



Consolidated Financial Results for the Nine Months Ended September 30, 2016 (Under Japanese GAAP)



October 31, 2016

Company name: SIOS Technology, Inc.
 Shares listed on: Tokyo Stock Exchange
 Code number: 3744
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 Scheduled filing date of quarterly securities report: November 14, 2016
 Scheduled commencement date of dividend payment: -
 Supplementary materials prepared for quarterly financial results: No
 Presentation of quarterly financial results: No

1. Consolidated Financial Results for the Nine Months Ended September 30, 2016

(Fractions less than one million yen are rounded off)

(1) Results of operations (nine-month total)

(Percentages represent changes from the same period of the previous fiscal year)

	Net sales		Operating income (loss)		Ordinary income (loss)		Net income (loss) attributable to owners of the parent company	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended September 30, 2016	9,181	33.5	426	—	367	—	160	—
Nine months ended September 30, 2015	6,877	27.5	(101)	—	(106)	—	(139)	—

Note: Comprehensive income (loss) Nine months ended September 30, 2016: 60 million yen (-%)
 Nine months ended September 30, 2015: (136) million yen (-%)

	Net income (loss) per share (Basic)	Net income per share (Diluted)
Nine months ended September 30, 2016	18.65	18.62
Nine months ended September 30, 2015	(16.28)	—

(2) Financial position

	Total assets	Net assets	Equity ratio
As of September 30, 2016	5,210	1,457	27.5
As of December 31, 2015	5,642	1,414	24.4

Note: Equity As of September 30, 2016: 1,434 million yen
 As of December 31, 2015: 1,376 million yen

2. Dividends

	Annual dividend				
	End of Q1	End of Q2	End of Q3	Year-end	Annual
Fiscal year ended December 31, 2015	—	0.00	—	0.00	0.00
Fiscal year ending December 31, 2016	—	0.00	—		
Fiscal year ending December 31, 2016 (Forecast)				0.00	0.00

Note: Revision to the previously announced forecast of dividend: None

3. Consolidated Business Forecasts for Fiscal Year Ending December 31, 2016

(Percentages represent changes from the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending December 31, 2016	11,500	22.8	370	—	310	—	100	—	11.62

Note: Revision to the previously announced business forecasts: No

Notes:

(1) Material changes in subsidiaries during the nine months ended September 30, 2016: None

(Changes in specified subsidiaries resulting in a change in the scope of consolidation)

Newly included: —

Excluded: —

(2) Adoption of special accounting treatments for the preparation of quarterly consolidated financial statements : None

(3) Changes in accounting policies, changes in accounting estimates, and restatements

(i) Changes in accounting policies based on revisions of accounting standards : Yes

(ii) Changes in accounting policies other than the above (i) : None

(iii) Changes in accounting estimates : None

(iv) Restatements : None

Note: For details, refer to "2. Matters Concerning Summary Information (Notes): (3) Changes in Accounting Policies, Changes in Accounting Estimates, and Restatements" on Page 3 of the attached document.

(4) Number of issued and outstanding shares (common stock)

(i) Number of issued and outstanding shares at the end of the period (including treasury stock)	As of September 30, 2016	8,874,400 shares	As of December 31, 2015	8,874,400 shares
(ii) Number of treasury stocks at the end of the period	As of September 30, 2016	260,041 shares	As of December 31, 2015	274,241 shares
(iii) Average number of shares during the period (cumulative from the beginning of the fiscal year)	For the nine months ended September 30, 2016	8,608,538 shares	For the nine months ended September 30, 2015	8,598,103 shares

* Presentation of the status of progress in carrying out quarterly review procedures

This summary of quarterly consolidated financial results is not subject to a quarterly review to be conducted in accordance with the Financial Instruments and Exchange Law of Japan. At the time of the release of this summary of quarterly consolidated financial results, the quarterly review procedures in accordance with the Financial Instruments and Exchange Law of Japan have not been completed.

* Proper use of business forecasts and other important matters

Forward-looking statements, such as business forecasts included in this document, are based on currently available information or assumptions that the Company considers reasonable, and business results may differ significantly from forecasts due to various factors. For assumptions used as a basis for making business forecasts and notes on the use of business forecasts, refer to "(3) Forward-looking Statements Including Consolidated Business Forecasts" on Page 2 of the attached document.

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1. Qualitative Information on Consolidated Results

(1) Results of Operations

Overview of the consolidated business performance for the nine months ended September 30, 2016

In the nine months ended September 30, 2016, the SIOS Group's net sales soared by 33.5% year on year to 9,181 million yen, bolstered in part by a 13.8% year-on-year increase in net sales of the Company and in part by the addition of sales by Keyport Solutions, Inc. (KPS) and Profit Cube Inc. (PCI), both of which the Company had acquired in the previous fiscal year.

In addition to an increased gross margin resulting from the addition of sales by KPS and PCI, the Group enjoyed a year-on-year increase in operating income from existing businesses, which comprise sales of LifeKeeper^{(*)1} and software applications for multifunction printers^{(*)2} as well as support services for system implementation, as we delivered these products and services to a growing number of corporate customers. As a result, the Group posted an operating income of 426 million yen for the nine months ended September 2016, compared with an operating loss of 101 million yen in the same period of the previous fiscal year, and an ordinary income of 367 million yen, compared with an ordinary loss of 106 million yen in the same period of the previous year. The Group also posted a net income of 160 million yen attributable to owners of the parent company, despite incurring expenses related to a retrospective adjustment of 139 million yen recognized as extraordinary loss in the second quarter of the current fiscal year, compared with a net loss of 139 million yen in the same period of the previous fiscal year. The Group's key management indicator EBITDA, which is the sum of operating income, depreciation, and amortization of goodwill, stood at 559 million yen, compared with a negative of 51 million yen in the same period of the previous fiscal year.

The Group continued to implement its growth initiatives, which are outlined in the Group's medium-term business strategy and focused on expanding into new business segments including FinTech^{(*)3}, investing in research and development, and becoming more competitive in its core businesses.

As part of an initiative to expand into new business segments including FinTech, PCI, which is the Company's subsidiary, acquired in March 2016 a patent for its proprietary technology that enables greater flexibility and agility of a profit management system for financial institutions. PCI also developed an automated loan-screening system for financial institutions and filed in April 2016 a patent for the technology incorporated into the system.

As part of efforts to invest in research and development, the Group continued to invest in machine-learning technology^{(*)4} and released an upgraded version of SIOS iQ^{(*)6}, a software platform for IT operations analytics^{(*)5}, to provide greater versatility.

In an effort to become more competitive in the Group's core businesses, the Group significantly upgraded LifeKeeper, which is one of its core products, and software applications for multifunction printers, and expanded services for open-source software^{(*)7} (OSS) for cloud^{(*)8}.

With the implementation of these initiatives, business results by segment turned out as follows:

Open System Infrastructure Business Segment

The Group increased sales of LifeKeeper in Japan, the Americas, Europe, and Asia/Oceania. Red Hat Enterprise Linux^{(*)9} and other products sourced from Red Hat, Inc. also enjoyed robust sales, buoyed by stepped up sales and marketing efforts. Support services for OSS and OSS-related products achieved solid sales growth as well. As a result, net sales in this segment amounted to 4,746 million yen in the nine months ended September 2016, up 13.6% year on year, with a segment income of 145 million yen, compared with a segment loss of 118 million yen in the same period of the previous fiscal year.

Application Business Segment

Net sales in this segment increased substantially due to the addition of sales by KPS and PCI, both of which the Company had acquired in the previous fiscal year. The increase in sales also resulted from the provision of software applications for multifunction printers and support services for system implementation to a growing number of corporate customers. As a result, net sales in this segment soared 64.2% year on year to 4,435 million yen.

The income in this segment surged to 280 million yen compared with an income of 17 million a year earlier, as an increased gross profit gained from an increase in net sales more than offset an increase in personnel costs and rents resulting from the acquisitions of the two consolidated subsidiaries mentioned earlier.

(*1) LifeKeeper

A failover software product that automatically switches a failed primary server to a backup server.

(*2) Software applications for multifunction printers

A multifunction printer (MFP) is a piece of office equipment that incorporates print, scan, copy, and fax capabilities into one unit. SIOS develops, markets, and updates Quick Scan and Speedoc, document-management software applications running on an MFP.

(*3) FinTech

An emerging technology for facilitating innovations in the financial sector.

(*4) Machine-learning technology

A technology for giving the computer the same learning ability as a human being and for extracting useful information from a variety of data.

(*5) IT operations analytics

Analyzing data generated in IT operations and converting them into practical and easy-to-digest information.

(*6) SIOS iQ

A software platform that comprehensively monitors, analyzes, and optimizes operations of applications in virtual and cloud environments to improve performance and efficiency and ensure reliability in resolving complex issues.

(*7) Open-source software

Software whose source code, which is the fundamental component of the program, is made available for free and can be used, modified, and redistributed.

(*8) Cloud

A new form of computing that provides computing resources as services over the Internet.

(*9) Red Hat Enterprise Linux

Linux OS developed by the open-solution provider Red Hat, Inc.

(2) Financial Position

(i) Assets

Current assets amounted to 3,524 million yen as of September 30, 2016, down 9.7% from the end of the previous fiscal year, mainly due to a decrease of 429 million yen in cash and deposits, an increase of 65 million yen in notes and accounts receivable-trade, and an increase of 39 million yen in advance payments.

Fixed assets amounted to 1,685 million yen, down 3.2% from the end of the previous fiscal year, mainly due to a decrease of 82 million yen in investment securities.

As a result, total assets amounted to 5,210 million yen, down 7.7% from the end of the previous fiscal year.

(ii) Liabilities

Current liabilities amounted to 2,644 million yen as of September 30, 2016, down 7.9% from the end of the previous fiscal year, mainly due to a decrease of 210 million yen in short-term loans payable, an increase of 134 million yen in advance received, and a decrease of 63 million yen in accounts payable.

Fixed liabilities amounted to 1,109 million yen, down 18.2% from the end of the previous fiscal year, mainly due to a decrease of 129 million yen in long-term loans payable and a decrease of 100 million yen in long-term deposits received.

As a result, total liabilities amounted to 3,753 million yen, down 11.2% from the end of the previous fiscal year.

(iii) Net assets

Total net assets amounted to 1,457 million yen as of September 30, 2016, up 3.0% from the end of the previous fiscal year, mainly due to a net income of 160 million yen attributable to owners of the parent company posted for the nine months ended September 30, 2016, and a decrease of 92 million yen in foreign currency translation adjustment.

(3) Forward-looking Statements Including Consolidated Business Forecasts

The Group achieved business performance in the nine months ended September 2016 on track to meet the full-year consolidated business forecasts for fiscal year ending December 31, 2016, which were updated and announced on July 29, 2016. Those forecasts for FY 2016 still stand despite uncertainties for the remainder of the year.

2. Matters Concerning Summary Information (Notes)

(1) Material changes in subsidiaries during the nine months ended September 30, 2016

Not applicable

(2) Adoption of special accounting treatments for the preparation of quarterly consolidated financial statements

Not applicable

(3) Changes in accounting policies, changes in accounting estimates, and restatements

Nine months ended September 30, 2016
(From January 1, 2016 through September 30, 2016)

- Application of Accounting Standard for Business Combinations

Effective at the beginning of the first quarter of the current fiscal year, the Company adopted the “Revised Accounting Standard for Business Combinations” (ASBJ Statement No. 21, issued on September 13, 2013), the “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, issued on September 13, 2013), and the “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, issued on September 13, 2013). Under these revised accounting standards, the Company recognizes as capital surplus any difference arising from changes in the Company's ownership interests in its subsidiaries over which the Company retains control, and recognizes the acquisition-related costs as expenses in the fiscal year in which they are incurred. In addition, regarding a business combination conducted at or after the beginning of the first quarter of the current fiscal year, the Company, when it finalizes its provisional accounting treatments, revises acquisition cost allocation in the quarterly consolidated financial statements to which the date of the business combination belongs. Furthermore, the Company changed the way its quarterly net income is presented, and records minority interests as non-controlling interests. To reflect these changes in presentation, the consolidated financial statements for the nine months ended September 30, 2015, and for the previous fiscal year were reclassified.

With respect to the application of the Accounting Standard for Business Combinations and other accounting standards, the Company has been following the transitional arrangement set forth in Article 58-2 (4) of the Accounting Standard for Business Combinations, Article 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Article 57-4 (4) of the Accounting Standard for Business Divestitures since the beginning of the first quarter of the current fiscal year.

As a result, capital surplus decreased by 9 million yen at the end of the third quarter of the current fiscal year.

- Change in Depreciation Method

In accordance with the revision of the Corporation Tax Act of Japan, the Company adopted the “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (ASBJ Practical Issues Task Force (PITF) No. 32, issued on June 17, 2016) in the six months ended June 30, 2016, and changed the depreciation method for facilities attached to buildings and for structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method.

This change has no material impact on the consolidated financial statements for the nine months ended September 30, 2016.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(In thousands of yen)

	As of December 31, 2015	As of September 30, 2016
Assets		
Current assets		
Cash and deposits	2,206,352	1,776,549
Notes and accounts receivable-trade	1,346,277	1,412,128
Work in progress	114,680	78,314
Advance payment	106,473	146,109
Other	127,536	111,582
Allowance for doubtful accounts	(200)	(200)
Total current assets	3,901,120	3,524,484
Fixed assets		
Tangible fixed assets		
Buildings (net)	92,841	112,709
Other (net)	71,963	90,716
Total tangible fixed assets	164,805	203,426
Intangible fixed assets		
Goodwill	838,787	774,758
Other	248,472	226,305
Total intangible fixed assets	1,087,259	1,001,063
Investment and other assets		
Investment securities	244,983	162,388
Net defined benefit assets	26,249	26,594
Guarantee deposits	216,140	275,810
Other	7,193	21,703
Allowance for doubtful accounts	(5,071)	(5,071)
Total investment and other assets	489,494	481,425
Total fixed assets	1,741,559	1,685,915
Total assets	5,642,680	5,210,400

(In thousands of yen)

	As of December 31, 2015	As of September 30, 2016
Liabilities		
Current liabilities		
Accounts payable-trade	543,741	480,244
Short-term loans payable	240,000	30,000
Current portion of long-term loans payable	155,442	133,167
Lease obligations	1,244	2,099
Income taxes payable	28,450	69,823
Advance received	1,339,886	1,474,564
Reserve for bonuses	26,678	66,624
Reserve for loss on orders received	2,515	9,456
Other	534,409	378,366
Total current liabilities	2,872,367	2,644,345
Fixed liabilities		
Long-term loans payable	974,765	845,434
Deferred tax liabilities	68,814	65,657
Provision for surcharge resulting from repayment of subsidies	32,267	—
Net defined benefit liabilities	158,985	174,461
Lease obligations	5,132	7,462
Long-term deposits received	109,955	9,767
Other	6,359	6,251
Total fixed liabilities	1,356,280	1,109,034
Total liabilities	4,228,648	3,753,380
Net assets		
Shareholders' equity		
Capital stock	1,481,520	1,481,520
Capital surplus	474,415	466,657
Retained earnings	(321,538)	(161,009)
Treasury stock	(116,194)	(110,178)
Total shareholders' equity	1,518,201	1,676,989
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,420	(6,817)
Foreign currency translation adjustment	(143,423)	(236,127)
Total accumulated other comprehensive income	(142,002)	(242,945)
Equity warrants	22,281	22,975
Non-controlling interests	15,551	—
Total net assets	1,414,031	1,457,020
Total liabilities and net assets	5,642,680	5,210,400

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income
for nine months ended September 30

(In thousands of yen)

	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Net Sales	6,877,377	9,181,781
Cost of sales	4,472,595	5,862,409
Gross margin	2,404,782	3,319,371
Selling, general and administrative expenses	2,506,092	2,892,686
Operating income (loss)	(101,309)	426,684
Non-operating income		
Interest income	1,368	642
Foreign exchange gain	20,005	10,221
Compensation received	10,000	—
Other	1,770	9,711
Total non-operating income	33,145	20,575
Non-operating expenses		
Interest expenses	107	4,888
Loss on investment of investment partnership	1,967	4,254
Equity in losses of affiliates	27,327	63,254
Provision for surcharge resulting from repayment of subsidies	7,691	5,668
Other	798	2,187
Total non-operating expenses	37,892	80,252
Ordinary income (loss)	(106,056)	367,006
Extraordinary income		
Gain on sale of investment securities	8,169	67
Gain on negative goodwill	11,386	—
Gain on reversal of equity warrants	1,231	1,289
Total extraordinary income	20,787	1,356
Extraordinary loss		
Loss on valuation of golf club membership	2,358	1,550
Loss on withdrawal from employees' pension fund	12,968	—
Expense related to retrospective adjustment	—	139,212
Loss on retirement of fixed assets	341	6,598
Other	—	4,107
Total extraordinary loss	15,668	151,467
Net income (loss) before income taxes	(100,937)	216,895
Income taxes-current	35,756	60,172
Income taxes-deferred	—	(4,724)
Total income taxes	35,756	55,448
Net income (loss)	(136,693)	161,447
Net income attributable to non-controlling interests	3,255	918
Net income (loss) attributable to owners of the parent company	(139,948)	160,529

Consolidated Statements of Comprehensive Income
for nine months ended September 30

(In thousands of yen)

	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Net income (loss)	(136,693)	161,447
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	1,820	(8,238)
Foreign currency translation adjustment	(2,075)	(92,704)
Total other comprehensive income (loss)	(254)	(100,942)
Comprehensive income (loss)	(136,948)	60,505
Comprehensive income (loss) attributable to:		
Owners of the parent company	(140,188)	59,586
Non-controlling interests	3,239	918

(3) Notes to Consolidated Financial Statements

Notes to Going Concern Assumption

Not applicable

Notes to Significant Changes in Shareholders' Equity

Not applicable

Segment Information

【Segment Information】

I. Nine months ended September 30, 2015

1. Information regarding the amount of sales and income/loss by reportable segment

(In thousands of yen)

	Reportable segment			Adjustments	Amount recorded in quarterly consolidated statements of income (Note)
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	4,176,477	2,700,900	6,877,377	—	6,877,377
Inter-segment sales and transfers	279	175	454	(454)	—
Total	4,176,756	2,701,075	6,877,831	(454)	6,877,377
Segment income (loss)	(118,324)	17,015	(101,309)	—	(101,309)

Note: The total amount of segment income (loss) is equal to operating income (loss) recorded in the quarterly consolidated statements of income.

Supplementary Information

Information by region

In addition to the disclosure required by the “Accounting Standard for Quarterly Financial Statements,” information (net sales) by region is disclosed in accordance with the “Accounting Standard for the Disclosure of Segment Information” for the purpose of providing users of financial statements with valuable information.

Net sales

For the nine months ended September 30, 2015

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
6,411,867	306,426	83,178	75,905	6,877,377

Note: Sales are classified by country or region in which customers are located.

2. Information regarding loss on impairment of fixed assets or goodwill by reportable segment

Not applicable

II. Nine months ended September 30, 2016

1. Information regarding the amount of sales and income/loss by reportable segment

(In thousands of yen)

	Reportable segment			Adjustments	Amount recorded in quarterly consolidated statements of income (Note)
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	4,746,027	4,435,753	9,181,781	—	9,181,781
Inter-segment sales and transfers	327	—	327	(327)	—
Total	4,746,354	4,453,753	9,182,108	(327)	9,181,781
Segment income	145,971	280,713	426,684	—	426,684

Note: The total amount of segment income is equal to operating income recorded in the quarterly consolidated statements of income.

Supplementary Information

Information by region

In addition to the disclosure required by the “Accounting Standard for Quarterly Financial Statements,” information (net sales) by region is disclosed in accordance with the “Accounting Standard for the Disclosure of Segment Information” for the purpose of providing users of financial statements with valuable information.

Net sales

For the nine months ended September 30, 2016

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
8,629,504	376,733	95,125	80,417	9,181,781

Note: Sales are classified by country or region in which customers are located.

2. Matters related to changes in reportable segments

The Group’s Web application business segment is shown as the application business segment effective from the current fiscal year, considering that the business has expanded into fields beyond Web applications. Accordingly, the segment formerly presented as the “Web application business” was reclassified as the “application business” effective from the three-month period ended March 31, 2016. Likewise, the segment information pertaining to the said segment for the nine months ended September 30, 2015, is presented under the “application business.”

This change in the segment name has no impact on the segment information.

3. Information regarding loss on impairment of fixed assets or goodwill by reportable segment

Not applicable