

## **1. The progress of the consolidated business results including related qualitative information**

The Japanese economy during this first quarter, ended June 30, 2009, seemed to have bottomed out with a reduction of inventory, a rise in stock prices, and the decline in crude oil prices. However, the overall economy remained flat due to stagnating capital investment and consumer spending.

As for the video game industry, Capcom achieved favorable results in general especially in overseas markets. This is attributable to the increase in demand derived from the global recession that forced consumers to cut back on traveling and going out and to look for alternative “at-home” entertainment.

Under these circumstances, Capcom held the “CAPTIVATE 2009” press event in Monte Carlo, Monaco to accelerate our overseas business expansion. In addition, we explored our contents expansion business and decided to adapt “Sengoku BASARA” to a stage show and a TV anime.

Moreover, the popularity of “Sengoku BASARA” had unforeseen effects. For example, new food and beverage products went on sale that incorporated the characters of “Sengoku BASARA”. And tourism increased in areas that are historically associated with the military commanders that appear in the software, thus supporting community development.

The resulting net sales for the current period increased to 19,497 million yen (up 19.2 % from the same term last year), and the operating income increased to 3,664 million yen (up 23.0 % from the same term last year). Ordinary income increased to 4,117 million yen (up 2.3 % from the same term last year) due partially to the rebound from the foreign exchange gain recorded during the same term last year. Net profit for the current period decreased to 2,230 million yen (down 6.4 % from the same term last year).

### **Status of Each Operational Department**

#### Home Video Games

In this business segment, “Ace Attorney INVESTIGATIONS: Miles Edgeworth” (for Nintendo DS), which was derived from Capcom’s popular software “Ace Attorney”, showed a favorable sales increase. “Resident Evil 5” (for PlayStation 3, Xbox 360), one of the most successful titles in the previous quarter, continued to grow, and “Monster Hunter Freedom Unite” (for PlayStation Portable) released in the last two years also enjoyed prolonged steadfast sales.

In addition “Sengoku BASARA Battle Heroes” (for PlayStation Portable), the latest addition of the series, made a favorable showing. The new software started the so-called “REKIJO” (Japanese

term for female Japanese history “Otaku”.) boom in Japan and generated public interest in Japan's “Warring States” (SENGOKU) era.

On the other hand, “Bionic Commando” (for PlayStation 3, Xbox 360), which was targeted to the overseas markets, underperformed its projected sales. “Monster Hunter Freedom Unite” (for PlayStation Portable) also performed weakly.

The resulting net sales increased to 14,148 million yen (up 36.0 % from the same term last year), and the operating income increased to 4,711 million yen (up 32.5 % from the same term last year).

#### Arcade Operations

In this softening market, we engaged in aggressive business operations trying to create demand and attract more customers. Holding customer appreciation events and introducing popular game machines that satisfy a wide customer base are just few examples of such efforts.

We did not open or close any facility during this period, and the total number of “Plaza Capcom” remained at 40.

The resulting net sales decreased to 2,926 million yen (down 6.5 % from the same term last year). However, the operating income increased to 114 million yen (the operating loss of 73 million yen was recorded in the same term last year) as a result of closing down unprofitable facilities, turning sales into the black.

#### Arcade Games Sales

In this business segment, we focused on the sales of renewing existing game machines to arcade operators as we went through the transitional period of our product provision cycle. However, overall sales remained soft partially due to market stagnation and a decrease in purchasing power from arcade operators.

The resulting net sales decreased to 313 million yen (down 69.1 % from the same term last year), and the operating loss was 168 million yen (the operating loss of 245 million yen was recorded in the same term last year).

#### Contents Expansion

In the business of game distribution to mobile phones, we established a new business strategy of “Single Contents Multiple Usage”. “Apollo Justice Ace Attorney” was released based on this new approach, and it achieved

healthy growth. Additionally, the global distribution of “Resident Evil: Degeneration” for iPhone and iPod touch was started, and it performed favorably attracting new users.

On the other hand, the Pachislo machine business struggled due to the harsh market environment as well as to the lack of products. We believe that this business segment is still in an early stage, and it may take some time before we see fully fledged business results.

The resulting net sales increased to 1,474 million yen (up 34.4 % from the same term last year), and the operating loss was 65 million yen (the operating income of 279 million yen was recorded in the same term last year).

#### Other Businesses

The net sales from other businesses, mainly character-related licensing royalties, decreased to 635 million yen (down 10.6 % from the same term last year), and the operating income decreased to 239 million yen (down 20.9 % from the same term last year).

## **2. Qualitative Information Regarding the Consolidated Financial Position**

Total Assets as of the end of first quarter decreased by 12,025 million yen from the end of previous fiscal year to 94,185 million yen. The primary increases were 6,918 million yen in cash on hand and in banks and 1,408 million yen in work-in-progress for game software. The primary decrease was 20,769 million yen in notes and accounts receivable, trade.

Liabilities as of the end of first quarter decreased by 13,286 million yen from the previous fiscal year to 33,574 million yen. The primary decreases were 6,026 million yen in notes and accounts payable, trade, 5,055 million yen in short-term borrowings, and 761 million yen in accrued bonuses.

Net assets as of the end of first quarter increased by 1,261 million yen from the previous fiscal year to 60,610 million yen. The primary increase was 2,230 million yen in net income for the current period, and the primary decrease was 926 million yen in dividend paid.

## **3. Qualitative Information Regarding the Consolidated Business Forecasts**

The prospects of the consolidated business results for the current fiscal year ending March 31, 2010 remain the same as what was projected at the financial results announcement on May 8, 2009.

#### 4. Others

(1) Transfer of major subsidiaries during the current quarter (transfer of certain subsidiaries that requires modification to the scope of consolidation).

There were no applicable subsidiary transfers.

(2) The application of simplified accounting procedures and those procedures specific to the preparation of quarterly consolidated financial reports.

##### Computation method used for estimating bad debts in general receivables

The actual percentage of credit losses recorded at the end of the current quarter proved to be not significantly different from what was estimated at the previous fiscal year end. Therefore, the estimated bad debt is computed based on the actual percentage of credit losses at the previous fiscal year end.

##### Valuation of inventory

We eliminated the process of taking a physical stock inventory at the end of current quarter, and instead adopted a rational computation method which uses the actual ending inventory of the previous fiscal year as a base. As for devaluating the book value of inventory assets, the devaluation is applied only to those inventories whose profitability clearly decreased. The devaluation is based on the estimated net sale value of such inventories.

##### Computation method for corporation taxes, deferred tax assets, and deferred tax liabilities

The computation of corporation income taxes is based on the method that restricts taxable items, deductible items, or tax exempt items to only significant ones.

As for judging the ability to collect deferred tax assets, we confirmed that there has been no significant change in the business environments or in the generation of temporary difference since the previous fiscal year end. Therefore, we are applying the method that is based on the business prospects and tax planning used in the previous fiscal year.

For computing the tax expenses of our consolidated subsidiaries, we made a realistic estimate of the effective tax rate after applying the income tax allocation accounting to the net profit before tax of the consolidated fiscal year including the current first quarter. We then applied the estimated effective tax rate to the net profit before tax of the current quarter. The adjustment of corporate tax and other tax is included in the corporate tax.

(3) Changes in the principle, procedures, and presentation methods in the preparation of consolidated quarterly financial reports

There were no applicable changes.