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## Quarterly Securities Report

The 1st half of the 39th Business term,  
from July 1, 2021 to December 31, 2021

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### INTELLIGENT WAVE INC.

This document is the translation of the original Japanese document except for the independent auditors' reports. This document is prepared for reference purposes.

In the event of any discrepancy between this document and the Japanese original, the original shall prevail.

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Chapter 1 【Company Overview】  
Section 1 【General Information】  
1 【Selected financial data】 JGAAP

		1st half ended December 31, 2020	1st half ended December 31, 2021	Fiscal year ended June 30, 2021
		From July 1, 2020 To December 31, 2020	From July 1, 2021 To December 31, 2021	From July 1, 2020 To June 30, 2021
Net sales	Thousands of yen	5,247,940	4,887,281	11,187,679
Ordinary income	Thousands of yen	421,100	499,774	1,171,233
Net income	Thousands of yen	285,628	337,925	840,970
Investment income under the equity method	Thousands of yen	3,658	876	5,565
Capital stock	Thousands of yen	843,750	843,750	843,750
Number of shares issued		26,340,000	26,340,000	26,340,000
Net assets	Thousands of yen	7,073,419	7,354,379	7,567,656
Total assets	Thousands of yen	10,430,736	10,450,732	11,140,135
Earnings per share	Yen	10.86	12.85	31.98
Fully diluted earnings per share	Yen	—	—	—
Dividends per share	Yen	—	—	—
Shareholders' equity ratio	(%)	67.8	70.4	67.9
Net cash provided by operating activities	Thousands of yen	574,730	297,521	1,700,270
Net cash provided by investing activities	Thousands of yen	(195,513)	(649,842)	(742,978)
Net cash provided by operating activities	Thousands of yen	(278,914)	(345,437)	(292,123)
Cash and cash equivalents at end of period	Thousands of yen	3,741,171	3,610,983	4,307,699

		2nd quarter for FY06/2020	2nd quarter for FY06/2021
		From October 1, 2020 to December 31, 2020	From October 1, 2021 to December 31, 2021
Earnings per share	Yen	7.68	9.70

(Note)

1. Fully diluted earnings per share is not stated because the company did not have any potentially dilutive shares.
2. The Company started applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; March 31, 2020), etc. at the beginning of the first quarter of the current accounting period. Therefore, selected financial data in the first half of the current fiscal year abides by the standard.

2 【Status of Business】

Significant changes in the business of the group companies (INTELLIGENT WAVE INC, a parent company and the one affiliate company) are not applicable for the first half of the current fiscal year.

## Section 2 【Status of Business】

### 1 【Business Risks】

In the first half of the current fiscal year, there have been no significant changes in the status of business, accounting, other matters stated in this Quarterly Securities Report that may have a significant impact on the judgment of investors, and the "Business Risks" stated in the Annual Securities Report for the previous fiscal year. There are no significant events existing.

### 2 【Management's discussion and analysis of financial position, operating results and cash flows】

Matters regarding the future are stated in this document based on the assumption of the Company as of the day of the submission of this Quarterly Securities Report.

#### (1) Overview of operating results

The Japanese economy in the first half of the FY06/2022, from July to December 2021, was in a tough spot from the effects of the new coronavirus infection, but the trend is picking up.

Card shopping transaction volume of major credit card companies has also been higher than the previous year results since April 2021.

The cashless payment ratio in Japan grew from 18.2% in 2018 to 29.7% in 2020\*. The government aims to increase this ratio to around 40% by June 2025, and is currently pursuing policies to promote the introduction of cashless payments in mid-small merchants. Not only major financial institutions and credit card companies, but companies that provide financial and payment services to individuals and small and medium-sized businesses, as well as companies that provide system services to such companies, which so-called Fintech services are beginning to be popular. These changes in the business environment have become an opportunity for us.

\*[https://www.meti.go.jp/shingikai/mono\\_info\\_service/cashless\\_payment/pdf/2021\\_001\\_04\\_00.pdf](https://www.meti.go.jp/shingikai/mono_info_service/cashless_payment/pdf/2021_001_04_00.pdf)

We aim to achieve "15 ALL" (Fifteen All) as a mid-term business goal, net sales of 15 billion yen and an operating income margin of 15% for the fiscal year ending June 30, 2024.

Based on our strength, the system development business related to payment operations, we are enhancing our profitability by the growth of our cloud service business and expanding our business domain by providing IT infrastructure that contributes to "DX", Digital Transformation, for customers in industries other than finance. Operating income for the fiscal year ending June 30, 2024 is planned to be 2.25 billion yen, almost double the result of the 1.13 billion yen achieved in the fiscal year ended June 30, 2021.

In the cloud service business, which is the main driving force behind our mid-term business plan, orders have been growing on the active business negotiations with new customers. In the first quarter of the current fiscal year, we received 1 billion yen in new orders. During the second quarter of the current fiscal year, we received 1.87 billion yen in new orders, and the order backlog in the cloud service business increased significantly from 1.85 billion yen at the end of the previous fiscal year to 4.23 billion yen at the end of the current quarter. We are going to accumulate additional new orders in the second half of the current fiscal year. These orders will contribute to sales for the fiscal year ending June 30, 2023 (next fiscal year) and beyond, we plan to achieve sales of 2 billion yen in the fiscal year ending June 30, 2023 and 2.5 billion yen in the fiscal year ending June 30, 2024. For the current fiscal year (ending June 30, 2022), we are forecasting to post sales of 1.13 billion yen, and for the first time since the business launch, we will post a profit for the full year. The business has been in the black since the first half of the current fiscal year, and the business has begun to generate revenue in a medium-term.

The Company, which is responsible for developing and operating systems that provide indispensable functions for credit card payment, properly recognizes its social mission and promotes its business with improving the facilities and systems necessary to continue business.

To prevent the spread of new coronavirus infection, we have taken measures such as assessing the health status of employees and staff, implementing telework and staggered working hours, and limiting domestic and international business trips. The financial results for the first half of this fiscal year have not been affected by new corona virus infection.

For the first half of the current fiscal year, we recorded net sales of 4,887 million yen (down 6.9% year-on-year), operating income of 478 million yen (up 18.0% year-on-year), ordinary income of 499 million yen (up 18.7% year-on-year), and net income of 337 million yen (up 18.3% year-on-year).

Net sales were lower than the previous fiscal year's results. We recorded comparatively larger-sized sales of Hardware by the sale of a specific server in the previous fiscal year, but no similar-sized sales was booked in this quarter of the current fiscal year. Software development for new customers and sales of In-house products were increased and sales of other categories except for Hardware surpassed the previous year's results, but the extensive decline in Hardware sales reduced net sales totally for the first half of the current fiscal year.

Operating income exceeded the results of the previous fiscal year. Operating income for the second quarter increased by 29.8% compared to the previous fiscal year (271 million yen for the previous fiscal year, 352 million yen for the current fiscal year), and the cumulative total for the first half increased by 18.0% (405 million yen for the previous fiscal year, 478 million yen for the current fiscal year). The cloud service business improved and turned profitable because of an increase in sales from the launch of services for new customers and a decrease in fixed costs and operation expenses. We posted a profit of 11 million yen for the first half, compared to a loss of 49 million yen in the previous fiscal year. The increase in sales of In-house products to new customers and the improved profitability of system development covered the decrease in profit due to the decline in Hardware sales, resulting in an increase in operating income for the first half of the current fiscal year.

Our cloud service has become one of the most favorable options not only for existing financial enterprises but also for companies starting up their own card and payment businesses. As mentioned above, orders received increased significantly throughout the first half of the current fiscal year, totaling 2,876 million yen. This was due to orders from companies starting payment business and customers in the financial industry such as major credit card companies. In the second half of the current fiscal year, new orders are expected from companies except for the financial industry and credit card companies, and the cloud service business has begun to generate revenue in earnest.

We engage the development of FEP (Front End Processing) system for our customers, credit card companies mainly, which includes functions such as network connection and card transaction authorization necessary to complete credit card payment processing. For example, when we develop a new FEP system for customers, we record sales from the sale of NET+1 (In-house product), which constitutes the core of the FEP system, sales from development work (System Development), in which our engineers customize the package to meet the functional requirements of the customer, sales from the sale of servers (Hardware), in which the developed software is installed, and sales from maintenance work (Maintenance) are recorded.

Also, we engage the business of selling our products, which prevent internal information leakage in corporate organizations, and third-party products for cyber-security measures.

Trends in sales by categories are as follows.

(Chart 1) Sales by categories (Million yen)

Category	1 <sup>st</sup> half of FY12/2020	1 <sup>st</sup> half of FY12/2021
System Development	2,437	2,519
Maintenance	647	728
In-house products	209	268
Cloud service	470	493
Hardware	872	272
Third-party products	240	168
Security products	369	438
Total	5,247	4,887

From this fiscal year, the category classification in (Chart 1) has been subdivided and categories have been redefined in operation.

We have revised categories to show the classification of sales based on the so-called "stock" and "flow" type in more precise way than before. Judging from the type of contract and the actual status of the services, we have classified projects and contracts that can generate a certain amount of sales on a regular basis as "stock" and the rest of those as "flow".

Typical examples of "stock" type sales are fees for the use of systems and system operations related to the cloud service business, or fees for maintenance service for our products or third-party products. Cloud service fees are categorized as "Own Services". Typical "flow" type sales include fees for contracted development work and sales of the in-house products and third-party products. Results for this quarter are as follows.

(Chart 2) Categories by Stock and Flow (Million yen)

Category	1 <sup>st</sup> half of FY12/2021	Ratio (%)
Software Development	1,978	40.5
In-house products	285	5.8
System Service	16	0.3
Third-party products	157	3.2
Sum of "Flow" type sales	2,437	49.9
Maintenance	1,277	26.1
Maintenance for third-party products	307	6.3
Own Services	624	12.8
Other Services	238	4.9
Sum of "Stock" type sales	2,449	50.1
Total	4,887	100.0

As mentioned above, the order backlog as of the end of the second quarter was 7,963 million yen, significantly higher than the previous result of the 5,688 million yen as of December 31, 2020 by the growth in orders in the cloud service business. There are no unprofitable projects in the system development business, and profitability is stable, we expect our business in the second half to proceed smoothly. There is no change in the full-year forecast. In addition, the new coronavirus infection is not expected to have a significant impact on the full-year results.

On January 11, 2022, announced by the Tokyo Stock Exchange "Announcement of the Results of Market Segment Selection by Listed Companies", our shares will be listed on the Prime Market from April 4, 2022. On December 8, 2021, we selected to be listed in the Prime Market and disclosed our "Plan to meet the Continued Listing Criteria for the New Market Segments". As mentioned in the plan, the policies of the company are to work for the steady execution of "15 ALL", our mid-term business plan, improving corporate governance and enhancing shareholder return. We are going to adapt ourselves to listing requirements for Prime market by these actions.

## (2) Report of Financial Position

### (Assets)

The balance of assets at the end of the first half of this fiscal year decreased by 689 million yen from the end of the previous fiscal year to 10,450 million yen. Current assets decreased by 779 million yen from the end of the previous fiscal year to 6,196 million yen. This was mainly due to the decrease of 217 million yen in notes and accounts receivable and the decrease of 696 million yen in cash and deposits.

Non-current assets increased 89 million yen from the end of the previous fiscal year to 4,254 million yen. This was mainly due to the decrease of 105 million yen in investment securities and increase of 282 in intangible assets.

### (Liabilities)

The balance of liabilities at the end of the first half of this fiscal year decreased by 476 million yen from the end of the previous fiscal year to 3,096 million yen. This was mainly due to the decrease of 86 million yen in provision for bonuses and the decrease of 172 million yen in income tax payable.

### (Net Assets)

Net assets at the end of the first half of this fiscal year decreased 213 million yen from the end of the previous fiscal year to 7,354 million yen. This was mainly due to the decrease of 139 million yen in retained earnings and decrease of 73 million yen in valuation difference on available-for-sale securities.

## (3) Report of Cash Flows

The balance of cash and deposits at the end of first half of the current fiscal year was ended in 3,610 million yen (3,741 million yen at the end of the previous fiscal year).

Results and the causes in each cash flow are as follows.

### (Cash flows from operating activities)

Net cash provided by operating activities in the first half of the current fiscal year amounted to 297 million yen (net cash amounted in the previous fiscal year was 574 million yen). This was mainly attributable to the fact that income before taxes amounted to 499 million yen and depreciation amounted to 402 million yen, and notes and accounts receivable increased 142 million yen, and inventories increased 124 million yen by the production cost of system development works in progress.

### (Cash flows from investing activities)

Net cash used in investing activities in the first half of the current fiscal year was 649 million yen (compared with 195 million yen used in the previous fiscal year). This was mainly due to 561 million yen used for the purchase of intangible fixed assets by the development works of the software for sales purposes and the internal use.

### (Cash flows from financing activities)

Net cash used in financing activities in the first half of the current fiscal year was 345 million yen (278 million yen used in the previous fiscal year). This was mainly due to cash dividends paid of 340 million yen.

## (4) Business and Financial Tasks to be addressed

There has been no significant change in the task to be addressed by the Group's business for the first half of the current fiscal year.

## (5) Research and development activities

R&D expenditures for the first half of the current fiscal year totaled 14 million yen.

The company executed proving test for scoring function of in-house product, next generation fraud detection system "FARIS", and prototype development, utilizing FPGA, of software for acceleration of open-source database.

## 3 【Important agreements for business】

There have been no critical business contracts in the first half of the current fiscal year

Section 3 【Status of the company】

1 【Shares】

(1) 【Total number of shares】

① 【Total number of shares】

Class	The number of shares authorized to be issued
Common stock	105,360,000
Total	105,360,000

② 【Issued Shares】

Class	Number of shares issued as of December 31, 2021	Number of shares issued at the filing date (February 4, 2022)	Stock Exchange on which the Company is Listed	Description
Common stock	26,340,000	26,340,000	Tokyo Stock Exchange 1st Section	The number of shares per one unit of shares is 100 shares
Total	26,340,000	26,340,000	—	—

(2) 【Status of Share acquisition rights】

① 【Stock Options】

Not applicable

② 【Status of other share acquisition rights】

Not applicable

(3) 【Moving strike convertible bonds】

Not applicable

(4) 【Changes in the total number of issued shares, the amount of common stock, and other】

Date	Changes in the total number of issued shares	Balance of the total number of issued shares	Changes in capital stock	Balance of capital stock	Change in capital reserve	Balance of capital reserve
October 1, 2021～ December 31, 2021	—	26,340,000	—	843,750	—	559,622



## (5) 【Major Shareholders】

As of December 31, 2021

Name of shareholder	Address	Number of shares held	Ownership percentage to the issued shares (%)
Dai Nippon Printing Co., Ltd.	1-1-1, Ichigaya-Kagacho Shinjuku-ku, Tokyo	13,330,700	50.71
Kazuhiko Adachi	Konan-ku, Yokohama Kanagawa pref.	2,382,900	9.06
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	1,366,000	5.20
INTELLIGENT WAVE Employee Shareholders Association	1-21-2 Shinkawa Chuo-ku, Tokyo	581,400	2.21
Custody Bank of Japan, Ltd. (Trust Account)	Harumi Island Triton Square Tower Z 8-12, Harumi 1-Chome, Chuo-ku, Tokyo	343,100	1.31
Momoko Mizota	Chiyoda-ku, Tokyo	307,200	1.17
BNYM AS AGT/CLTS NON TREATY JASDEC (Standing proxy: MUFG Bank, Ltd.)	240 GREENWICH STREET, NEW YORK, NEW YORK 10286 U.S.A (2-7-1 Marunouchi Chiyoda-ku, Tokyo)	256,609	0.98
Hideki Nishino	Midori-ku, Yokohama Kanagawa pref.	209,000	0.80
MUFG Bank, Ltd.	2-7-1 Marunouchi Chiyoda-ku, Tokyo	200,000	0.76
Hirotsugu Kobayashi	Yachiyo, Chiba pref.	191,600	0.73
Total	—	19,168,509	72.92

## (6) 【Voting Rights】

## ① 【Issued shares】

As of December 31, 2021

Classification	Number of shares	Number of voting rights	Description
Shares without voting rights	—	—	—
Shares with restricted voting rights (treasury stock, etc.)	—	—	—
Shares with restricted voting rights (others)	—	—	—
Shares with full voting rights (treasury stock, etc.)	(Treasury stock) Common stock 52,800	—	—
Shares with full voting rights (others)	Common stock 26,267,800	262,678	—
Shares representing less than one unit	Common stock 19,400	—	—
Number of issued shares	26,340,000	—	—
Total number of voting rights	—	262,678	—

(Note)

1. Shares with full voting rights (others) include 700 shares (seven voting rights) held in the name of the Japan Securities Depository Center.
2. Shares representing less than one unit include 51 shares of Treasury stock.

② 【Treasury stock】

As of December 31, 2021

Name of shareholder	Address	Number of shares held under own name	Number of shares held under the names of others	Total shares held	Ownership percentage to the total number of issued shares (%)
(Treasury stock) INTELLIGENT WAVE INC.	1-21-2 Shinkawa Chuoku, Tokyo	52,800	—	52,800	0.20
Total	—	52,800	—	52,800	0.20

(Note) Number of shares held under own name above excludes 51 shares representing less than one unit.

2 【Executives of the company】

There has been no change of executives of the company after the submission of the Annual Securities Report for the previous fiscal year (FY06/2021).

## Section 4 【Financial Status】

### 1. Preparation of Quarterly Financial Statements

Our quarterly financial statements have been prepared in accordance with the "Ordinance on the Terminology, Forms, and Preparation Methods of Quarterly Financial Statements" (Cabinet Office Ordinance No. 63 of 2007).

### 2. Audit Certification

In accordance with Article 193-2(1) of the Financial Instruments and Exchange Act, we have undergone a quarterly review of the quarterly financial statements for the second quarter (from October 1, 2021 to December 31, 2021) and for the first half (from July 1, 2021 to December 31, 2021) by BDO Sanyu & Co.

### 3. Quarterly Consolidated Financial Statements

The company has not prepared the consolidated financial statements, as the company has no subsidiaries.

# 1. 【Financial Statements】

## (1) Balance Sheet

	Thousands of yen	
	Previous term end (as of June 30,2021)	Current term end (as of December 31,2021)
<b>Assets</b>		
Current assets		
Cash and deposits	4,307,699	3,610,983
Notes and accounts receivable	1,698,475	—
Notes and accounts receivable, and contract assets	—	1,480,867
Inventories	371,178	349,424
Other	598,409	755,425
Total current assets	6,975,762	6,196,701
Non-current assets		
Property, plant and equipment	733,004	679,662
Intangible assets		
Software	1,124,857	938,025
Other	192,821	661,922
Total intangible assets	1,317,679	1,599,947
Investments and other assets		
Investment securities	1,369,810	1,264,117
Other	743,878	710,302
Total investments and other assets	2,113,688	1,974,420
Total non-current assets	4,164,372	4,254,030
Total assets	11,140,135	10,450,732
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable	430,770	413,495
Income taxes payable	243,271	70,786
Advances received	1,233,216	1,216,394
Provision for bonuses	348,470	262,337
Provision for bonuses for directors	43,362	17,979
Other	612,457	451,813
Total current liabilities	2,911,547	2,432,807
Non-current liabilities		
Provision for retirement benefits	544,834	551,646
Provision for retirement benefits for directors	22,550	20,352
Asset retirement obligations	87,487	87,521
Other	6,058	4,024
Total non-current liabilities	660,930	663,544
Total liabilities	3,572,478	3,096,352

	Thousands of yen	
	Previous term end (as of June 30,2021)	Current term end (as of December 31,2021)
Net assets		
Shareholders' equity		
Capital stock	843,750	843,750
Capital surplus	573,099	573,099
Retained earnings	5,621,359	5,482,020
Treasury stock	(26,712)	(26,712)
Total shareholders' equity	7,011,496	6,872,157
Valuation and translation adjustment		
Valuation difference on available-for-sale securities	556,160	482,222
Total valuation and translation adjustments	556,160	482,222
Total net assets	7,567,656	7,354,379
Total liabilities and net assets	11,140,135	10,450,732

## (2) Income Statement

	Thousands of yen	
	Previous term (from July 1, 2020 to December 31, 2020)	Current term (from July 1, 2021 to December 31, 2021)
Net sales	5,247,940	4,887,281
Cost of sales	3,858,124	3,390,064
Gross income	1,389,816	1,497,217
Selling, general and administrative expenses	984,228	1,018,496
Operating income	405,587	478,720
Non-operating income		
Interest income	344	360
Dividend income	20,887	23,107
Others	3,805	3,302
Total non-operating income	25,036	26,770
Non-operating expenses		
Interest expenses	21	—
Commitment fee	2,758	2,939
Compensation expenses	5,000	—
Others	1,744	2,776
Total non-operating expenses	9,524	5,716
Ordinary income	421,100	499,774
Extraordinary income	—	—
Extraordinary losses	—	—
Profit before income taxes	421,100	499,774
Income taxes - current	92,125	50,207
Income taxes - deferred	43,345	111,641
Total income taxes	135,471	161,848
Net income	285,628	337,925

## (3) Cash Flow Statement

	Thousands of yen	
	Previous term (from July 1,2020 to December 31, 2020)	Current term (from July 1,2021 to December 31, 2021)
<b>Cash flows from operating activities</b>		
Income before income taxes	421,100	499,774
Depreciation	357,515	402,295
Share-based payment expenses	38,787	22,605
Increase (decrease) in provision for bonuses	(29,794)	(86,133)
Increase (decrease) in provision for bonuses for directors	(25,508)	(25,382)
Increase (decrease) in provision for retirement benefits	27,918	6,811
Increase (decrease) in provision for retirement benefits for directors	(9,802)	(2,197)
Interest and dividend income	(21,231)	(23,467)
Interest expenses	21	—
Compensation expenses	5,000	—
Commitment fee	2,758	2,939
Decrease (increase) in notes and accounts receivable	(110,002)	(142,606)
Decrease (increase) in inventories	(108,700)	(124,367)
Increase (decrease) in notes and accounts payable	(11,150)	47,441
Other	60,782	(110,593)
Subtotal	597,692	467,120
Interest and dividends received	21,226	23,463
Interest expenses paid	(19)	—
Commitment fee paid	(2,443)	(2,565)
Income taxes paid	(41,726)	(190,497)
Net cash provided by (used in) operating activities	574,730	297,521
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(29,044)	(102,727)
Purchase of intangible assets	(164,866)	(561,807)
Purchase of investment securities	(1,218)	(1,173)
Other	(384)	15,866
Net cash provided by (used in) investing activities	(195,513)	(649,842)

	Thousands of yen	
	Previous term (from July 1,2020 to December 31, 2020)	Current term (from July 1,2021 to December 31, 2021)
Cash flows from financing activities		
Repayments of lease obligations	(16,704)	(4,893)
Cash dividends paid	(262,209)	(340,543)
Net cash provided by (used in) financing activities	(278,914)	(345,437)
Effect of exchange rate change on cash and cash equivalents	(994)	1,041
Net increase (decrease) in cash and cash equivalents	99,307	(696,715)
Cash and cash equivalents at beginning of period	3,641,864	4,307,699
Cash and cash equivalents at end of period	3,741,171	3,610,983



**【Notes to Financial Statement】**

(Revision to the Accounting Policy)

(Application of the Accounting Standard for Revenue Recognition, etc.)

The Company started applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; March 31, 2020), etc. at the beginning of the first quarter of the current accounting period. When the ownership of goods or services has been transferred to a client as promised, we recognize the amount to be received in exchange for said goods or services as revenues. Some revenues for software development had been recognized at the time of acceptance inspection, but through the application of the Accounting Standard for Revenue Recognition, we started recognizing revenues for a certain period of time. For some maintenance contracts, etc., revenues had been recognized at a specific point in time in accordance with the contracts, but we started recognizing revenues for a certain period of time. For some revenues from sale of security products, the total amount of remunerations received from clients had been recognized as revenues, but for transactions in which our company serves as an agent for offering goods or services to clients, we recognize the net amount obtained by subtracting the expenses paid to suppliers, etc. from the total amount of remunerations received from clients as revenues.

The application of the Accounting Standard for Revenue Recognition, etc. follows the transitional handling specified in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retroactive application of the new accounting policy to the period before the first quarter of the current term is reflected in the retained earnings as of the beginning of the first quarter of the current term, and the new accounting policy has been applied from the balance at the beginning of the current term. In addition, the method set forth in the proviso (1) of Paragraph 86 of the Accounting Standard for Revenue Recognition was applied, and the accounting process was carried out based on the conditions of the contracts updated before the first quarter of the current term, and the cumulative effect was reflected in the retained earnings as of the beginning of the first quarter of the current term.

As a result, the sales in the first half of the current term increased to 270,644 thousand yen, the cost of sales rose to 111,097 thousand yen, and the gross profit, operating income, and net income before taxes and other adjustments increased to 159,566 thousand yen each. In addition, the balance of retained earnings at the beginning of the current term decreased to 135,495 thousand yen.

Since the Accounting Standard for Revenue Recognition, etc. were applied, “Notes and accounts receivable” shown in the section of current assets in the balance sheet for the previous accounting year has been included in “Notes and accounts receivable, and contract assets” from the first quarter of the current accounting period. In accordance with the transitional handling set forth in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, the new indication method was not applied to the previous accounting year.

Furthermore, in accordance with the transitional handling set forth in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12; March 31, 2020), we did not write the breakdown of revenues from contracts with clients in the first half of the previous cumulative accounting period.

(Additional information)

There has been no significant change in the assumptions, including the future spread of the new coronavirus infection and the timing of its containment, described in the section (Additional information) of the Annual Securities Report for the previous fiscal year.

(Balance Sheet)

*1 Inventories	Thousands of yen	
	Previous term (June 30, 2021)	Current term (December 31, 2021)
Merchandise and finished Goods	9,871	58,650
Work in progress	355,789	279,908
Raw materials and supplies	5,517	10,866

2 Previous term (as of June 30, 2021)

The company has executed an overdraft agreement and a loan commitment agreement with 4 correspondent banks and 1 life insurance company for the purpose of efficient procurement of operating capital.

The balance of unused loans under these agreements as of the end of the period was 4,200,000 thousand yen.

Current term (as of December 31, 2021)

The company has executed an overdraft agreement and a loan commitment agreement with 4 correspondent banks and 1 life insurance company for the purpose of efficient procurement of operating capital.

The balance of unused loans under these agreements as of the end of the period was 4,200,000 thousand yen.

(Income Statement)

*1 Selling, general and administrative expenses	Thousands of yen	
	Previous term (from July 1, 2020 to December 31, 2020)	Current term (from July 1, 2021 to December 31, 2021)
Salaries and allowances	335,253	338,966
Research and development expenses	30,977	14,814
Provision for bonuses	76,080	70,525
Provision for directors' retirement benefits	2,677	2,260
Retirement benefit expenses	13,365	11,219
Provision for directors' bonuses	17,173	17,979

(Cash Flow Statement)

\*1 "Cash and Cash Equivalents" at the end of the period on the Cash Flow statement reconciles to "Cash and deposits" on the Balance Sheet as follows;

	Thousands of yen	
	Previous term (from July 1, 2020 to December 31, 2020)	Current term (from July 1, 2021 to December 31, 2021)
Cash and deposits	3,741,171	3,610,983
Time deposits exceeding 3 months	—	—
Cash and Cash Equivalents	3,741,171	3,610,983

(Shareholders' equity)

Previous term (from July 1, 2020 to December 31, 2020)

Cash dividends paid

Resolution	Class	Dividends (Thousand yen)	Dividends per share (Yen)	Record date	Effective date	Source of dividends
Annual shareholders meeting at September 25, 2020	Common stock	262,9883	10	June 30, 2020	September 28, 2020	Retained earnings

Current term (from July 1, 2021 to December 31, 2021)

Cash dividends paid

Resolution	Class	Dividends (Thousand yen)	Dividends per share (Yen)	Record date	Effective date	Source of dividends
shareholders meeting at September 25, 2021	Common stock	341,769	13	June 30, 2021	September 30, 2021	Retained earnings

(Business Segment Information)

【Business Segment】

The Business Segment information is omitted because the reportable segment is the single one.

(Investment income under the equity method) Thousands of yen

	Previous term (as of June 30, 2021)	Current term (as of December 31, 2021)
Investment to affiliates	24,680	24,680
Investment under the equity method	129,428	129,961
	Previous term (from July 1, 2020 to December 31, 2020)	Current term (from July 1, 2021 to December 31, 2021)
Investment income under the equity method	3,658	876

(Revenue recognition)

Categorized information on revenue from contracts with customers

Thousands of yen

	1 <sup>st</sup> half of FY06/22 (cumulative) (from July 1, 2021 to December 31, 2021)
Net sales	
Software Development	1,978,839
In-house products	285,280
System Service	16,300
Third-party products	157,483
Maintenance	1,278,296
Maintenance of third-party products	307,416
Own services	624,718
Other services	238,947
Total	4,887,281
Timing of revenue recognition	
Goods and services transferred at a point in time	1,393,514
Goods and services transferred at a period of time	3,493,767
Total	4,887,281

(Earnings per share)

The amounts of net income per share with the respective bases of calculation are as follows.

Items	Previous term (from July 1, 2020 to December 31, 2020)	Current term (from July 1, 2021 to December 31, 2021)
Net income per share (Yen)	10.86	12.85
Bases of calculation		
Net income (Thousand yen)	285,628	337,925
Non attributable to common shareholders	—	—
Net income attributes to common stocks (Thousand yen)	285,628	337,925
Weighted-average number of common stocks outstanding for the period	26,296,117	26,288,149

(Note) Fully diluted earnings per share is not stated because the company did not have any potentially dilutive shares.

(Significant subsequent events)

There is no applicable item.

**【Others】**

Not applicable

Chapter 2 **【Information on the guarantor of the company】**

Not applicable