

## FY2015 Consolidated Financial Results For Fiscal Year Ended March 31, 2016 (Japan GAAP)

May 11, 2016

Company name: Digital Arts Inc. <Tokyo Stock Exchange, First Section>  
 Code no.: 2326 URL <http://www.daj.jp>  
 Representative: Toshio Dogu, President and Chief Executive Officer  
 Contact Person: Hidenobu Akazawa, Director, Administration Department Tel. (03) 5220-6045  
 Scheduled date of annual general meeting of shareholders: June 24, 2016 Scheduled date of payment of cash dividends: June 27, 2016  
 Scheduled date of submission of financial reports: June 27, 2016  
 Additional materials of the Financial Results for FY2015: Yes  
 Briefing session of the Financial Results for FY2015: Yes (for institutional investors and analysts)

(Amounts less than one million yen are rounded)

### 1. Consolidated Financial Results for FY2015 (April 1, 2015 through March 31, 2016)

#### <1> Consolidated operating results

(Percent indications show percentage of changes from corresponding figures for the previous period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2015	4,000	17.6	1,006	16.4	994	9.2	545	2.8
FY2014	3,402	12.4	865	32.5	910	38.0	531	33.0

(Note): Comprehensive income: 536 million yen for FY2015, -0.9% : 541 million yen for FY2014, 35.6%

	Net income per share-basic	Net income per share-diluted	Return on equity	Ordinary income to total assets	Operating margin
	Yen	Yen	%	%	%
FY2015	39.26	39.14	12.4	16.7	25.2
FY2014	38.27	38.19	13.3	17.1	25.4

(Reference): Equity in earnings (losses) of affiliates: 0 million yen for FY2015 and 0 million yen for FY2014

#### <2> Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	yen
FY2015	6,133	4,642	74.7	329.03
FY2014	5,749	4,297	73.3	303.40

(Reference): Total equity: 4,583 million yen as of March 31, 2016, 4,213 million yen as of March 31, 2015.

#### <3> Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2015	1,027	(441)	(187)	2,443
FY2014	1,355	(848)	(119)	2,074

### 2. Dividends

	Annual cash dividends per share					Total cash dividends	Payout ratio	Dividend on equity
	at 1Q end	at 2Q end	at 2Q end	at year-end	Total	(Annual)	(Consolidated)	(Consolidated)
	yen	yen	yen	yen	yen	Millions of yen	%	%
FY2014	—	5.00	—	9.00	14.00	194	36.6	5.3
FY2015	—	7.00	—	8.00	15.00	208	38.2	4.7
FY2016 (forecast)	—	10.00	—	10.00	20.00		32.0	

(Note): Breakdown of year-end dividend for the fiscal year ended March 31, 2015: ordinary dividend of 5 yen, commemorative dividend of 4 yen (celebrating 20th company anniversary)

### 3. Forecast of consolidated operating results for FY2016 (April 1, 2016 through March 31, 2016)

(Percent indications show percentage of changes from corresponding figures for the previous period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen
At 2Q end (cumulative)	2,222	14.8	608	22.5	608	21.9	363	15.5	26.08
At FY end	4,600	15.0	1,400	39.1	1,400	40.8	870	59.5	62.49

※Notes

<1> Significant changes in scope of consolidation: None

In : — (Company Name: ) Out : — (Company Name: )

<2> Changes in accounting policies, accounting estimation change and restatement

<2>-1 Changes in accounting policies due to the revision of the accounting standards: Yes

<2>-2 Changes in accounting policies except for those in <2>-1: No

<2>-3 Changes due to accounting estimation change: No

<2>-4 Restatement: None

Note: See attached pages 18 “5. CONSOLIDATED FINANCIAL STATEMENTS (5) Notes to Consolidated Financial Statements (Changes in Accounting Policies)”

<3> Number of shares issued

<3>-1 Number of shares issued at the fiscal year end (including treasury stocks)

<3>-2 Number of treasury shares at the fiscal year end

<3>-3 Average number of shares issued during the fiscal year

FY2015	14,133,000 shares	FY2014	14,133,000 shares
FY2015	201,800 shares	FY2014	245,600 shares
FY2015	13,905,940 shares	FY2014	13,883,652 shares

**(Reference) Non-Consolidated Financial Results**

**1. Non-Consolidated Financial Results for FY2015 (April 1, 2016 through March 31, 2016)**

<1> Non-consolidated operating results

(Percent indications show percentage of changes from corresponding figures for the previous period)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2015	4,018	18.3	1,335	46.1	1,328	43.5	840	46.4
FY2014	3,395	14.7	913	44.4	926	44.9	573	47.7

	Net income per share-basic	Net income per share-diluted
	Yen	Yen
FY2015	60.45	60.25
FY2014	41.34	41.26

<2> Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	yen
FY2015	6,633	5,063	75.5	359.28
FY2014	5,903	4,415	73.4	311.86

(Reference): Total equity: 5,005 million yen as of March 31, 2016, 4,330 million yen as of March 31, 2015.

**2. Forecast of non-consolidated operating results for FY2016 (April 1, 2016 through March 31, 2016)**

(Percent indications show percentage of changes from corresponding figures for the previous period)

	Net sales		Operating income		Ordinary income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen
At 2Q end (cumulative)	2,264	17.1	792	20.2	546	24.8	39.23
At FY end	4,598	14.4	1,712	28.9	1,182	40.7	84.88

※Presentation of Present Status of Audit Procedures

This "Consolidated Financial Results" is exempt from audit procedures under the Financial Instruments and Exchange Act. Audit procedures for the financial statements are being performed when the Consolidated Financial Results are announced.

※Explanation of Appropriate Use of Performance Projections and Other Special Items

Business forecasts contained in this report are based on information available to the Company and on a certain assumption the Company considers reasonable on the date of this report's announcement, and it does not constitute the Company's intention to promise the accomplishment of the forecasts. Due to unforeseen circumstances, actual results may differ significantly from such forecasts due to various risks and uncertainties which include, but are not limited to, global economic environment, intensified sales competition, fluctuations in exchange rate and interest rate. Refer to "1. ANALYSIS OF BUSINESS PERFORMANCE AND FINANCIAL POSITION (1) Business Performance Analysis on page 2 of the attached material for more information on performance projection.

## **1. ANALYSIS OF BUSINESS PERFORMANCE AND FINANCIAL POSITION**

### **Analysis of Business Performance**

In the current consolidated accounting period (April 1, 2015 through March 31, 2016), the Japanese economy recovered moderately, mainly as a result of improved corporate earnings due to aggressive economic and financial policies by the Japanese government and BOJ, and a pickup in consumer spending as employment and income environments improved. On the other hand, the prospects of the world economy remains unclear as a result of stagnant resource prices, economic slowdown of China and other emergent countries, and geopolitical risks seen in certain areas of the world.

In the security industry, where the Digital Arts Group (the “Group”) engages its primary business, FY2015 saw a trend where information security was increasingly recognized as an important measure, mainly due to the growing number of diverse and advanced threats involving businesses and other organizations, such as viruses, unauthorized server access, and data disclosure by members of the organization, as well as the expanded use of mobile and cloud, and a growing demand to respond to changes in relative laws and regulations.

Notably in Japan, expectations centered on preventing data disclosure from within in aims to protect sensitive and confidential information, in addition to the conventional security measures against targeted attacks from outside the organization.

In such circumstances, the Group continued to drive sales with its flagship product i-FILTER and m-FILTER, and its strategic product FinalCode. Sales grew considerably for security software i-FILTER as the effectiveness of proxy against targeted attacks and the traditional web filtering were rediscovered by society in general, and the Group’s ability to meet sophisticated demands by larger organizations was achieved by allying with external products and solutions. i-FILTER Browser & Cloud for mobile devices was preferred by financial institutions as well as forward-thinking schools and education boards seeking a secure operation for smart devices, as opportunities to use smartphones and tablets in business and educational scenes increased.

Email security software m-FILTER continued to show steady performance from the prior period. Email mis-delivery incidents occur every day, and against this backdrop, the Group successfully captured client needs with its wide range of robust measures to prevent message mis-delivery and the scalability of the product through a range of options and alliances with external solutions.

With FinalCode, a file encryption and tracking solution, FinalCode (cloud edition), a SaaS version for quick and easy installation, maintained strong sales by meeting the pressing needs by businesses seeking effective file security measures in light of incidents pertaining to data loss caused by targeted attacks and intentional disclosure from within. Some of the pipelines who have been considering large-scale deployment of FinalCode have started to materialize into actual orders, which resulted in the overall increase in sales.

In the overseas market, the Group focused on branding activities initiated by FinalCode, Inc., a US subsidiary, and established sales and support structures in Asia Pacific and in Europe in order to meet the needs of global enterprises with offices in these locations.

Net sales in the consolidated fiscal year 2016 was ¥4,000,620 thousand (117.6% year-on-year). While there was an increase in expense, such as those associated with the full-scale operation of FinalCode, Inc., advance investment to launch overseas regional offices, and events celebrating the 20th company anniversary, operating income recorded ¥1,006,925 thousand (116.4% year-on-year), ordinary income totaled ¥994,311 thousand (109.2% year-on-year) and net income attributable to owners of parent increased to ¥545,983 thousand (102.8% year-on-year).

Business performance by segment is as follows.

#### **Business/Enterprise Segment**

Net sales for the Business/Enterprise segment recorded ¥2,240,089 thousand (117.9% year-on-year). In this segment, the Group’s flagship products i-FILTER, m-FILTER together with FinalCode demonstrated robust performance. As corporate earnings recovered and big enterprises started to invest aggressively on measures for information security, i-FILTER and m-FILTER, partnering with external solutions, expanded the possibilities to tackle diverse and sophisticated risks, capturing the needs of large corporations. This led to increased order reception in this sector. In addition, i-FILTER Browser & Cloud (for mobile devices) was widely introduced mainly by financial institutions with a high level of awareness on secure browsers, which increased sales significantly. In terms of FinalCode, the cloud edition saw a sharp rise as it was deployed largely by businesses rushing to install security measures in light of frequent data leakage incidents of material information. Clients already running FinalCode prior to the preceding consolidated fiscal year have highly acclaimed this product for its effectiveness and usability, which led to a noticeable trend of additional licenses sales. Potential leads for large orders have started to materialize into receiving actual orders.

#### **Government & Education Segment**

Net sales for the Government & Education segment totaled ¥1,418,060 thousand (124.4% year-on-year). As with the Business/Enterprise segment, the Government & Education segment performed strongly mainly with i-FILTER and FinalCode. The alliance of the Group’s flagship product i-FILTER with other solutions resulted in acquiring large orders by major institutions seeking to enhance information security. There was also a drive for ICT education, the use of tablet devices in the classrooms,

predominately by forward-thinking schools and education boards for directing students to acquire ICT literacy from an early age. Many of these schools and education boards deployed i-FILTER Browser & Cloud (for mobile devices) to ensure a secure operation of smart devices in their environment. Furthermore, under the pressing need to tackle targeted attacks and data disclosure from within, i-FILTER Browser & Cloud was deployed by numerous local municipalities around the country, which contributed to push up sales significantly.

#### Consumer Segment

Net sales for the Consumer segment totaled ¥342,470 thousand (94.4% year-on-year). The Group strived to increase sales for i-FILTER for mobile device by exploiting and expanding partnerships with mobile carriers and other alliances.

While the significant drop of domestic PC sales and the termination of alliances with several ISPs were factors for decrease in revenues, the Group's sales in this segment held relatively steady due to the success of i-FILTER® for Multi-Device, a software that allows users to filter up to three devices (Windows, iOS, Android™) with one serial number, which proved to be an effective solution to reduce the stress in managing filter settings across multiple devices. Moreover, successful sales targeting the New Nintendo 3DS™, a handheld game device launched by Nintendo in the preceding consolidated fiscal year, also contributed to maintaining steady performance.

#### [Fiscal Year 2016 (April 1, 2016 through March 31, 2016) Financial Forecast]

For fiscal year 2016, the Group seeks to continue expanding the Business/Enterprise and Government & Education segment by promoting its flagship products to large-scale businesses and organizations and win them as new clients. In order to better reach these major institutions, the Group will enhance its CONSULTING service. The Group believes that its products must be coupled with effective consultation in order to have corporate giants consider and successfully deploy the Group's products as a global tool. In order to meet these needs, Digital Arts have established a subsidiary dedicated to the consulting business. It expects to accelerate its sales with large businesses by offering value-added proposals tailored to each client. In the Government & Education segment, the Group expects the local municipalities to gain even more momentum to incorporate enhanced security measures, following the issuance of Guideline to Enhance Security in Local Municipalities by The Ministry of Internal Affairs and Communications. By partnering with other solutions in the market, the Group will continue to appeal the importance and necessity of sound information security measures in the local government. In the Consumer segment, the Group will drive further sales and alliance with various partners, including mobile carriers, for i-FILTER for mobile device.

In overseas development, its US subsidiary, FinalCode, Inc. has begun full scale operations in March, 2016. There is a heightened interest for sound file security on a global scale, and the Group sees an increase in leads and pipelines. In line of these circumstances, the Group established two new regional offices; FinalCode Asia Pacific Pte. Ltd. and FinalCode Europe Limited. Although there was an up-front expenditure to launch these two subsidiaries, it plans to recoup the initial investment at an early stage.

Based on these efforts, the Group anticipates net sales of ¥4,600 million, ordinary income of ¥1,400 million and ¥870 million for net sales attributable to owners of parents for the consolidated fiscal year 2016. Expenditures include ¥450 million in advance investment for overseas business that is expected to shift into full swing.

Business forecasts contained in this report are based on information available to the Group as of the date of this report, and actual results may differ from such forecasts due to various risks and uncertainties. Updates on critical information, if applicable, will be disclosed in a timely manner.

#### Fiscal Year 2016 Forecast (Consolidated)

	Net Sales	Ordinary Income	Net Income Attributable to Owners of Parent
	Millions of yen	Millions of yen	Millions of yen
FY2016 (forecast)	4,600	1,400	870
FY2015 (actual)	4,000	994	545

#### Fiscal Year 2016 Forecast (Non-consolidated)

	Net Sales	Ordinary Income	Net Income
	Millions of yen	Millions of yen	Millions of yen
FY2016 (forecast)	4,598	1,712	1,182
FY2015 (actual)	4,018	1,328	840

(Amounts less than one million yen are rounded)

Note: Business forecasts contained in this report are based on information available to Digital Arts as of the date of this report, and actual results may differ from such forecasts due to various risks and uncertainties.

## 2. CONSOLIDATED FINANCIAL STATEMENTS

### (1) Consolidated Balance Sheets

(Thousands of yen)

	Preceding FY (As of March 31, 2015)	Current FY (As of March 31, 2016)
<b>Assets</b>		
Current assets		
Cash and deposits	2,673,533	2,942,965
Accounts receivable – trade	932,503	1,081,626
Securities	300,872	100,909
Finished goods	928	413
Deferred tax assets	67,182	73,813
Other	102,958	62,884
<b>Total current assets</b>	<b>4,077,978</b>	<b>4,262,613</b>
Non-current assets		
Property, plant and equipment		
Buildings	123,803	124,367
Accumulated depreciation	(66,559)	(80,277)
Buildings (net)	57,243	44,090
Vehicles	5,961	15,977
Accumulated depreciation	(5,961)	(5,362)
Vehicles (net)	0	10,614
Tools, furniture and fixtures	274,786	294,391
Accumulated depreciation	(201,038)	(221,838)
Tools, furniture and fixtures (net)	73,748	72,552
Construction in progress	14,125	—
<b>Total Property, plant and equipment</b>	<b>145,117</b>	<b>127,257</b>
Intangible assets		
Software	810,653	821,395
Other	125,021	174,131
<b>Total intangible assets</b>	<b>935,674</b>	<b>995,526</b>
Investments and other assets		
Investment securities	299,559	404,099
Deferred tax assets	62,565	48,356
Shares of subsidiaries and affiliates	57,905	56,769
Other	170,428	239,237
<b>Total investments and other assets</b>	<b>590,459</b>	<b>748,462</b>
<b>Total non-current assets</b>	<b>1,671,251</b>	<b>1,871,246</b>
<b>Total assets</b>	<b>5,749,229</b>	<b>6,133,859</b>

(Thousands of yen)

	Preceding FY (As of March 31, 2015)	Current FY (As of March 31, 2016)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable – trade	3,720	5,844
Income taxes payable	266,542	283,949
Provision for bonuses	96,743	109,975
Advances received	675,395	721,033
Asset retirement obligations	261	–
Deferred tax liabilities	2,263	–
Other	363,797	327,288
<b>Total current liabilities</b>	<b>1,408,722</b>	<b>1,448,091</b>
<b>Non-current liabilities</b>		
Asset retirement obligations	42,132	43,089
Other	455	645
<b>Total non-current liabilities</b>	<b>42,587</b>	<b>43,734</b>
<b>Total liabilities</b>	<b>1,451,309</b>	<b>1,491,826</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	713,590	713,590
Capital surplus	735,847	766,234
Retained earnings	2,896,517	3,220,233
Treasury stock	(143,017)	(117,511)
<b>Total shareholders' equity</b>	<b>4,202,938</b>	<b>4,582,547</b>
<b>Accumulated other comprehensive income</b>		
Foreign currency translation adjustments	10,504	1,208
<b>Total accumulated other comprehensive income</b>	<b>10,504</b>	<b>1,208</b>
Subscription rights to shares	84,477	58,278
<b>Total net assets</b>	<b>4,297,919</b>	<b>4,642,033</b>
<b>Total liabilities and net assets</b>	<b>5,749,229</b>	<b>6,133,859</b>

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income  
(Consolidated Statements of Income)

(Thousands of yen)

	Preceding FY (April 1, 2014 through March 31, 2015)	Current FY (April 1, 2015 through March 31, 2016)
Net sales	3,402,691	4,000,620
Cost of sales	974,644	926,094
Gross profit	2,428,046	3,074,526
Selling, general and administrative expenses	1,562,962	2,067,600
Operating income	865,084	1,006,925
Non-operating income		
Interest income	2,459	1,366
Commission fees	273	170
Foreign exchange gains	41,359	—
Gain on forfeiture of unclaimed dividends	1,058	3,367
Insurance premiums refunded cancellation	—	1,836
Miscellaneous income	163	1,084
Total non-operating income	45,315	7,826
Non-operating expenses		
Interest expenses	131	8
Foreign exchange losses	—	20,432
Total non-operating expenses	131	20,440
Ordinary income	910,268	994,311
Extraordinary income		
Gain on reversal of subscription rights to shares	153	3,701
Gain on sales of noncurrent assets	—	2,638
Total extraordinary income	153	6,340
Extraordinary losses		
Loss on retirement of noncurrent assets	43	1,960
Loss on liquidation of subsidiaries	1,898	—
Total extraordinary losses	1,941	1,960
Income before income taxes	908,479	998,691
Income taxes – current	379,076	447,392
Income taxes – deferred	(1,889)	5,314
Total income taxes	377,186	452,707
Net income	531,292	545,983
Net income attributable to owners of parent	531,292	545,983

(Consolidated Statements of Comprehensive Income)

(Thousands of yen)

	Preceding FY (April 1, 2014 through March 31, 2015)	Current FY (April 1, 2015 through March 31, 2016)
Net income	531,292	545,983
Other comprehensive income		
Foreign currency translation adjustments	10,504	(9,295)
Total other comprehensive income	10,504	(9,295)
Comprehensive income	541,796	536,688
(Details)		
Comprehensive income attributable to owners of parent	541,796	536,688



## (3) Consolidated Statement of Changes in Net Assets

Preceding FY (April 1, 2014 through March 31, 2015)

(Thousands of yen)

	Shareholders' equity					Accumulated other comprehensive income		Share subscription rights	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Foreign currency translation adjustments	Total accumulated other comprehensive income		
Balance at beginning of current period	713,590	732,237	2,490,168	(146,860)	3,789,135	—	—	87,362	3,876,498
Changes of items during the period									
Cash dividends paid			(124,944)		(124,944)				(124,944)
Net income attributable to owners of parent			531,292		531,292				531,292
Disposal of treasury stock		3,610		3,843	7,453				7,453
Net changes of items other than those in shareholders' equity						10,504	10,504	(2,885)	7,619
Total changes of items during the period	—	3,610	406,348	3,843	413,802	10,504	10,504	(2,885)	421,421
Balance at end of current period	713,590	735,847	2,896,517	(143,017)	4,202,938	10,504	10,504	84,477	4,297,919

Current FY (April 1, 2015 through March 31, 2016)

(Thousands of yen)

	Shareholders' equity					Accumulated other comprehensive income		Share subscription rights	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Foreign currency translation adjustments	Total accumulated other comprehensive income		
Balance at beginning of current period	713,590	735,847	2,896,517	(143,017)	4,202,938	10,504	10,504	84,477	4,297,919
Changes of items during the period									
Cash dividends paid			(222,267)		△222,267				(222,267)
Net income attributable to owners of parent			545,983		545,983				545,983
Disposal of treasury stock		30,387		25,505	55,892				55,892
Net changes of items other than those in shareholders' equity						(9,295)	(9,295)	(26,199)	△35,495
Total changes of items during the period	—	30,387	323,716	25,505	379,608	(9,295)	(9,295)	(26,199)	344,113
Balance at end of current period	713,590	766,234	3,220,233	△117,511	4,582,547	1,208	1,208	58,278	4,642,033