# SUMMARY OF FINANCIAL STATEMENTS (CONSOLIDATED)

## For the Third Quarter Ended December 31, 2009

***Presented January 25, 2010***

# MACNICA, Inc.

| | |
|---|---|
| Listed exchanges | Tokyo Stock Exchange |
| Stock code | 7631 |
| Head office | Kanagawa Prefecture |
| URL | www.macnica.co.jp |
| President | Mr. Kiyoshi Nakashima |
| Inquiries | Shigeyuki Sano, Position Director |
| Telephone | +81 45 470 9870 |
| Expected date of quarterly financial report submission | February 12, 2010 |
| Scheduled date of dividend payments | Not yet determined |

## 1. Financial Results for the Third Quarter of Fiscal Year Ended December 31, 2009 - *(April 1, 2009 to December 31, 2009)*

### (1) Consolidated Operating Results

*(Millions of yen)*

| | April 1 to December 31, 2009 | | April 1 to December 31, 2008 | |
|---|---|---|---|---|
| | Amount | % Change | Amount | % Change |
| Net sales | 110,780 | 4.4 | 106,063 | — |
| Operating income | 2,405 | (12.9) | 2,763 | — |
| Ordinary income | 2,488 | (19.7) | 3,098 | — |
| Net income | 1,258 | (19.7) | 1,567 | — |
| Net income per share (yen) | 71.07 | | 88.53 | |
| Potential post-adjustment net income value per share (yen) | — | | — | |

### (2) Consolidated Financial Position

*(Millions of yen)*

| | As of December 31, 2009 | As of March 31, 2009 |
|---|---|---|
| Total Assets | 88,499 | 82,748 |
| Shareholders’ Equity | 54,854 | 54,748 |
| Equity Ratio (%) | 62.0 | 66.2 |
| Shareholder’s Equity per Share (yen) | 3,098.44 | 3,092.44 |

Equity (consolidated): End of third quarter, FY2010: 54,854 million yen; End of FY2009: 54,748 million yen

## 2. Dividends

| | April 1 to March 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2010 (forecast) |
| Annual dividends per share (yen) | — | 30.00 | 30.00 |
| End of term (yen) | — | 15.00 | 15.00 |
| Third quarter (yen) | — | — | — |
| Mid term (yen) | 15.00 | 15.00 | — |
| First quarter (yen) | — | — | — |

Note: Revisions to dividend forecast in the quarter: None

## 3. Consolidated Forecast for the Year Ending March 31, 2010 *- (April 1, 2009 - March 31, 2010)*

| | Millions of yen | |
|---|---|---|
| | Year Ending March 31, 2010 | |
| Net sales | 145,000 | 10.2% |
| Operating income | 2,750 | 54.7% |
| Ordinary income | 2,800 | 76.5% |
| Net income | 1,500 | — |
| Net income per share (yen) | 84.73 | |

Note: Revisions to financial forecast in the quarter: Yes

## 4. Additional Notes

(1) Transfers of leading subsidiaries during the period (transfers of specified subsidiaries accompanies by changes in the scope of consolidation): None

(2) Application of simplified accounting treatment and unique accounting treatment when creating quarterly consolidated financial statements: Yes (please refer to page 5.)

(3) Changes in accounting principles, procedures and methods of presentation relating to the preparation of quarterly consolidated financial statements (Record under Changes to Significant Matters Forming the Basis for the Preparation of Quarterly Consolidated Financial Statements)

(i) Changes accompanying amendments to accounting standards: Yes

(ii)Changes other than those in (i) above: None (please refer to page 5.)

(4) Number of outstanding shares (common shares)

(i) Number of shares issued and outstanding at end of period (including treasury stock)

Third Quarter FY2010: 18,110,252 shares End Fiscal Year 2009: 18,110,252 shares

(ii) Number of shares of treasury stock issued and outstanding at end of period

Third Quarter FY2010: 406,430 shares End Fiscal Year 2009: 406,330 shares

(iii) Average number of treasury stock during the period

Third Quarter FY2010: 17,703,889 shares Third Quarter FY2009: 17,704,002 shares

Note: Profit forecasts are based on the information available to management at the time they are made, and assumptions which are considered to be reasonable. Actual results may differ materially from forecasts for a number of reasons.

# II. Business Results and Financial Position

## (1) Business Results

### 1. Consolidated Third Quarter Overview

Through the third quarter of the fiscal year under review, the Japanese economy saw exports recover driven by demand in emerging market economies, particularly China, and manufacturing industries, such as the electronic home appliance and car industries, strengthen. As for consumer spending, government economic policies were effective, and household spending was firm. However, the future of the economic recovery remained uncertain as there were no clear signs of a recovery in either corporate capital expenditures or household income.

The Macnica Group is active in the electronics industry, and there were various developments in this industry. The consumer electronics market continued to show signs of recovery as evidenced not only by firm sales of LCD TVs in China due to government subsidies for home electronic appliances and strong efforts to replenish inventories as the Chinese New Year sales season approaches but also by robust sales of mobile phones and smart phones stemming from growing demand in emerging market economies. In the personal computer market, demand for PCs among consumers rose as a result of the introduction of Windows 7 and growth in the number of new users in emerging market economies although demand for PCs among corporations remained weak as they worked to restrain IT investment. On other hand, the industrial equipment market remained fragile with no signs of a recovery because of restrained capital expenditures by corporations.

These factors resulted in a 4.4% year-on-year increase in sales to 110,780 million yen, a 12.9% year-on-year decrease in operating income to 2,405 million yen, a 19.7% year-on-year decline in ordinary income to 2,488 million yen, and a 19.7% year-on-year decrease in net income to 1,258 million yen.

#### IC and Electronic Devices Business

In the communication infrastructure market, orders for programmable logic devices (PLDs) and communication application specific standard products (ASSPs) were firm as capital expenditures related to mobile phone base stations both in Japan and overseas improved. As for the personal computer market, orders of analog ICs used in low-end notebook PCs, primarily netbooks, recovered. In the consumer electronics market, orders of application-specific integrated circuits (ASICs) for LCD TVs and analog ICs for digital still cameras were firm due to the year-end sales season and economic stimulus measures. The industrial equipment market has yet to experience a full recover as a result of corporations' efforts to restrain capital expenditures even through demand in some parts of the railroad market and car market improved.

As a result, sales in IC and Electronic Devices increased 5.8% year-on-year in the third quarter to 102,321 million yen while operating income increased 23.8% year-on-year to 1,194 million yen.

#### Network-related Products Business

Sales of Internet equipment and communication switchboards were firm, but sales of other products such as security software declined as the number of new large projects shrank due to the stagnant economy.

Resulting sales in Network-related Products declined 9.4% year-on-year in this third quarter to 8,459 million yen with operating income decreasing 42.3% to 984 million yen.

### Japan

As for PLDs, Macnica's core product, orders declined as a result of weakness in the industrial equipment market even though orders of PLDs for mobile phone base stations were firm. Orders of communication ASSPs used in mobile phones rose, and those for next-generation network equipment were robust. Turning to analog ICs, orders of ones used in notebook computers and digital still cameras were firm. However, orders for network related products were weak because of efforts by corporations to restrain both capital expenditures and IT investments.

As a result, sales in Japan declined 3.4% year on year to 100,550 million yen and operating income fell 36.4% year on year to 1,560 million yen.

### Asia

Orders of various products including PLDs and analog ICs were firm because of mobile phone related capital expenditures, particularly in China. The custom IC business targeting Taiwanese liquid crystal panel manufacturers grew as the flat screen TV market in China continued to expand although parts of the business shrank since suppliers have moved to directly sell their products to major clients. There were also many instances where the manufacturing of products such as digital still cameras that incorporate the company's analog ICs and printers that use the company's ASSPs was transferred outside of Japan.

As a result, sales in Asia increased 101.6% year-on-year to 30,472 million yen and operating income increased 189.7% year-on-year to 883 million yen.

## 2. Consolidated Financial Position

Total assets as of the end of the third quarter rose 5,750 million yen compared with the end of the previous consolidated fiscal year; net assets increased 105 million yen, and the equity ratio was 62.0%.

As for cash flows, net cash used in operating activities totaled 7,328 million yen. Although factors such as a 2,310 million yen of income before income taxes and an increase in trade payable boosted the cash flow, other factors weighted down including an increase in notes and accounts receivable trade and an increase in inventories.

Net cash used in investing activities totaled 720 million yen, which was due to several factors such as the purchases of property and equipment and the purchases of intangible assets.

Net cash used in financing activities was 597 million yen mainly due to the payment of dividends.

As a result, cash and cash equivalents at the end of this quarter were 11,570 million yen, a year-on-year decrease of 8,915 million yen, resulting from an increase of 463 million yen due to the increase of newly consolidated subsidiaries.

## 3. Outlook for the Fiscal Year

The Macnica Group is active in the electronics industry, and the industry is continuing to recover, particularly home electronic appliance and communication equipment manufacturers, due to several developments including various countries' efforts to stimulate demand and inventory adjustments having run their course. Under these conditions, orders are recovering for the Group's integrated circuits used in numerous products including mobile phones, communication equipment, low-end notebook computers, digital still cameras, and flat-screen TVs. Operations in Asia have also strengthened with the business targeting Taiwanese liquid crystal display manufacturers recovering and a growing number of instances where manufacturing is being transferred outside of Japan.

Based on the above business environment and the company's earnings, the following revisions have been made to earnings projections for FY3/10.

## 4. Other

1. Transfers of leading subsidiaries during the period (transfers of specified subsidiaries accompanies by changes in the scope of consolidation): None

2. Application of simplified accounting treatment and unique accounting treatment when creating quarterly consolidated financial statements:

i) Simplified accounting treatment:

- Inventory valuation method:

Concerning the write-down of book values of inventories, only for those items whose drop in profitability was apparent, an estimate of net sale value was made and book values were written down.

ii) Unique accounting treatment when creating quarterly consolidated financial statements:

- Calculating tax expense:

A rational estimate is made of the effective tax rate following application of tax effect accounting to net income before income taxes for the consolidated fiscal year, which includes the current third quarter, and then the tax expense is calculated by multiplying the net income before income taxes by the estimated effective tax rate.

The given adjustment to corporate income tax includes corporate taxes.

3. Changes in accounting principles, procedures and methods of presentation relating to the preparation of quarterly consolidated financial statements:

i) Application of accounting standard for construction contracts:

While traditionally the completed contract method has been applied for the recording of revenue related to orders for the development of software, the Accounting Standard for Construction Contracts (Accounting Standard No. 15 released by the Accounting Standards Board of Japan (ASBJ) on December 27, 2007) and the Implementation Guidance on Accounting Standard for Construction Contracts (Implementation Guidance No. 18 released by the ASBJ on December 12, 2007) have been applied starting the first quarter of the fiscal year. The percentage-of-completion method (expected percent completed is calculated using the proportion-of-cost method) is applied to contracts whose portion completed through the first half is considered certain, and the completed contract method is applied to other contracts received.

This change has minor effect on the Company's gain and loss.

# III. Consolidated Financial Statements

## (1) Consolidated Balance Sheets

*(Millions of yen)*

| | As of December 31, 2009 | As of March 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and deposits | 11,659 | 20,432 |
| Notes & accounts receivable | 37,359 | 24,256 |
| Securities | 12 | 13 |
| Inventories | 21,685 | 19,843 |
| Other current assets | 4,584 | 4,481 |
| Allowance for doubtful accounts | (151) | (109) |
| **Total current assets** | **75,150** | **68,918** |
| **Fixed assets** | | |
| Buildings and structures (Net) | 3,316 | 3,307 |
| Machinery, equipment and vehicles (Net) | 20 | 23 |
| Land | 2,746 | 2,745 |
| Other fixed assets (Net) | 653 | 769 |
| **Tangible assets** | **6,736** | **6,846** |
| Goodwill | 2,055 | 2,035 |
| Other | 1,470 | 1,763 |
| **Intangible assets** | **3,526** | **3,799** |
| **Investments and other assets** | | |
| Investment in securities | 1,311 | 1,418 |
| Other | 1,882 | 1,889 |
| Allowance for doubtful accounts | (107) | (123) |
| **Investments and other assets** | **3,086** | **3,184** |
| **Total fixed assets** | **13,348** | **13,830** |
| **TOTAL ASSETS** | **88,499** | **82,748** |

*(Millions of yen)*

| | As of December 31, 2009 | As of March 31, 2009 |
|---|---|---|
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Notes & accounts payable | 14,698 | 8,963 |
| Short-term loans payable | 51 | 87 |
| Accrued income taxes | 1,022 | 702 |
| Accrued bonuses | 513 | 613 |
| Other current liabilities | 4,750 | 5,149 |
| **Total current liabilities** | **21,035** | **15,516** |
| **Long-term liabilities** | | |
| Long-term debt | 10,000 | 10,012 |
| Accrued retirement benefits | 1,975 | 1,827 |
| Retirement benefits for directors | 411 | 398 |
| Other current liabilities | 223 | 245 |
| **Total long-term liabilities** | **12,609** | **12,484** |
| **TOTAL LIABILITIES** | **33,645** | **28,000** |
| **Shareholders Equity** | | |
| Paid-in capital | 11,194 | 11,194 |
| Additional paid-in capital | 19,476 | 19,476 |
| Retained earnings | 25,943 | 25,246 |
| Treasury stock | (1,089) | (1,088) |
| Total shareholders' equity | 55,525 | 54,828 |
| **Appraisal and translation differences** | | |
| Unrealized holding gain on securities | 13 | (41) |
| Gain (loss) on deferred hedge | (227) | — |
| Translation adjustments | (457) | (38) |
| Total appraisal & translation differences | (671) | (80) |
| Total net assets | 54,854 | 54,748 |
| **TOTAL LIABILITIES & NET ASSETS** | **88,499** | **82,748** |

## (2) Consolidated Statements of Income

*(Millions of yen)*

| | April 1 to December 31, 2009 | April 1 to December 31, 2008 |
|---|---|---|
| **Net sales** | **110,780** | **106,063** |
| Cost of sales | 94,924 | 89,894 |
| Gross profit | 15,856 | 16,169 |
| Selling, general & administrative expenses | 13,450 | 13,406 |
| **Operating income** | 2,405 | 2,763 |
| **Non-operating income** | | |
| Interest income | 30 | 57 |
| Amortization of negative goodwill | 12 | 183 |
| Gain on translation | 247 | 260 |
| Other | 185 | 199 |
| **Total non-operating income** | **475** | **701** |
| **Non-operating expenses** | | |
| Interest paid | 170 | 111 |
| Loss on transfer of receivables | — | 126 |
| Product warranty related expenses | 84 | — |
| Other | 137 | 128 |
| **Total non-operating expenses** | **393** | **366** |
| **Ordinary income** | **2,488** | **3,098** |
| **Extraordinary income** | | |
| Proceeds from sale of fixed assets | 1 | — |
| Proceeds from sale of investment securities | 4 | 48 |
| Gain from redemption of investment securities | 17 | — |
| **Total extraordinary income** | **23** | **48** |
| **Extraordinary losses** | | |
| Loss on valuation of inventory | — | 214 |
| Loss on devaluation of investment securities | 81 | 29 |
| Loss on devaluation of investments | 57 | — |
| Loss on devaluation of investments to affiliated companies | 34 | — |
| Provision of allowance for doubtful accounts | — | 30 |
| Provision for reserve for loss on guarantees | — | 9 |
| Other | 26 | 14 |
| **Total extraordinary losses** | **201** | **299** |
| **Income before income taxes** | **2,310** | **2,848** |
| **Corporate, inhabitant and enterprise taxes** | **1,052** | **1,281** |
| **Total corporate tax etc.** | **1,052** | **1,281** |
| **Net income** | **1,258** | **1,567** |

## (3) Consolidated Statements of Cash Flow

*(Millions of yen)*

| | April 1 to December 31, 2009 | April 1 to December 31, 2008 |
|---|---|---|
| **1. OPERATING ACTIVITIES** | | |
| Income before income taxes | 2,310 | 2,848 |
| Depreciation and amortization | 799 | 771 |
| Interest and dividend income | (39) | (62) |
| Interest expense | 170 | 111 |
| Change in notes and accounts receivable trade | (13,180) | (402) |
| Change in inventories | (1,836) | 245 |
| Changes in trade payable | 6,045 | 1,512 |
| Other | (158) | (538) |
| **Sub-total** | **(5,889)** | **4,485** |
| Interest and dividends received | 46 | 64 |
| Interest paid | (195) | (106) |
| Corporate tax, etc. refunded (paid) | (1,289) | (99) |
| **Net cash provided by (used in) operating activities** | **(7,328)** | **4,342** |
| **2. Investing Activities** | | |
| Payments for purchase of time deposits | (109) | (477) |
| Proceeds from withdrawal of time deposits | 449 | — |
| Disbursement of loans | (225) | (1,131) |
| Proceeds from collection of loans | 100 | 911 |
| Purchases of property and equipment | (313) | (246) |
| Proceeds from sales of property and equipment | 3 | — |
| Purchases of intangible assets | (113) | (654) |
| Purchases of investment securities | (4) | (23) |
| Proceeds from sales of investment securities | 7 | 55 |
| Payments for acquisition of newly consolidated subsidiaries | — | (3,605) |
| Other | (514) | (637) |
| **Net cash provided by (used in) investing activities** | **(720)** | **(5,807)** |
| **3. Financing activities** | | |
| Change in short-term loans | (28) | (2,314) |
| Proceeds from long-term loans payable | — | 8,000 |
| Repayment of long-term debt | (25) | (25) |
| Cash dividends paid | (529) | (779) |
| Other | (14) | 0 |
| **Net cash provided by (used in) financing activities** | **(597)** | **4,880** |
| **4. Effect of exchange rate changes on cash and cash equivalents** | **(269)** | **(462)** |
| **5. Net increase (decrease) in cash and cash equivalents** | **(8,915)** | **2,953** |
| **6. Cash and cash equivalents at beginning of the year** | **20,022** | **11,938** |
| **7. Increase in cash and cash equivalents due to the increase of newly consolidated subsidiaries** | **463** | **—** |
| **8. Cash and cash equivalents at year end** | **11,570** | **14,891** |

# IV. Notes Regarding Going Concern

None

# V. Segment Information

## 1) Segment Information by Business Type

**Current Consolidated Third Quarter – (April 1, 2009 – December 31, 2009)** *(Millions of yen)*

| | IC and electronic devices business | Network-related products business | Total | Cancellation or general | Consolidated |
|---|---|---|---|---|---|
| Sales<br>(1) Sales to external customers | 102,321 | 8,459 | 110,780 | — | 110,780 |
| (2) Internal sales or transfers between segments | — | — | — | — | — |
| Total | 102,321 | 8,459 | 110,780 | — | 110,780 |
| Operating income | 1,194 | 984 | 2,179 | 226 | 2,405 |

1. Business segments are segments the Company uses for internal management.
2. Main products in each segment:
   a) Integrated circuit and electronic device business: PLD, ASIC, ASSP, Analog IC, Memory, other electronics devices
   b) Network-related products business: network-related hardware, software and services

**Previous Consolidated Third Quarter – (April 1, 2008 – December 31, 2008)** *(Millions of yen)*

| | IC and electronic devices business | Network-related products business | Total | Cancellation or general | Consolidated |
|---|---|---|---|---|---|
| Sales<br>(1) Sales to external customers | 96,724 | 9,339 | 106,063 | — | 106,063 |
| (2) Internal sales or transfers between segments | — | — | — | — | — |
| Total | 96,724 | 9,339 | 106,063 | — | 106,063 |
| Operating income | 965 | 1,706 | 2,671 | 91 | 2,763 |

1. Business segments are segments the Company uses for internal management.
2. Main products in each segment:
   a) Integrated circuit and electronic device business: PLD, ASIC, ASSP, Analog IC, Memory, other electronics devices
   b) Network-related products business: network-related hardware, software and services
3. Prior to April 1, 2008, inventories held for sale in the ordinary course of business were stated at cost, determined by moving average method. The Accounting Standard Board of Japan (ASBJ) issued ASBJ Statement No.9, July 5, 2006, "Accounting Standard for Measurement of Inventories", effective for fiscal years beginning on or after April 1, 2008, which requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value. The Company adopted the new accounting standard for inventories from this first quarter. The effect of adoption of this standard was to decrease operating income in IC and electronic devices business by 111 million yen and Network-related products business by 22 million yen, respectively, during the third quarter of the current fiscal year.

## 2) Segment Information by Geographical Area

### Current Consolidated Third Quarter – (April 1, 2009 – December 31, 2009)

*(Millions of yen)*

| | Japan | Asia | Total | Eliminations or Corporate | Consolidated |
|---|---|---|---|---|---|
| Sales | | | | | |
| (1) Sales to external customers | 80,308 | 30,472 | 110,780 | — | 110,780 |
| (2) Internal sales or transfers between segments | 20,241 | 0 | 20,241 | (20,241) | — |
| Total | 100,550 | 30,472 | 131,022 | (20,241) | 110,780 |
| Operating income | 1,560 | 883 | 2,444 | (38) | 2,405 |

Notes:

1. Countries and regions classified by geographical proximity.
2. Countries and regions belonging to each classification:
   Asia: China, Hong Kong, Taiwan, Singapore.

### Previous Consolidated Third Quarter – (April 1, 2008 – December 31, 2008)

*(Millions of yen)*

| | Japan | Asia | Total | Eliminations or Corporate | Consolidated |
|---|---|---|---|---|---|
| Sales | | | | | |
| (1) Sales to external customers | 90,949 | 15,113 | 106,063 | — | 106,063 |
| (2) Internal sales or transfers between segments | 13,116 | — | 13,116 | (13,116) | — |
| Total | 104,066 | 15,113 | 119,180 | (13,116) | 106,063 |
| Operating income | 2,455 | 305 | 2,760 | 2 | 2,763 |

Notes:

1. Countries and regions classified by geographical proximity.
2. Countries and regions belonging to each classification:
   Asia: China, Hong Kong, Taiwan, Singapore.
3. Prior to April 1, 2008, inventories held for sale in the ordinary course of business were stated at cost, determined by moving average method. The Accounting Standard Board of Japan (ASBJ) issued ASBJ Statement No.9, July 5, 2006, "Accounting Standard for Measurement of Inventories", which is effective for fiscal years beginning on or after April 1, 2008, which requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value. The Company adopted the new accounting standard for measurement of inventories from this first quarter. This effect of adoption of this standard was to decrease operating income by 126 million yen in Japan and by 7 million yen in Asia, respectively, during the third quarter of the current fiscal year.

## 3) Overseas Sales

**Current Consolidated Third Quarter – (April 1, 2009 – December 31, 2009)** *(Millions of yen)*

| | Asia | Other | Total |
|---|---|---|---|
| I. Overseas sales | 32,409 | 299 | 32,709 |
| II. Consolidated sales | — | — | 110,780 |
| III. Overseas sales ratio （%） | 29.3 | 0.2 | 29.5 |

Notes:

1. Countries and regions classified by geographical proximity.
2. Countries and regions belonging to each classification:
   Asia: China, Hong Kong, Taiwan, Malaysia.
   Others: U.S.A.

**Previous Consolidated Third Quarter – (April 1, 2008 – December 31, 2008)** *(Millions of yen)*

| | Asia | Other | Total |
|---|---|---|---|
| I. Overseas sales | 18,026 | 640 | 18,667 |
| II. Consolidated sales | — | — | 106,063 |
| III. Overseas sales ratio （%） | 17.0 | 0.6 | 17.6 |

Notes:

1. Countries and regions classified by geographical proximity.
2. Countries and regions belonging to each classification:
   Asia: China, Hong Kong, Taiwan, Singapore.
   Others: U.S.A.

# VI. Significant change in shareholders' equity

None