

## **Briefing on the 2nd Quarter Financial Results of the Fiscal Year ending March 31, 2010**

### **Explanatory Summary**

**Mr. Kazuhiko Abe, CFO, Director, and Managing Corporate Officer**

#### **1. Financial Strategy**

Since September of 2008 Capcom has been working to ensure the liquidity of funds, as we are currently in the midst of the financial crisis brought about by the Lehman shock. Though our commitment line was originally JPY 15 billion, it has increased by JPY 10 billion and now currently stands at JPY 25 billion. During this same period, we borrowed JPY 3 billion from Development Bank of Japan Inc., enabling us to ensure a total of JPY 28 billion in funds. Because we had fully returned JPY 15 billion of convertible bonds in cash as of the end of March 2009, our net cash balance fell to JPY 7.4 billion and forced us to fight an uphill battle in finance. The major reason is that for “Resident Evil 5” and “Street Fighter IV” alone we had over JPY 20 billion of accounts receivable, which caused us to decrease the Cash on hand and in banks. However, because we have been steadily collecting these accounts receivable, as the end of this September our net cash balance has risen to more than JPY 20 billion.

This August we purchased 1.47 million shares in treasury stocks for JPY 2.7 billion. Consequently, we currently own 7.13 million in treasury stocks, 10.57% of the total volume of outstanding balance of issued stocks.

On the other hand, the company issued JPY 11.5 billion in Euro-yen convertible bonds, but as of October 2, 2009 all of these bonds have already been converted. Hence, at the present there are no diluted stocks.

## **2. Agreement through mutual consultation with the US regarding revision disposition based on transfer pricing taxation**

As a result of transfer pricing taxation for the transactions between Capcom Japan and Capcom U.S.A, Inc., the company received JPY 5.1 billion in revision dispositions from the Regional Taxation Bureau. Since we continued to argue with the allegation that it used improper transaction prices, the mutual consultation between authorities in the US and Japan reached an agreement on October 1, 2009. Capcom is now addressing the outcome of these proceedings. We were taxed double, so corporate income tax will be refunded.

In addition, because this notification was received on October 1, this adjustment will be recorded in our business performance for the 3rd quarter of the year ending March 31, 2010. The amount will be approximately JPY 2 billion, so we expect our deferred income taxes will fluctuate while net income will increase.

Currently Capcom has been moving forward with the procedures for applying for a prior confirmation system, called the Advance Pricing Agreement (APA), to avoid the transfer pricing taxation in the future. We shall resolve our tax issues through this process.