

## Summary of Consolidated Financial Results

### For the Year Ended December 2012 [Japan GAAP]

February 19, 2013

Name of Company:	DDS Inc
Stock Exchange Listing:	Tokyo Stock Exchange
Stock Code:	3782
URL:	<a href="http://www.dds.co.jp/">http://www.dds.co.jp/</a>
Representative	
Title:	President and CEO
Name:	Kenji Miyoshino
Responsible person for inquiries	
Title:	Director of Administration
Name:	Wataru Sadakata
Telephone:	+81-(0)52-955-5720
Date of regular general meeting of shareholders (tentative):	March 28, 2013
Date of commencement of dividend payment (tentative):	-
Date of filing of securities report (tentative):	March 29, 2013
Supplementary materials for annual financial report:	None
Information meeting for annual financial report:	None

(Yen in millions, rounded down)

#### 1. Financial results for the current fiscal year ended December 2012 (January 1, 2012 – December 31, 2012)

(1) Result of operations (Consolidated, year-to-date) (Percentage figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended December 2012	628	21.1	35	-	58	-	(43)	-
Fiscal year ended December 2011	519	13.6	(59)	-	(90)	-	(8)	-

Notes: Comprehensive income

For the fiscal year ended December 31, 2012: -7 million yen: [-%]

For the fiscal year ended December 31, 2011: -14 million yen: [-%]

	Net income per share	Net income per share, fully diluted	Return on equity	Ratio of ordinary income to asset	Ratio of operating income to net sales
	Yen	Yen	%	%	%
Fiscal year ended December 2012	159.89	-	-	3.0	5.5
Fiscal year ended December 2011	(32.55)	-	-	(5.6)	(11.5)

Reference: Equity in (earnings) losses of affiliates

For the fiscal year ended December 31, 2012: - million yen

For the fiscal year ended December 31, 2011: - million yen

#### (2) Financial position (Consolidated)

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2012	1,895	121	5.0	305.73
As of December 31, 2011	1,586	14	0.3	55.86

Reference: Shareholders' equity

As of December 31, 2012: 95 million yen

As of December 31, 2011: 4 million yen

(3) Cash flow position (Consolidated)

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended December 2012	(6)	(318)	386	78
Fiscal year ended December 2011	44	(22)	(18)	17

**2. Dividends**

	Annual Dividends					Annual aggregate amount (Total)	Payout ratio (Consolidated)	Dividends/ net assets (Consolidated)
	End of 1Q	End of 2Q	End of 3Q	End of FY	Full year			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended December 2011	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ended December 2012	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ending December 2013 (est.)	-	0.00	-	0.00	0.00		-	

**3. Forecast for the fiscal year ending December 2014 (Consolidated, January 1, 2014 – December 31, 2014)**

(Percentage figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	347	59.9	19	-	6	-	3	-	9.62
Full year	747	18.9	39	-	12	-	7	-	22.46

\*Others

(1) Changes in significant subsidiaries (Changes in specific subsidiaries accompanied by changes in the scope of consolidation): None

(2) Changes in accounting policies, changes in accounting estimates, and retrospective restatements

(a) Changes in accounting policies accompanying revisions in accounting standards: Yes

(b) Changes other than in (a): Yes

(c) Changes in accounting estimates: None

(d) Retrospective restatements: None

(3) Number of shares outstanding (common stock)

(a) Shares outstanding at period-end  
(including treasury stock)

As of Dec. 31, 2012	311,588	As of Dec. 31, 2011	259,657
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(b) Treasury stock at period-end

As of Dec. 31, 2012	-	As of Dec. 31, 2011	0
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(c) Average number of shares

Period ended Dec. 31, 2012	271,324	Period ended Dec. 31, 2011	259,657
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**Non-consolidated Financial Results (For reference)**

1. Financial results for the current fiscal year ended December 2012 (January 1, 2012 – December 31, 2012)

(1) Result of operations (Non-consolidated, year-to-date) (Percentage figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended December 2012	629	17.8	36	-	(12)	-	(114)	-
Fiscal year ended December 2011	517	13.1	(45)	-	(74)	-	(30)	-

	Net income per share	Net income per share, fully diluted
	Yen	Yen
Fiscal year ended December 2012	(423.84)	-
Fiscal year ended December 2011	(116.08)	-

(2) Financial position (Non-consolidated)

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2012	1,859	108	4.4	265.89
As of December 31, 2011	1,554	19	0.6	74.52

Reference: Shareholders' equity

As of December 31, 2012: 82 million yen

As of December 31, 2011: 9 million yen

2. Forecast for the fiscal year ending December 2013 (Non-consolidated, January 1, 2013 – December 31, 2013)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	337	55.2	14	-	1	-	0	-	0.00
Full year	727	15.5	29	-	2	-	0	-	0.00

\* Information concerning implementation of audit

This earnings report is not subject to the auditing procedure prescribed by the Financial Instruments and Exchange Law. The auditing procedure prescribed by the Financial Instruments and Exchange Law for the consolidated financial statements had not been completed when this earnings report was released.

\*Cautionary statement regarding forecasts of operating results and special notes

Forward-looking statements in these materials are based on information available to management at the time this report was prepared, and on assumptions that management believes are reasonable. Actual results may differ significantly from these statements for a number of reasons.

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## 1. Analysis regarding operating results and financial standing

### (1) Analysis regarding operating results

#### (a) Summary of the current year

During the current consolidated accounting year, Japanese economy achieved slack recovery due to the effect of recovery demand from Tohoku Earthquake, prolonged European debts problem, strong yen, and reduction in production within the manufacturing industry caused by aggravating Japan-Chinese situations, and the debate over increase in consumption tax, the market prospect was in transparent. However, during the fourth quarter, stock prices have gone up in the expectation of measures to boost the economy due to change of government, and we will see the bright economy in the future by virtue of weak yen,

In our information security service industry, which is the Company's main business, the development of thin clients or virtualization products for BCP (Business Continuance Plan) was implemented, while information security measures were provided for business utilization of rapidly increasing Smartphone or tablet PC. In the Japanese biometrics industry, vein authentication market is expanding, and after U.S. Authentic, a manufacturer of finger authentication sensors, was acquired by Apple, Inc., finger authentication features are expected to be installed into Apple Products, and each manufacturer of Smartphone is evaluating that the finger authentication features should be installed and it is possible that finger authentication features will be rapidly diffused.

In these economic situations, for biosecurity business, we will make efforts to strengthen affiliation with the relevant parties to enhance our distribution channels, through holding of an information session to Skier for finger authentication solution "EVE FA" and multifactor authentication base "EVE MA", and enhance Web Marketing and phone business, and diversify marketing activities, such as large exhibition, and develop new clients by building brand awareness of our products. We also address, using collaboration between academic institution and industry, national project business and carried out operating activities toward improvement of operating results. In October 2012, third-party allocation of shares resulting in capital business affiliation was implemented, and funds of 160 million were financed from Cyber touch-Tech Co Ltd., to enhance the financial base. In addition, in November 2012, along with an investment subsidiary of Intel Corporation, one of the major manufacturers of semiconductors, we subscribed for shares in the amount of 3 million dollars in Validity Sensors, Inc., a U.S. major finger authentication sensor manufacturer.

In respect of entrusted development business, those for amusement were carried out, and in real estate business, we leased a tenant building in Nagoya City owned by the Company.

As a result of these activities, despite failure to receive, or postpone an order of the relevant business during the current consolidated accounting year, the sale reached 628M yen (21.1% increase compared to the prior year), and in respect of profit and loss, entrusted development business relating to finger authentication was fairly good, recording operating income of 35M yen and ordinary income 58M yen, and thus the Company become profitable for the first time in six accounting years. As a result of recording of impairment charges for real estate acquired in 2010 was 66M yen, and loss on disposal of inventories, totaling extraordinary loss of 115M yen, net income for the year was 43M yen.

The results by reporting segment were indicated below.

- in-house product development  
Sales in finger authentication equipment, such as and multifactor authentication base "EVE MA", and finger authentication solution "EVE FA", were recorded in the book.  
As a result of this, the sale and operating income reached 587M and 270M yen, respectively.
- Entrusted development business  
Despite entrusted development of business software for amusement facilities and of system development for manufacturers, the amount of sale declined.  
As a result of this, the sale and operating income reached 3M and 1M yen respectively.
- Real estate business  
Rent revenue from tenants for the real estate located in Aichi Prefecture and owned by the Company was recognized in the statements.  
As a result of this, the sale and operating income reached 37M and 1M yen respectively.

#### (a) Prospect of the following accounting year

For future Japanese economy, it seems the economy will manage to get out of deflation and will achieve slack recovery due to governmental measures for boosting the economy and monetary easing in Japan, and thus in the information security market which is our main product field, due to active facilities investment by enterprise, demand will go up. As reorganization of the finger authentication sensor manufacturers was accelerated by reasons of rapid diffusion of Smartphone or tablet PC, the Company become affiliated with overseas major enterprises, and used efforts to develop new markets, enhancing these affiliated parties. Under these circumstances, the results in the consolidated accounting period ending December 2013 will show that the sale, ordinary income, and net profit reach 747M, 12M, and 7M yen, respectively. As description of business prospects is based on information available to the Company as of the date hereof and certain premise as we deem reasonable, actual results may vary greatly due to various factors.

### (2) Analysis regarding financial standing

#### (1) Assets, liabilities, and net assets:

The amount of total assets, liquid assets, and fixed assets as of the current consolidated accounting year are recorded at 1,895M, 411M, and 1,484M yen, respectively. The amount of liquid liabilities, fixed liabilities, and total liabilities reached 1,032M, 742M, and 1,774M yen, respectively. Shareholder's equity and net assets reached 152M and 121M, respectively. As a result of this, quick ratio and capital-to-asset ratio constitute 39.8 and 5.0%, respectively.

(2) Cash flow:

Cash and cash equivalents (hereinafter referred to as “Funds”) in the year have increased by 61M yen compared to the prior year, reaching 78M yen as of the end of the year.

Below is the status of each cash flow and their factors.

For cash and cash equivalents, free cash flow reduced by 325M yen resulting from cash outflow by operating activities of 6M yen and cash outflow by investment activities of 318M; however, Funds increased by 61M yen compared to the beginning of the year, reaching 78M yen, from cash outflow by financial activities of 386M yen.

Cash flow by operating activities

Net loss before income taxes for the year reached 41M, while funds increased due to depreciation costs of 78M, impairment charges of 66M, and loss on disposal of inventories of 38M yen, and funds decreased due to foreign exchange gain of 46M, and gain on forgiveness of debts of 15M yen, as a result of this, we recorded cash outflow of 6M yen.

Cash flow by investment activities

We invested in Validity Sensors, Inc., a U.S. Corporation in the amount of 246M yen, and spent in acquisition of intangible fixed assets of in-house developed software, such as “EVE MA” and “EVE FA”, totaling cash outflow of 318M yen.

Cash flow by financial activities

This results in cash inflow of 386M yen as Funds increased due to proceeds from capital increase (160M), long-term borrowing (200M), and short-term borrowing (53M), despite repayment of long-term borrowing in the amount of 27M yen.

Change in cash flow-related indicators for your reference:

	Period ended December 2010	Period ended December 2011	Period ended December 2012
Capital-to-asset ratio (%)	1.2	0.3	5.0
Capital-to-asset ratio on a fair market basis (%)	113.9	57.3	83.0

Capital-to-asset ratio: shareholder's equity/total assets

Capital-to-asset ratio on a fair market basis: total amount of fair market price of shares/total assets

NB) both values are based on financial values on a consolidated basis.

NB) total amount of fair market price of shares is based on number of share issued and outstanding, other than treasury stocks.

(3) Basic policy concerning profit distribution, and dividend for the current and prior year

Company’s Articles of Incorporation stipulates that, subject to resolution of the Board of Directors, the Company may declare interim dividend to shareholders as of the record date of June 30 of each calendar year, and the organ that determines dividend of surplus at the end of the year is Shareholders’ Meeting. The amount of dividend for the current and prior year is expected to be zero.

(4) Business risk

Risks that may affect the Company’s operating results and financial standing include the following; provided that prospects, outlook, policy, or opinion for the future included in this paragraph are expressed or announced as of the date hereof, and involve uncertainty or risks, and thus, may vary greatly from those which will actually occur in the future.

(a) Effect of foreign exchange fluctuation

As subsidiaries of the Company owing loans from the Parent, substantial foreign exchange fluctuation may affect Group’s operating performance.

(b) Defective products

The Company manufactures products under the complete quality control standards, but we cannot guarantee that all products are free of defects or not to subject to recall. A defective product that may cause a large scale recall is likely to adversely affect the Company’s performance and financial standing.

(c) Decrease in sale price

The sale price of UBF, one of our main products, may decrease, due to competition with other companies handling the similar products or request from major accounts. If the sale price decreases, or its pace is higher than we thought, it may adversely affect the Company’s performance and financial standing.

(d) Performance of investees

The Company made an overseas investment in the total amount of 343M yen, in order to procure the development base, and to expand sales channel for our products. Such amount is indicated on a fair market value basis for portfolio investments, and thus, if the value of investees is impaired due to poor performance resulting from the investee’s delay in development may cause risks that may adversely affect the Company’s performance through impairment accounting for portfolio investments.

(e) Procurement of personnel and organizational system

The Company will use efforts to recruit or enhance a system of personnel from time to time, but if we fail to obtain employees that are faithful or intends to stay in the Company permanently or for a quite long time, or to maintain excellent personnel, this may adversely affect the Company’s performance

(f) Events or circumstances in which there is a material doubt about the premise of a going concern

Despite the operating income of 35M yen for the current year, the net loss of 43M yen is recorded. For this reason, there is a material doubt about the premise of a going concern, as existed before. As described in “Events or circumstances in which there is a material doubt about the premise of a going concern”, the Company will take all actions to get over these situations, but if such actions are not sufficiently taken as we planned, this may prevent the Company from carrying out business effectively.

(g) Dependence on President

Mr. Kenji Miyoshino, President of the Company plays an important role as Management in establishing and implementing managerial policy and strategy. Mr. Kenji Miyoshino is a guarantor of loans from banks, and the Company will continue to depend on his administrative ability in all aspects of the Company business. Therefore, if for any reasons, he becomes unable to execute his duties, this may affect the Company’s performance. With respect to this guarantee, the Company did not provide any collateral security or pay guarantee fees.

(h) Modification to repayment schedule for loans from financial institutions

The Company implemented rescheduling for existing loans from financial institutions to defer loan principal payments. However, if the terms are revised by financial institutions, this may affect the Company’s financial standing.

(i) Internal control

Internal control audit report in respect of Internal Control Report for the period ended December 2011, states that there is a “material defect”. This is because that the Company and consolidated subsidiaries’ operation of internal control for preparing financial statements and financial reporting process is not sufficiently carried out, which errors have been rectified; however, if building and operation of our internal control system is not conducted in the future as we planned, this may affect proper financial reporting.

(5) Material events concerning the premise of a going concern

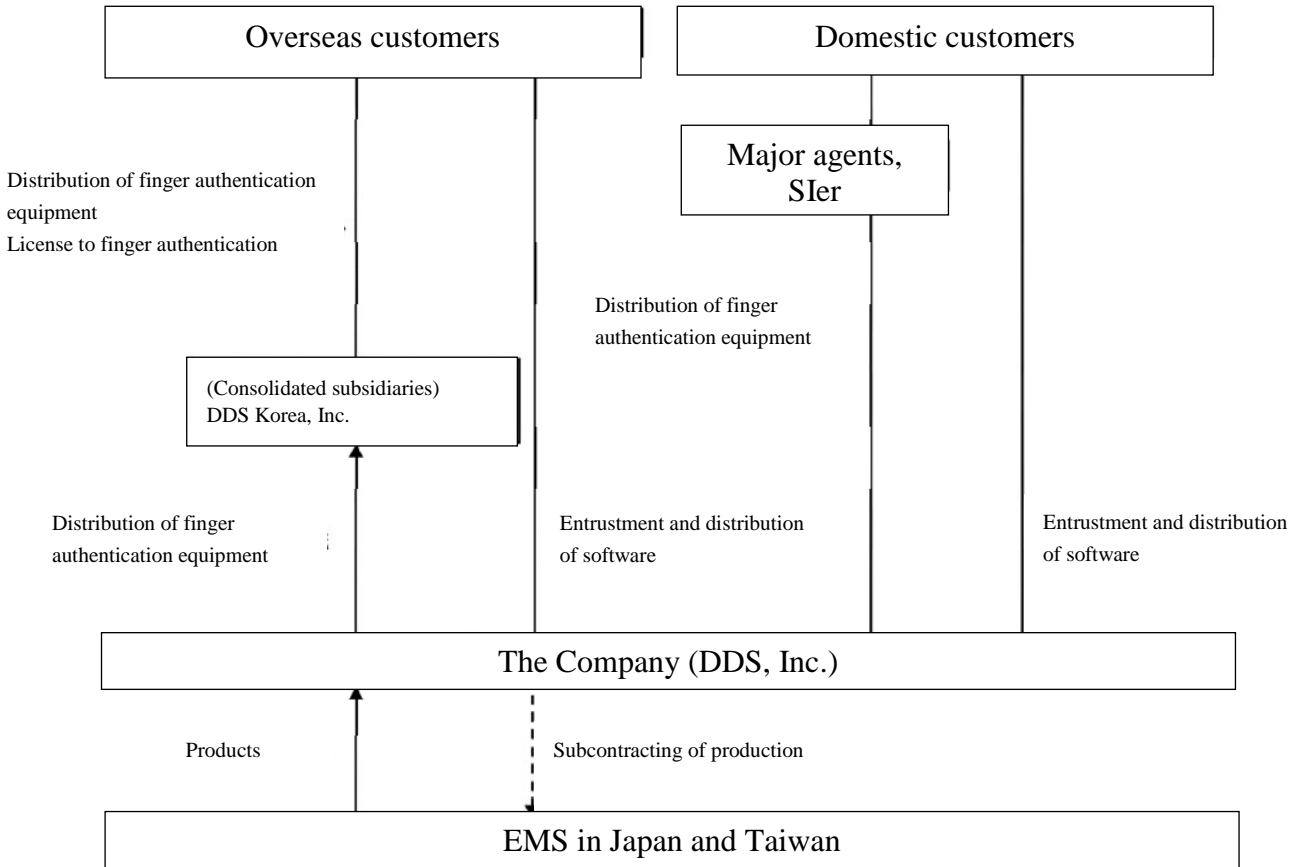
Group recorded operating loss for five consecutive accounting period from the 13<sup>th</sup> consolidated accounting year, and for the current year, the operating income and net losses recorded at 35M and 43M yen, respectively. Cash flow from operating activities became negative, resulting in reduction by 6M yen, and liquid liabilities, including, short-term loans as of the end of the current year remain at high level against liquidity at hand, as were at the end of the previous year. Under these circumstances, there are events or circumstances in which there is a material doubt about the premise of a going concern.

In order to get over these circumstances, we will use efforts to enhance profitable biometrics business and financial structure through reduction in expenses (e.g. sales and general administration costs), and take all such measures as may be necessary for future improvement.

By implementing these measures in a steady manner, we can get over these events or circumstances effectively. For further details, please refer to the Section 4 (Consolidated Financial Statements – Notes for the premise of a going concern), as more described.

1. Corporate complex

The Group is composed of the Company (DDS, Inc.) and its subsidiaries (DDS Korea, Inc.), and are mainly engaged in design, development, production and distribution of finger authentication equipment (UBF Series), and entrusted development of software. We are fables companies for production, and subcontract out EMS (Electric Manufacturing Service) in Japan and Taiwan to manufacture our products. We only implement production and quality control. Below is the organizational chart of the Group.





### 3. Managerial policy

#### (1) Basic policy for management

The Company conducts its business mainly in information security business utilizing industry-academia collaborated technologies, and our basic policy is to maximize profits from information security business utilizing biometrics technologies.

#### (2) Target managerial indicators

The Company aims for further expansion of information security business, and makes efforts to operate the business that weighs business profitability, using ratio of current profits focusing on such core business.

#### (3) Mid and long-term managerial strategy

In information security market to which we belong, external environmental factors may change rapidly. For more stable management, as our mid and long-term managerial strategy, we address the following undertaking and build a new organizational system for accomplishing them in a comprehensive way.; foreign and domestic market development; establishment of distribution channels; and enhancement of sales force for promotional activities; alliance with entities worldwide for invention and reduction to practice of factor technologies that meet market needs; minimization of product costs through more sophisticated embedded technologies; affiliation with overseas companies that have more sophisticated assembly technologies and ensuring production base; enhancement of control system supporting our performance; building of a system for disclosing information in a timely manner or internal control organization in compliance with Japanese SOX Law; and strengthening corporate governance.

#### (4) What we need to challenge

##### (a) New markets to be developed

The Company has been engaged in development of superior technologies using industry-academia collaboration, and established a status with the largest domestic market share. In order to expand biometrics business, we will develop a new market for biometrics field not only in local government cloud, entrance and exit control for room, internet authorization station, but also in the consumer's market, tablet PC and Smartphone market. We will also enhance industry-academia collaboration, and actively participate in national projects or subsidized business.

##### (b) Enhancement of overseas affiliates

In 2012, the Company implemented capital tie-up with World Wide Touch Technology (Holdings) Ltd. in Hong Kong and its subsidiary (Cybertouch-Tech), and assume capital increase as a strategic partner of U.S. Validity Sensors, Inc. We will enhance affiliated relationship with these affiliates, and expand finger authentication products in the rapidly developing tablet PC and Smartphone market, and carry out advanced research and development.

##### (c) Development of a broad security market using new algorithm

We will enhance a broad biometrics related products line up that applies "hybrid finger authentication method" combining the frequency analysis method that is our unique finger authentication algorithm and has a broad application, and Minutia method that is prior algorithm. We obtained US patent for "hybrid finger authentication method", and aim for *de fact* standard inside and outside Japan.

##### (d) Strengthen the financial structure

We will improve profitability of real estate acquired in 2010 through contribution in kind, and will arrange early disposition, to make our finance plan sound. For rescheduling with the financial institutions, we will use efforts to persuade them by providing proper information to review and modify the repayment terms.

##### (e) Establishment of a system for disclosing information in a timely manner

In compliance with the Financial Instruments and Exchange Act and TSE Trading Rules, we will prepare and disclose correct financial statements in a timely manner, and actively disclose information that may affect investor's determination whether to invest or not, in accordance with the principle of equality among shareholders.

#### (5) Other material matters concerning the Company's management

The Company recorded operating loss in a consecutive accounting year up to the previous year, and thus there is a material doubt about the premise of a going concern. However, for the current year, as a result of continuous operating activities through selecting appropriate business and concentration, we achieved positive operating income. Nevertheless, liquid liabilities, such as short-term loans as of the end of the year remain at high level against liquidity at hand, as were at the end of the previous year. Under these circumstances, there are events or circumstances in which there is a material doubt about the premise of a going concern. In order to respond to these events or circumstances, the Company diligently addresses a possible early disposition of real estate owned by the Company to ensure abundant cash flow, and as a result, things are being negotiated well. In October 2012, as a result of third-party allocation of shares and expanded financial structure, the net assets as of the end of the year reached 121M yen despite the net loss at the end of the year. Focusing on profitable biometrics business and through reduction in expenses (e.g. sales and general administration costs), we recorded the operating income of 35M yen for the first time in six accounting periods. For the current year, we will earn positive income in the expectation of substantial demand in the Smartphone and tablet PC related business in affiliation with U.S. Validity Sensors, Inc. In addition, after financial institutions, lenders of existing loans, understood and agreed to the Company's reorganization, we implemented rescheduling, and continue to discuss and require continuous and stable transaction relationship.

#### 4. Consolidated financial statements

##### (1) Consolidated balance sheets

(Thousand yen)

	Fiscal year ended December 2011 (As of December 31, 2011)	Fiscal year ended December 2012 (As of December 31, 2012)
<b>ASSETS</b>		
Current assets		
Cash and deposits	17,298	78,444
Notes and accounts receivable-trade	136,773	208,990
Merchandise and finished goods	68,164	40,956
Raw materials and supplies	544	232
Advances payments	2,335	12,987
Prepaid expenses	3,062	13,514
Accounts receivable - other	203,484	22,690
Short-term loans receivable	2,495	30,000
Others	2,097	3,547
Allowance for doubtful accounts	(133,081)	(104)
Total current assets	303,175	411,258
Fixed assets		
Property, plant and equipment		
Buildings and structures	458,585	458,585
Accumulated depreciation	(26,292)	(71,008)
Buildings and structures, net	432,292	387,576
Buildings and accompanying facilities	-	5,840
Accumulated depreciation	-	(1,418)
Buildings and accompanying facilities, net	-	4,421
Vehicles	1,282	1,282
Accumulated depreciation	(1,080)	(1,144)
Vehicles, net	202	137
Tools, furniture and fixtures	58,776	54,432
Accumulated depreciation	(55,317)	(49,024)
Tools, furniture and fixtures, net	3,458	5,407
Land	661,511	616,666
Total property, plant and equipment	1,097,465	1,014,210
Intangible assets		
Software	79,763	62,051
Others	347	240
Total intangible assets	80,110	62,291
Investments and other assets		
Investment securities	68,284	340,089
Investments in capital	10	10
Lease and guarantee deposits	20,122	16,580
Long-term prepaid expenses	141	-
Long-term accounts receivable	8,000	44,800
Long-term loans receivable	133,761	49,477
Long-term accounts receivable-trade	49,563	157,866
Others	8	8
Allowance for doubtful accounts	(174,063)	(203,769)
Total investments and other expenses	105,828	408,062
Total fixed assets	1,283,405	1,484,564
Total assets	1,586,581	1,895,823

(Thousand yen)

	Fiscal year ended December 2011 (As of December 31, 2011)	Fiscal year ended December 2012 (As of December 31, 2012)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable-trade	35,155	24,226
Short-term loans payable	82,080	135,762
Current portion of long-term loans payable	475,316	695,129
Income taxes payable	7,405	5,251
Accrued consumption taxes	13,414	5,110
Provision for bonuses	3,050	2,612
Accounts payable - other	37,794	32,542
Accrued expenses	64,318	59,111
Deposits received	10,289	10,363
Deferred revenue	29,654	38,240
Provision for contingent loss	14,026	23,933
Others	8,978	261
Total current liabilities	781,483	1,032,545
Long-term liabilities		
Long-term loans payable	256,011	216,450
Provision for retirement benefits	10,651	10,965
Long-term unearned revenue	7,537	32,570
Long-term accounts payable	516,393	482,013
Total long-term liabilities	790,593	742,000
Total liabilities	1,572,077	1,774,545
<b>NET ASSETS</b>		
Shareholders' equity		
Paid-in capital	1,714,720	1,795,213
Capital surplus	1,804,736	1,885,229
Retained earnings	(3,484,348)	(3,527,731)
Total shareholders' equity	35,107	152,711
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(3,526)	23,928
Foreign currency translation adjustment	(27,023)	(81,377)
Total accumulated other comprehensive income	(30,550)	(57,449)
Subscription rights to shares	9,946	26,016
Total net assets	14,503	121,277
Total liabilities and net assets	1,586,581	1,895,823

(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income  
(Consolidated statements of income)

(Thousand yen)

	Fiscal year ended December 2011 (Jan. 1 – Sep. 30, 2011)	Fiscal year ended December 2012 (Jan. 1 – Sep. 30, 2012)
Net sales	518,068	628,367
Cost of sales	185,923	188,047
Gross profit	333,145	440,320
Selling, general and administrative expenses	393,008	405,255
Operating income (loss)	(59,862)	35,065
Non-operating income		
Interest income	1,152	232
Dividends income	0	-
Foreign exchange gains	-	46,421
Miscellaneous income	512	1,042
Reversal of allowance for doubtful accounts	-	11,687
Total non-operating income	1,665	59,383
Non-operating expenses		
Interest expenses	20,494	27,019
Foreign exchange loss	9,251	-
Miscellaneous expenses	23	61
Loss on assignment of an obligation	264	175
Amortization of guarantee deposits	2,091	-
Stock issuance cost	-	1,518
Depreciation	-	6,977
Total non-operating expenses	32,125	35,751
Ordinary income (loss)	(90,322)	58,696
Extraordinary income		
Gain on prior period adjustment	1,445	-
Gain on sales of noncurrent assets	30,212	-
Reversal of provision for retirement benefits	2	-
Reversal of provision for bonuses	617	-
Reversal of allowance for doubtful accounts	63,180	-
Loss on sales of investment securities	17,004	-
Gain on forgiveness of debt	9,598	15,420
Penalty	150,000	-
Gain on donation of inventories	1,000	-
Total extraordinary income	273,060	15,420
Extraordinary loss		
Loss on retirement of fixed assets	4,579	278
Loss on retirement of inventories	-	38,578
Loss on prior period adjustment	16,807	-
Impairment loss	5,559	66,859
Provision of allowance for doubtful accounts	137,081	-
Office transfer expenses	695	-
Loss on cancellation of leasehold contracts	14,026	-
Loss on liquidation of subsidiaries	8,405	-
Provision for contingent loss	-	9,906
Settlement package	1,000	-
Loss on adjustment for changes of accounting standard for asset retirement obligations	2,115	-
Others	-	213
Total extraordinary loss	190,271	115,836
Loss before income taxes and minority interests	(7,533)	(41,719)
Income taxes-current	2,254	1,663
Refund of income taxes for prior periods	(1,335)	-
Total income taxes	918	1,663
Income (loss) before minority interests	(8,451)	(43,382)
Net loss	(8,451)	(43,382)

(Consolidated statements of comprehensive income)

(Thousand yen)

	Fiscal year ended December 2011 (Jan. 1 – Sep. 30, 2011)	Fiscal year ended December 2012 (Jan. 1 – Sep. 30, 2012)
Loss before minority interests	(8,451)	(43,382)
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,526)	27,454
Foreign currency translation adjustment	(2,818)	(54,353)
Total other comprehensive income	(6,345)	(26,899)
Comprehensive income	(14,797)	(70,281)
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(14,797)	(70,281)
Comprehensive income attributable to minority shareholders	-	-

## (3) Statement of changes in consolidated shareholders' equity

(Thousand yen)

	Fiscal year ended December 2011 (Jan. 1 – Sep. 30, 2011)	Fiscal year ended December 2012 (Jan. 1 – Sep. 30, 2012)
Shareholders' equity		
Paid-in capital		
Balance at the beginning of current period	1,714,720	1,714,720
Changes of items during the period		
Issuance of new shares	-	80,493
Total changes of items during the period	-	80,493
Balance at the end of current period	1,714,720	1,795,213
Capital surplus		
Balance at the beginning of current period	1,804,736	1,804,736
Changes of items during the period		
Issuance of new shares	-	80,493
Total changes of items during the period	-	80,493
Balance at the end of current period	1,804,736	1,885,229
Retained earnings		
Balance at the beginning of current period	(3,475,896)	(3,484,348)
Changes of items during the period		
Net loss	(8,451)	(43,382)
Total changes of items during the period	(8,451)	(43,382)
Balance at the end of current period	(3,484,348)	(3,527,731)
Total shareholders' equity		
Balance at the beginning of current period	43,559	35,107
Changes of items during the period		
Issuance of new shares	-	160,986
Net loss	(8,451)	(43,382)
Total changes of items during the period	(8,451)	117,604
Balance at the end of current period	35,107	152,711
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities		
Balance at the beginning of current period	-	(3,526)
Changes of items during the period		
Net changes of items other than shareholders' equity	(3,526)	27,454
Total changes of items during the period	(3,526)	27,454
Balance at the end of current period	(3,526)	23,928
Foreign currency translation adjustment		
Balance at the beginning of current period	(24,205)	(27,023)
Changes of items during the period		
Net changes of items other than shareholders' equity	(2,818)	(54,353)
Total changes of items during the period	(2,818)	(54,353)
Balance at the end of current period	(27,023)	(81,377)
Total accumulated other comprehensive income		
Balance at the beginning of current period	(24,205)	(30,550)
Changes of items during the period		
Net changes of items other than shareholders' equity	(6,345)	(26,899)
Total changes of items during the period	(6,345)	(26,899)
Balance at the end of current period	(30,550)	(57,449)
Subscription rights to shares		
Balance at the beginning of current period	-	9,946
Changes of items during the period		
Net changes of items other than shareholders' equity	9,946	16,070
Total changes of items during the period	9,946	16,070
Balance at the end of current period	9,946	26,016
Total net assets		
Balance at the beginning of current period	19,354	14,503
Changes of items during the period		
Issuance of new shares	-	160,986
Net loss	(8,451)	(43,382)
Net changes of items other than shareholders' equity	3,601	(10,829)
Total changes of items during the period	(4,850)	106,774
Balance at the end of current period	14,503	121,277

## (4) Consolidated statements of cash flows

(Thousand yen)

	Fiscal year ended December 2011 (Jan. 1 – Sep. 30, 2011)	Fiscal year ended December 2012 (Jan. 1 – Sep. 30, 2012)
Cash flows from operating activities		
Loss before income taxes and minority interest	(7,533)	(41,719)
Depreciation and amortization	127,655	78,230
Loss on retirement of inventories	-	38,578
Impairment loss	5,559	66,859
Provision for contingent loss	14,026	9,906
Increase (decrease) in provision for directors' bonuses	(299)	(437)
Provision of allowance for doubtful accounts	137,081	-
Reversal of allowance for doubtful accounts	-	(11,687)
Stock issuance cost	-	1,518
Share-based compensation expenses	9,946	16,069
Increase (decrease) in provision for retirement benefits	458	313
Foreign exchange losses (gains)	10,555	(46,421)
Gain on forgiveness of debt	(9,598)	(15,420)
Interest and dividends income	(1,152)	(232)
Interest expenses	20,494	27,019
Loss (gain) on sales of investment securities	(17,004)	-
Loss on sales of property, plant and equipment	4,579	278
Loss (gain) on sales of property, plant and equipment	(30,212)	-
Decrease (increase) in notes and accounts receivable-trade	12,054	(72,488)
Decrease (increase) in inventories	16,100	(6,950)
Increase (decrease) in notes and accounts payable-trade	28,264	(10,928)
Loss on liquidation of subsidiaries	8,405	-
Loss (gain) on prior period adjustment	(1,445)	-
Decrease (increase) in other assets	(67,571)	72,165
Increase (decrease) in other liabilities	25,239	(80,398)
Loss on adjustment for changes of accounting standard for asset retirement obligations	2,115	-
Settlement package	1,000	-
Penalty	(150,000)	-
Sub-total	75,538	24,255
Interest and dividends income received	77	1
Interest expenses paid	(15,083)	(28,499)
Income taxes paid	(15,512)	(2,153)
Settlement package paid	(1,000)	-
Net cash provided by operating activities	44,020	(6,396)
Cash flows from investing activities		
Purchase of property, plant and equipment	(222)	(9,986)
Proceeds from sales of property, plant and equipment	507	-
Purchase of investment securities	-	(246,540)
Proceeds from sales of investment securities	26,984	-
Purchase of intangible assets	(50,022)	(34,599)
Collection of loans receivable	10,904	9,555
Payments of loans receivable	(11,100)	(37,059)
Net cash provided by (used in) investing activities	(22,948)	(318,630)

	Fiscal year ended December 2011 (Jan. 1 – Sep. 30, 2011)	Fiscal year ended December 2012 (Jan. 1 – Sep. 30, 2012)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	24,478	53,682
Proceeds from long-term loans payable	-	200,675
Repayment of long-term loans payable	(43,126)	(27,528)
Proceeds from issuance of common stock	-	160,986
<b>Payments for issuance of common stock</b>	-	(1,518)
Net cash provided by (used in) financing activities	<u>(18,648)</u>	<u>386,296</u>
Effect of exchange rate change on cash and cash equivalents	<u>(639)</u>	<u>(123)</u>
Net increase (decrease) in cash and cash equivalents	<u>1,783</u>	<u>61,146</u>
Cash and cash equivalents, beginning of period	<u>15,514</u>	<u>17,298</u>
Cash and cash equivalents, end of period	<u>17,298</u>	<u>78,444</u>



Notes concerning the premise of a going concern

The Group has recorded operating loss for a five consecutive accounting year from the 13<sup>th</sup> consolidated accounting year, but for the current year, we recorded operating income of 35,065K yen. However, due to extraordinary loss of 115,836K yen (e.g. impairment charges), net loss for the current year reached 43,382K yen. Cash flow from operating activities became negative, resulting in cash outflow of 6,396K yen, liquid liabilities, such as short-term loans as of the end of the consolidated accounting year remain at high level against liquidity at hand, as were at the end of the previous year. Under these circumstances, there are events or circumstances in which there is a material doubt about the premise of a going concern.

In order to get over these circumstances, we use efforts to enhance profitable biometrics business and financial structure through reduction in expenses (e.g. sales and general administration costs), and take all such measures as may be necessary for future improvement. The measures include;

- (a) We diversified promotional activities and actively enhance operation, including, finger authentication business marketing using WEB, in order to build awareness of DDS brand.
- (b) We facilitated promotional activities, such as active product affiliation with other companies, to respond to needs of clients that address creation of information security and network infrastructure in furtherance of recovery of Tohoku Earthquake in a precise manner.
- (c) Bank meeting with the financial institutions was held in October 2012, and as a result of explanation of our efforts to reduce expenses and our commitment to operating policies, we agreed with main bankers in respect of certain rescheduling that defers loan payments until April 2013.
- (d) We continued to implement such measures for improving profit ratio by focusing on profitable finger authentication business under the streamlining internal organizational system with expert minority.
- (e) Increase the number of Directors to strengthen operating and administrative system, and enhance a new operating base and the internal control.

We will encourage disposition of real estate acquired through capital in kind, and facilitate operating activities for restructuring overseas business in the future.

However, the Group's continuous carrying out of business depends on successful implementation of various measures for the aforementioned improvement of profitability and enhanced financial structure, and if our efforts for these measures are not completed and there is material uncertainty about the premise of a going concern of the Group, as well as probability of a material doubt about the existence of the Group.

Material items for preparing consolidated financial statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries: one subsidiary

Name of main consolidated subsidiary:

DDS Korea, Inc

(2) Name of non-consolidated subsidiary:

Not applicable

2. Application of equity method

Not applicable

3. Financial period of consolidated subsidiaries

Reporting date of all consolidated subsidiaries coincides with the consolidated reporting date.

4. Standards of accounting process

(1) Standards and method of evaluating material assets

(a) Securities

Other securities

Securities for which no fair market value is available

The Company adopts cost method based on the moving-average method.

(b) Inventories

i. Merchandise:

Cost method based on the weighted-average method (loss on write-down of B/S value due to reduction in profitability is to be recognized)

ii. Products:

Cost method based on the weighted-average method (loss on write-down of B/S value due to reduction in profitability is to be recognized)

iii. Raw materials:

Cost method based on the weighted-average method (loss on write-down of B/S value due to reduction in profitability is to be recognized)

iv. Work in progress

Cost method based on the actual cost method (loss on write-down of B/S value due to reduction in profitability is to be recognized)

v. Supplies

Cost method based on the most recent purchase method (loss on write-down of B/S value due to reduction in profitability is to be recognized)

(2) Method of depreciation of material depreciable assets

(a) Tangible fixed assets

Declining balance method

For buildings (excluding attached structure) acquired after April 1, 1998, straight line method is applied.

(b) Intangible fixed assets

Straight-line method

Software purchased by the Company is amortized on the basis of the internal use-life (i.e. 5 years).

In-house software is amortized on the basis of (i) the amortizable amount based on expected sales of quantity, or(ii) the amortizable amount based on expected period during which products can be sold, whichever is greater.

(3) Standards of recognizing material allowance

(a) Allowance for bad debts

In order to cover loss from inability to collect accounts receivable or loans, the Company evaluate collectivity of certain credits, including, doubtful credits on an individual basis to recognize the expected amount of irrecoverable loans. At foreign consolidated subsidiaries, the expected amount of irrecoverable loans is recognized mainly for certain specified credits.

(b) Allowance for bonus

An amount of the future estimated amount that is assignable to the current consolidated accounting year is recorded to apply bonus paid to employees.

(c) Allowance for severance pay

In order to cover severance pay, the expected amount that has accrued as of the end of the year is recognized.

For the purpose of calculation of accrued amounts, the Company adopts short-cut calculation method by which the amount required to be paid is determined as if he or she retires for personal reasons as of the end of the year.

(d) Allowance for contingent loss

The amount corresponding to penalties that are likely to be imposed upon earlier transfer of the Company's principal office is recorded.

(4) Standards for conversion of material assets or liabilities denominated in foreign currency into Japanese yen

Any monetary claims and debts denominated in foreign currency are converted into Japanese yen using spot exchange rate prevailing as of the reporting date, and the difference is recognized as loss or gain.

Assets or liabilities of foreign subsidiaries are converted into Japanese yen using spot exchange rate prevailing as of the reporting date, and revenues and costs are converted into Japanese yen using average rate during the consolidated accounting year, and the difference is recorded in the foreign currency translation account of the net assets.

(5) Scope of funds for the consolidated cash flow statement

Funds include cash at hand; immediately available funds; and short-term investments that can be easily liquidated, with little risk of fluctuation of values, and become due and payable within three months after acquisition date.

- (6) Other material matters for preparing the consolidated financial statements  
Accounting process for consumption tax:  
All accounts are indicated exclusive of consumption tax.
5. Matters relating to evaluation of assets or liabilities of consolidated subsidiaries.  
Assets or liabilities of consolidated subsidiaries are evaluated using full market value method.

Change in the method of representation:  
Not applicable

Additional information:

Accounting Standards and Implementation Guidance on Correction of Accounting Changes and Errors

For any change in the accounting procedures or correction of errors that are implemented after the beginning of the current year, Accounting Standards on Correction of Accounting Changes and Errors (Corporate Accounting Standards No.24, December 4, 2009), and Implementation Guidance for Accounting Standards on Correction of Accounting Changes and Errors (Corporate Accounting Standards No.24, December 4, 2009) will apply.

Segment Information  
Segment Information

1. Summary of reporting segments

The Company's reporting segments are composition units for which separate financial information is available, and are subject to periodic review in order to determine allocation of managerial resources and evaluate performance.

The Company has its Operations Department classified by products or services within the principal office, each of which proposes a domestic and overseas comprehensive strategy for products handled by it.

Accordingly, the Company are composed of segments by products or services, based on each Operations Department, and has three reporting segments, that is, "In-house Development Product Business", "Entrusted Development Business", and "Real Estate Business".

"In-house Development Product Business" produces finger authentication equipment, "Entrusted Development Business" develops software, and "Real Estate Business" acquires, administer, lease, and dispose of real estate.

2. Method of calculating the amount of sale, profit and loss, assets and liabilities or other items

Method of accounting process for reporting business segments is stated as in Significant Matters That Serve as the Basis for Preparation of Consolidated Financial Statements"

Profits earned by reporting segments are indicated on an operating profits basis.

3. Information regarding the amount of sale, profit and loss, assets and liabilities or other items (for a period from January 1, 2011 through December 31, 2011)

(Unit: thousand Yen)

	Reporting segment				Others NB) 1	Total	Adjustment	The amount recorded in consolidated financial statements e
	In-house Development Product Business	Entrusted Development Business	Real Estate Business	Total				
Sale Sale to external clients	464,810	4,178	45,714	504,703	4,365	519,068	-	519,068
Internal sale or transfer among segments	-	-	-	-	-	-	-	-
Total	464,810	4,178	45,714	504,703	4,365	519,068	-	519,068
Segment profit or loss	95,440	Δ849	24,565	119,155	4,351	123,507	(183,370)	(59,862)
Segment assets	77,760	9,173	801,498	888,432	-	888,432	289,144	1,177,576
Other items depreciation	23,561	257	14,949	38,769	-	38,769	1,307	40,076
Increase or decrease in tangible/intangible fixed assets	(297)	-	-	(297)	-	(297)	4,037	3,739

NB)

- Item "Others" represents the business segments (e.g. Nano Technologies business) that are not contained in the reporting segments.
- Adjustment includes costs covering the entire enterprise (fundamental testing/research costs and administration division (e.g. General Affairs/Accounting Division) that do not belong to any of reporting segment), which cannot be allocated to each reporting segment.
- An adjustment was made between segment profit and loss, and operating loss reported in the Quarterly Consolidated P/L statements.

The Current Consolidated Accounting Year  
From January 1, 2012 through December 31, 2012

	Reporting segment				Other (NB) 1	Total	Adjustment	The amount recorded in consolidated financial statements e
	In-house Development Product Business	Entrusted Development Business	Real Estate Business	Total				
Sale to external clients	587,722	3,600	37,045	628,367	-	628,367	-	628,367
Internal sale or transfer among segments	-	-	-	-	-	-	-	-
Total	587,722	3,600	37,045	628,367	-	628,367	-	628,367
Segment profit or loss	270,796	1,459	1,163	273,419	(1,597)	271,821	(236,756)	35,065
Segment assets	56,872	-	784,978	841,851	-	841,851	234,650	1,076,501
Other items depreciation	18,941	-	15,723	34,664	-	34,664	700	35,365
Increase or decrease in tangible/intangible fixed assets	(2,711)	Δ 9,173	-	(11,917)	-	(11,917)	(53,794)	(65,710)

NB)

1. Item "Others" represents the business segments (e.g. Nano Technologies business) that are not contained in the reporting segments.
2. Adjustment includes costs covering the entire enterprise (fundamental testing/research costs and administration division (e.g. General Affairs/Accounting Division) that do not belong to any of reporting segment), which cannot be allocated to each reporting segment.
3. An adjustment was made between segment profit and loss, and operating loss reported in the Quarterly Consolidated P/L statements.

Information per share

Prior year From January 1, 2011 through December 31, 2011	Current year From January 1, 2012 through December 31, 2012
Amount of net assets per share: 55.86 yen Amount of net loss per share: 32.55 yen Diluted earnings per share are not indicated because they represent diluted losses per share, although potential shares exist.	Amount of net assets per share: 305.73 yen Amount of net loss per share: 159.89 Diluted earnings per share are not indicated because they represent diluted losses per share, although potential shares exist.

NB) Amount of net loss per share is based on the following:

	Prior year From January 1, 2011 through December 31, 2011	Current year From January 1, 2012 through December 31, 2012
Amount of net loss per share		
Net (loss) for the current year) (in thousand yen)	( 8,451)	(43,382)
Amount not belonging to shareholders of ordinary shares (in thousand yen)	-	-
Net (loss) (in thousand yen)	( 8,451)	(43,382)
Average number of shares (shares)	259,657	271,324
Summary of potential shares having no dilution effect which are not included for calculation of net income per share	N/A	N/A

Material Events after the Reporting Period

Not applicable

## 5. Non-consolidated financial statements

### (1) Non-consolidated balance sheets

(Thousand yen)

	Fiscal year ended December 2011 (As of December 31, 2011)	Fiscal year ended December 2012 (As of December 31, 2012)
<b>ASSETS</b>		
Current assets		
Cash and deposits	14,758	76,877
Accounts receivable-trade	146,459	209,763
Merchandise and finished goods	48,251	16,059
Raw materials and supplies	544	232
Advances payments	2,335	12,987
Prepaid expenses	3,059	13,514
Short-term loans receivable	2,495	30,000
Accounts receivable - other	199,923	18,417
Other	27	3,304
Allowance for doubtful accounts	(133,081)	(104)
Total current assets	284,774	381,051
Fixed assets		
Property, plant and equipment		
Buildings and structures	458,585	458,585
Accumulated depreciation	(26,292)	(71,008)
Buildings and structures, net	432,292	387,576
Buildings and accompanying facilities	-	5,840
Accumulated depreciation	-	(1,418)
Buildings and accompanying facilities, net	-	4,421
Vehicles	1,282	1,282
Accumulated depreciation	(1,080)	(1,144)
Vehicles, net	202	137
Tools, furniture and fixtures	57,835	53,303
Accumulated depreciation	(54,399)	(47,905)
Tools, furniture and fixtures, net	3,435	5,398
Land	661,511	616,666
Total property, plant and equipment	1,097,442	1,014,200
Intangible assets		
Software	79,763	62,051
Other	347	240
Total intangible assets	80,110	62,291
Investments and other assets		
Investment securities	68,284	343,089
Investments in capital	10	10
Long-term loans receivable from subsidiaries and affiliates	205,691	257,742
Long-term prepaid expenses	141	-
Lease and guarantee deposits	19,717	16,094
Long-term accounts receivable	8,000	44,800
Long-term accounts receivable-trade	97,802	122,585
Other	8	8
Allowance for doubtful accounts	(307,493)	(382,829)
Total investments and other expenses	92,162	401,501
Total fixed assets	1,269,715	1,477,993
Total assets	1,554,490	1,859,045

(Thousand yen)

	Fiscal year ended December 2011 (As of December 31, 2011)	Fiscal year ended December 2012 (As of December 31, 2012)
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable-trade	10,526	9,794
Short-term loans payable	82,080	135,762
Current portion of long-term loans payable	475,316	695,129
Accounts payable - other	37,794	32,542
Accrued expenses	63,791	54,234
Income taxes payable	7,405	5,251
Accrued consumption taxes	13,414	5,110
Deposits received	10,037	10,057
Deferred revenue	29,654	38,240
Provision for bonuses	3,050	2,612
Provision for contingent loss	14,026	23,933
Others	602	-
Total current liabilities	747,699	1,012,668
Long-term liabilities		
Long-term loans payable	256,011	216,450
Long-term accounts payable	516,393	482,013
Provision for retirement benefits	7,498	6,479
Long-term unearned revenue	7,537	32,570
Total long-term liabilities	787,439	737,513
Total liabilities	1,535,139	1,750,181
<b>NET ASSETS</b>		
Shareholders' equity		
Paid-in capital	1,714,720	1,795,213
Capital surplus		
Legal capital surplus	1,804,736	1,885,229
Total capital surplus	1,804,736	1,885,229
Retained earnings		
Other retained earnings		
Retained earnings brought forward	(3,506,525)	(3,621,523)
Total retained earnings	(3,506,525)	(3,621,523)
Total shareholders' equity	12,931	58,919
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(3,526)	23,928
Total valuation and translation adjustments	(3,526)	23,928
Subscription rights to shares	9,946	26,016
Total net assets	19,351	108,863
Total liabilities and net assets	1,554,490	1,859,045



## (2) Statements of income

(Thousand yen)

	Fiscal year ended December 2011 (Jan. 1 – Dec. 31, 2011)	Fiscal year ended December 2012 (Jan. 1 – Dec. 31, 2012)
Net sales		
Net sales	517,202	629,148
Total net sales	517,202	629,148
Cost of sales		
Cost of finished goods sold		
Beginning finished goods	81,055	48,251
Cost of products manufactured	67,414	68,711
Total	148,469	116,963
Ending finished goods	47,251	16,059
Net	101,217	100,903
Amortization of software	64,903	50,361
Cost of finished goods sold	166,121	151,265
Cost of goods sold		
Cost of goods sold	-	1,569
Cost of sales on real estate business	18,766	35,817
Total cost of sales	184,887	188,652
Gross profit	332,314	440,495
Selling, general and administrative expenses	377,321	403,647
Operating income (loss)	(45,006)	36,848
Non-operating income		
Interest income	77	231
Miscellaneous income	512	1,042
Foreign exchange gains	-	43,446
Total non-operating income	590	44,720
Non-operating expenses		
Interest expenses	20,494	27,019
Provision of allowance for doubtful accounts	6,900	58,736
Foreign exchange loss	351	-
Loss on assignment of an obligation	264	175
Stock issuance cost	-	1,518
Miscellaneous expenses	17	61
Amortization of guarantee deposits	2,019	-
Depreciation	-	6,977
Total non-operating expenses	30,199	94,487
Ordinary income (loss)	(74,536)	(12,919)
Extraordinary income		
Gain on prior period adjustment	1,445	-
Gain on sales of noncurrent assets	30,000	-
Reversal of provision for retirement benefits	2	-
Reversal of provision for bonuses	617	-
Reversal of allowance for doubtful accounts	3,650	-
Loss on sales of investment securities	17,004	-
Gain on liquidation of subsidiaries	597	-
Gain on forgiveness of debt	9,598	15,420
Penalty	150,000	-
Gain on donation of inventories	1,000	-
Total extraordinary income	213,915	15,420
Extraordinary loss		
Loss on retirement of fixed assets	4,579	278
Loss on retirement of inventories	-	38,578
Loss on prior period adjustment	3,543	-
Impairment loss	5,559	66,859
Provision of allowance for doubtful accounts	137,081	-
Loss on adjustment for changes of accounting standard for asset retirement obligations	2,115	-
Office transfer expenses	695	-
Loss on cancellation of leasehold contracts	14,026	-
Settlement package	1,000	-
Provision for contingent loss	-	9,906
Others	-	213
Total extraordinary loss	168,600	115,836
Loss before income taxes and minority interests	(29,221)	(113,335)
Income taxes-current	2,254	1,663

Refund of income taxes for prior periods	(1,335)	-
Total income taxes	918	1,663
Net loss	(30,140)	(114,998)

## (3) Statement of changes in non-consolidated shareholders' equity

(Thousand yen)

	Fiscal year ended December 2011 (Jan. 1 – Dec. 31, 2011)	Fiscal year ended December 2012 (Jan. 1 – Dec. 31, 2012)
Shareholders' equity		
Paid-in capital		
Balance at the beginning of current period	1,714,720	1,714,720
Changes of items during the period		
Issuance of new shares	-	80,493
Total changes of items during the period	-	80,493
Balance at the end of current period	1,714,720	1,795,213
Capital surplus		
Legal capital surplus		
Balance at the beginning of current period	1,804,736	1,804,736
Changes of items during the period		
Issuance of new shares	-	80,493
Total changes of items during the period	-	80,493
Balance at the end of current period	1,804,736	1,885,229
Total capital surplus		
Balance at the beginning of current period	1,804,736	1,804,736
Changes of items during the period		
Issuance of new shares	-	80,493
Total changes of items during the period	-	80,493
Balance at the end of current period	1,804,736	1,885,229
Retained earnings		
Other retained earnings		
Retained earnings brought forward		
Balance at the beginning of current period	(3,476,385)	(3,506,525)
Changes of items during the period		
Net loss	(30,140)	(114,998)
Total changes of items during the period	(30,140)	(114,998)
Balance at the end of current period	(3,506,525)	(3,621,523)
Total retained earnings		
Balance at the beginning of current period	(3,476,385)	(3,506,525)
Changes of items during the period		
Net loss	(30,140)	(114,998)
Total changes of items during the period	(30,140)	(114,998)
Balance at the end of current period	(3,506,525)	(3,621,523)
Total shareholders' equity		
Balance at the beginning of current period	43,071	12,931
Changes of items during the period		
Issuance of new shares	-	160,986
Net loss	(30,140)	(114,998)
Total changes of items during the period	(30,140)	45,987
Balance at the end of current period	(12,931)	58,919
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance at the beginning of current period	-	(3,526)
Changes of items during the period		
Net changes of items other than shareholders' equity	(3,526)	27,454
Total changes of items during the period	(3,526)	27,454
Balance at the end of current period	(3,526)	23,928
Subscription rights to shares		
Balance at the beginning of current period	-	9,946
Changes of items during the period		
Net changes of items other than shareholders' equity	9,946	16,069
Total changes of items during the period	9,946	16,069
Balance at the end of current period	9,946	26,016
Total net assets		
Balance at the beginning of current period	43,071	19,351
Changes of items during the period		
Issuance of new shares	-	160,986
Net loss	(30,140)	(114,998)
Net changes of items other than shareholders' equity	6,419	43,524
Total changes of items during the period	(23,720)	89,512
Balance at the end of current period	19,351	108,863

6. Other

(1) Change in Directors

(a) Change in Representative

(b) Change in other Directors

Not applicable

(2) Other

Not applicable