific subsidiaries resulting in changes in the scope of consolidation): None

(2) Adoption of convenient accounting method and uniquely adopted accounting method to prepare the consolidated financial statements for the current term: Yes

(Note) For detailed information, please refer to "4. Others" in "Qualitative Information / Financial Statements" on page 4.

(3) Changes in accounting policies and processing and representation methods adopted to prepare the consolidated financial statements for the current term (significant changes in the basis for presenting the consolidated financial statements for the current term):

1) Changes due to revised accounting standards: Yes

2) Changes for reasons other than that described above: Yes

(Note) For detailed information, please refer to "4. Others" in "Qualitative Information / Financial Statements" on page 4.

(4) Number of shares outstanding (common stock)

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

First half of the year ending March 31, 2010	24,667,317 shares
Year ended March 31, 2009	24,667,317 shares

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

First half of the year ending March 31, 2010	375,214 shares
Year ended March 31, 2009	446,282 shares

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

First half of the year ending March 31, 2010	24,255,355 shares
First half of the year ended March 31, 2009	24,272,695 shares

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

The description of the future in this material, including the forecast of operating results, is based on the information available as of the published date of this release and on certain assumptions considered reasonable as of the published date of this release. The actual results may change materially depending on various factors that may arise in the future.

[Qualitative Information / Financial Statements]

1. Qualitative information on consolidated operating results

(1) Overview of operating results as a whole

During the first half of the year ending March 31, 2010, the Japanese economy was still experiencing difficult circumstances, as seen by the reduced corporate profits and capital investments and the deterioration of the employment situation, although it was considered to have passed the worst of the recession triggered by the global downturn that began in the second half of the year ended March 31, 2009.

In the electronic machinery and equipment industry, demand remained sluggish across the entire market, including electronic components such as semiconductors and consumer electronic equipment, and the market for the entire electronic machinery and equipment industry remained below where it was for the same period of the year ended March 31, 2009.

In these severe circumstances, the Group focused its efforts on developing and selling products in the LSI business and the systems business, as well as on expanding the businesses by staying in close contact with customers and providing solutions best suited to their needs, based on the compression and decompression technologies for images, sound and music, as well as its unique telecommunications technologies.

Specifically, with the digitalization of media including images, sound and music, the enhancement of the performance of LSIs using advanced semiconductor technology, the upgrading of the infrastructures of wired and wireless high-speed communication networks, and the diversification of digital broadcasting such as high-definition broadcasting, the Group has widened its appeal in the field of information and communications. In this growing area, the Group has developed and sold high-end application-specific memories, system LSIs, electronic parts mounted with its system LSIs and customer-specific system products for transmitting and recording digital images, particularly for use in the security and monitoring area for games, amusements, digital cameras and high-definition audio visual (AV) devices.

However, given that the business environment surrounding the Group remained more severe than anticipated, net sales for the first half of the year under review amounted to 22,323 million yen (down 17.7% from the same period of the year ended March 31, 2009) on a consolidated basis. Operating income stood at 2,370 million yen (down 15.4%) and ordinary income reached 2,300 million yen (down 17.0%). Net income was 1,457 million yen (up 11.8%), with an extraordinary loss down 580 million yen compared with the same period of the previous year and a refund of income taxes of 110 million yen, the result of the revision to the scope of application of tax deductions associated with research and development expenses.

(2) Overview of operating results by segment

In the LSI business, demand for the main products, LSIs for storing game software (customer memories), declined. In addition, although sales of LSIs for televisions commenced, demand for tuner modules for receiving 1seg digital terrestrial broadcasting remained stagnant.

As a result, net sales were 20,672 million yen (down 17.7% from the same period of the year ended March 31, 2009), and operating income stood at 2,578 million yen (a fall of 6.1%). Meanwhile, the operating income margin was 12.5% (up 1.6%), primarily thanks to products with strong profitability and development expenses income.

In the systems business, net sales were 1,651 million yen (down 17.2%) and operating loss was 184 million yen (operating income in the same period of the year ended March 31, 2009 was 56 million yen) due to reduced demand for customer-specific digital image monitoring systems for security / monitoring applications.

2. Qualitative information on consolidated financial position

(1) Changes in the financial position (consolidated)

Total assets at the end of the second quarter of the year ending March 31, 2010 amounted to 35,909 million yen (up 2,794 million yen from the end of the year ended March 31, 2009), mainly reflecting increased trade notes and trade accounts receivable (up 7,620 million yen), increased investment securities (up 1,969 million yen), decreased cash and deposits (down 5,753 million yen) and decreased merchandise and finished goods (down 463 million yen) from the end of the year ended March 31, 2009.

Total liabilities amounted to 12,804 million yen (up 253 million yen), mainly reflecting increased trade notes and trade accounts payable (up 3,318 million yen), decreased short-term loans payable (down 2,000 million yen) and decreased income taxes payable (down 939 million yen) from the end of the year ended March 31, 2009.

Net assets were 23,105 million yen (up 2,541 million yen). As a result, the net worth ratio was 64.3% (up 2.2%).

(2) Cash flows

Cash and cash equivalents (“net cash”) at the end of the second quarter of the year ending March 31, 2010 amounted to 8,512 million yen, down 5,753 million yen from the end of the year ended March 31, 2009 (up 686 million yen in the same period of the year ended March 31, 2009). The status of cash flows at the end of the second quarter of the year ending March 31, 2010 was as follows:

Net cash used by operating activities was 3,024 million yen (compared with net cash provided of 2,456 million yen in the same period of the year ended March 31, 2009), reflecting net income before taxes of 2,284 million yen (up 5.1% year on year), increased trade notes and trade accounts payable (up 3,318 million yen), the amortization of long-term prepaid expenses of 468 million yen, increased trade notes and trade accounts receivable (up 7,619 million yen), 1,760 million yen of income taxes paid and other factors.

Net cash used in investment activities was 26 million yen (705 million yen in the same period of the year ended March 31, 2009), mainly reflecting income of 121 million yen from sales of investment securities and payments of 190 million yen for the purchase of long-term prepaid expenses. As a result, free cash flow, which is the sum of the net cash provided by operating activities and the net cash used in investment activities, came to 3,051 million yen of use (1,751 million yen of net cash gain in the same period of the year ended March 31, 2009).

Net cash used in financing activities was 2,698 million yen (1,064 million yen in the same period of the year ended March 31, 2009), primarily reflecting a 2,000 million yen of decrease in short-term loans payable and 789 million yen in cash dividends paid.

3. Qualitative information on consolidated business outlook

The Company has revised business forecasts for the fiscal year ending March 31, 2010, which were announced on May 11, 2009 and July 30, 2009. Please refer to the “Notice Concerning the Revision of Business Forecasts for the Fiscal Year Ending March 31, 2010,” announced on October 30, 2009, for details.

4. Others

(1) Changes in key subsidiaries during the term (changes in specific subsidiaries resulting in changes in the scope of consolidation): None

(2) Adoption of convenient accounting method and uniquely adopted accounting method to prepare the consolidated financial statements for the term:

1) Method of inventory valuation

The Company calculates inventories at the end of the second quarter of the year ending March 31, 2010 by omitting physical inventories and calculating inventories reasonably based on the amount of physical inventories for the year ended March 31, 2009. The Company estimates the net realizable values and reduces the book values of only the inventories that will clearly reduce in profitability.

2) Method of calculating depreciation and amortization of noncurrent assets

The Company calculates the depreciation and amortization of the assets for the period for which the declining balance method is adopted on a pro-rata basis based on the depreciation and amortization for the consolidated fiscal year.

3) Calculation of tax expenses

The Company calculates its tax expenses by multiplying a reasonably estimated effective tax rate after deferred tax accounting for the net income before taxes for the year ending March 31, 2010 including the term under review by the net income before taxes for the term. Income tax adjustments are included in the “income taxes.”

(3) Changes in accounting policies and processing and representation methods adopted to prepare the consolidated financial statements for the current term:

1) Change of recognition of amount of completed construction and cost of completed construction

The Company used to recognize the construction revenues of engineering contracts by utilizing the completed contract method. Effective from the beginning of the first quarter of the year ending March 31, 2010, however, it adopted the “Accounting Standard for Construction Contracts (the Accounting Standard Board of Japan (ASBJ)

Statement No. 15 issued on December 27, 2007)" and the "Guidance on Accounting Standard for Construction Contracts (ASBJ Guidance No. 18 issued on December 27, 2007)" to recognize the construction revenues. Accordingly, with respect to construction contracts whose construction work began during the first quarter of the year ending March 31, 2010, the completion percentage method (the percentage of construction is estimated based on the method of the ratio of the actual cost incurred to the total estimated cost) is applied to such construction contracts through a process whereby the outcome of the construction activity is deemed certain by the end of the second quarter, while the completed contract method is applied to other construction contracts.

As a result of this change, compared to the previous method, net sales for the first half of the fiscal year under review rose 11,383 thousand yen, while operating income, ordinary income, and net income before taxes each declined 21,424 thousand yen.

The impact of this change on segment information is stated where relevant.

2) Provision for loss on construction contracts

In terms of construction contracts, effective from the first quarter of the year ending March 31, 2010, the Company records any amount estimated to exceed the aggregate construction revenue as a provision for losses on construction contracts, where the aggregate cost of construction is likely to exceed the aggregate revenue of construction and the amount can be reasonably estimated.

This change was made to address the establishment of an internal construction management system developed for the above "Change of recognition of construction revenues from engineering contracts," and the provision is considered to have been established as an accounting practice as well as to promote financial health.

This change increases the cost of sales for the first half under review by 8,430 thousand yen and decreases the operating income, ordinary income and net income before taxes by the same amount, as compared to the previous method.

The impact of this change on segment information is stated where relevant.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: thousand yen)

	H1 FY 2009 (As of September 30, 2009)	FY 2008 (As of March 31, 2009)
Assets		
Current assets		
Cash and deposits	8,812,760	14,565,936
Notes and accounts receivable-trade	18,320,281	10,700,231
Merchandise and finished goods	543,603	1,007,453
Work in process	294,213	167,783
Raw materials and supplies	414,711	383,404
Deferred tax assets	434,033	434,033
Other	125,175	205,531
Allowance for doubtful accounts	(1,283)	(760)
Total current assets	28,943,496	27,463,613
Noncurrent assets		
Property, plant and equipment		
Buildings and accompanying facilities	240,576	240,576
Accumulated depreciation	(154,134)	(145,939)
Buildings and accompanying facilities, net	86,442	94,637
Other	355,551	328,684
Accumulated depreciation	(264,235)	(235,139)
Other, net	91,315	93,544
Total property, plant and equipment	177,758	188,182
Intangible assets		
Other	91,763	108,653
Total intangible assets	91,763	108,653
Investment and other assets		
Investment securities	4,136,935	2,167,100
Long-term prepaid expenses	2,044,099	2,347,032
Long-term time deposits	—	100,000
Deferred tax assets	212,161	431,007
Other	306,434	312,961
Allowance for doubtful accounts	(2,982)	(3,448)
Total investment and other assets	6,696,648	5,354,654
Total noncurrent assets	6,966,170	5,651,489
Total assets	35,909,666	33,115,103

	H1 FY 2009 (As of September 30, 2009)	FY 2008 (As of March 31, 2009)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	5,870,322	2,551,852
Short-term loans payable	3,000,000	5,000,000
Current portion of long-term loans payable	2,000,000	2,000,000
Income taxes payable	961,944	1,901,413
Provision	373,911	307,830
Other	550,327	744,061
Total current liabilities	12,756,504	12,505,156
Noncurrent liabilities		
Deferred tax liabilities	9,662	5,287
Other	38,032	40,591
Total noncurrent liabilities	47,695	45,878
Total liabilities	12,804,200	12,551,035
Net assets		
Shareholders' equity		
Capital stock	4,840,313	4,840,313
Capital surplus	6,181,300	6,181,300
Retained earnings	11,194,200	10,550,311
Treasury stock	(554,933)	(660,018)
Total shareholders' equity	21,660,880	20,911,906
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,767,991	95,449
Foreign currency translation adjustment	(323,406)	(443,287)
Total valuation and translation adjustments	1,444,585	(347,838)
Total net assets	23,105,466	20,564,068
Total liabilities and net assets	35,909,666	33,115,103

(2) Consolidated Statements of Income
(First half of the year ending March 31, 2010)

(Unit: thousand yen)

	H1 FY 2008 (From April 1, 2008 to September 30, 2008)	H1 FY 2009 (From April 1, 2009 to September 30, 2009)
Net sales	27,123,551	22,323,154
Cost of sales	22,230,389	18,147,396
Gross profit	4,893,162	4,175,757
Selling, general and administrative expenses	2,091,712	1,804,859
Operating income	2,801,450	2,370,898
Non-operating income		
Interest income	4,251	2,388
Gain on investments in partnership	8,053	–
Income from disqualification of unclaimed dividends	–	1,905
Foreign exchange gains	3,466	–
Miscellaneous income	1,889	763
Total non-operating income	17,661	5,058
Non-operating expenses		
Interest expenses	33,747	28,372
Commitment fee	6,904	–
Loss on transfer of receivables	6,377	–
Loss on investments in partnership	–	9,640
Foreign exchange losses	–	37,547
Miscellaneous loss	1,773	–
Total non-operating expenses	48,802	75,560
Ordinary income	2,770,309	2,300,396
Extraordinary loss		
Loss on valuation of investment securities	10,738	16,324
Loss on liquidation of business	586,388	–
Total extraordinary loss	597,127	16,324
Net income before taxes	2,173,182	2,284,071
Income taxes	869,695	936,875
Refund of income taxes for prior periods	–	(110,416)
Total income taxes	869,695	826,459
Net income	1,303,486	1,457,612

(3) Consolidated Statements of Cash Flows

(Unit: thousand yen)

	H1 FY 2008 (From April 1, 2008 to September 30, 2008)	H1 FY 2009 (From April 1, 2009 to September 30, 2009)
Net cash provided by operating activities		
Net income before taxes	2,173,182	2,284,071
Depreciation and amortization	89,057	78,676
Amortization of long-term prepaid expenses	134,496	468,697
Increase (decrease) in provision for bonuses	22,373	4,701
Increase (decrease) in provision for directors' bonuses	38,862	52,950
Interest expenses	33,747	28,372
Loss (gain) on valuation of investment securities	10,738	16,324
Loss on liquidation of business	95,696	–
Decrease (increase) in notes and accounts receivable-trade	(3,227,061)	(7,619,555)
Decrease (increase) in inventories	(338,113)	306,112
Increase (decrease) in notes and accounts payable-trade	3,982,419	3,318,469
Decrease (increase) in other current assets	80,867	(42,989)
Increase (decrease) in other current liabilities	(36,304)	(152,385)
Other	(18,908)	38,328
Subtotal	3,041,053	(1,218,225)
Interest and dividends income received	4,502	2,478
Interest expenses paid	(52,659)	(48,038)
Income taxes paid	(536,232)	(1,760,522)
Net cash provided by operating activities	2,456,662	(3,024,308)
Net cash used in investment activities		
Proceeds from withdrawal of time deposits	–	100,000
Purchase of property, plant and equipment	(52,209)	(21,751)
Purchase of intangible assets	(57,120)	(42,100)
Purchase of investment securities	(99,196)	–
Proceeds from sales of investment securities	–	121,440
Purchase of long-term prepaid expenses	(498,980)	(190,549)
Other	2,483	6,170
Net cash used in investment activities	(705,025)	(26,790)
Net cash used in financing activities		
Net increase (decrease) in short-term loans payable	–	(2,000,000)
Purchase of treasury stock	(300,118)	(67)
Cash dividends paid	(768,903)	(789,474)
Other	4,969	90,723
Net cash used in financing activities	(1,064,052)	(2,698,818)
Effect of exchange rate change on cash and cash equivalents	(1,255)	(3,257)
Net increase (decrease) in cash and cash equivalents	686,329	(5,753,175)
Cash and cash equivalents at beginning of term	6,530,199	14,265,936
Cash and cash equivalents at end of the term	7,216,529	8,512,760

(4) Note on going concern assumptions

None

(5) Segment information

[Business segment information]

First half of the year ended March 31, 2009 (From April 1, 2008 to September 30, 2008) (thousand yen)

	LSI Business	Systems Business	Total	Elimination or Corporate	Consolidated
Net sales					
(1) External customers	25,129,704	1,993,847	27,123,551	–	27,123,551
(2) Inter-segment	–	–	–	–	–
Total	25,129,704	1,993,847	27,123,551	–	27,123,551
Operating income (loss)	2,745,663	56,333	2,801,996	(545)	2,801,450

First half of the year ending March 31, 2010 (From April 1, 2009 to September 30, 2009) (thousand yen)

	LSI Business	Systems Business	Total	Elimination or Corporate	Consolidated
Net sales					
(1) External customers	20,672,014	1,651,139	22,323,154	–	22,323,154
(2) Inter-segment	–	–	–	–	–
Total	20,672,014	1,651,139	22,323,154	–	22,323,154
Operating income (loss)	2,578,733	(184,028)	2,394,705	(23,807)	2,370,898

(Note) 1. The business segments are determined in accordance with the Company's internal business management policy.

2. Main products of each segment

(1) LSI Business: LSI for storing game software, LSI for home-use game machine, LSI for digital camera image processing, LSI for image / audio processing for one-segment broadcasting, LSI for OFDM demodulation for one-segment broadcasting

(2) Systems Business: Image transmission servers, digital video recorders, display controllers, image camera systems for equipment security, security controller terminals, surveillance cameras

3. Accounting method change

First half of the year ending March 31, 2010

(Change of recognition of amount of completed construction and cost of completed construction)

As stated under “(3) Changes in accounting policies and processing and representation methods adopted to prepare the consolidated financial statements for the current term” in 4. Others in [Qualitative Information / Financial Statements], effective from the consolidated first quarter of the year ending March 31, 2010, the Company has changed the recognition of construction revenues from engineering contracts. As a result of this change, compared to the previous method, net sales rose for the first half of the year under review rose 5,394,000 yen and operating income fell 21,834,000 yen in the LSI business, while net sales rose 5,989,000 yen and operating loss declined 410,000 yen in the systems business.

(Provision for loss on construction contracts)

As stated under “(3) Changes in accounting policies and processing and representation methods adopted to prepare the consolidated financial statements for the current term” in 4. Others in [Qualitative Information / Financial Statements], in terms of construction contracts, effective from the first quarter of the year ending March 31, 2010, the Company records any amount estimated to exceed the amount of aggregate construction revenue as a provision for losses on construction contracts, where the aggregate cost of construction is likely to exceed the aggregate revenue of construction and the amount can be reasonably estimated. As a result of this change, compared to the previous method, operating income for the first half of the year under review fell 3,453 thousand yen in the LSI business, while the operating loss rose 4,977 thousand yen in the systems business.

[Geographic segment information]
First half of the year ended March 31, 2009 (from April 1, 2008 to September 30, 2008) and first half of the year ending March 31, 2010 (from April 1, 2009 to September 30, 2009)
Geographic segment information has been omitted, as net sales in Japan make up over 90% of the total net sales of all segments.

[Overseas sales]
First half of the year ended March 31, 2009 (from April 1, 2008 to September 30, 2008) and first half of the year ending March 31, 2010 (from April 1, 2009 to September 30, 2009)
Overseas sales information has been omitted, as overseas sales make up less than 10% of consolidated net sales.

(6) Notes to significant changes in Shareholders' Equity
First half of the year ending March 31, 2010 (from April 1, 2009 to September 30, 2009)
None